

PINE MEADOW MUTUAL WATER COMPANY

BOARD OF TRUSTEES MEETING

THURSDAY, MARCH 17, 2011

PINE MEADOW RANCH

SUMMIT COUNTY, UTAH

Board Members in Attendance: Eric Cylvick - President; Cal Cragun, Bill George, Brian Zelch, Hutch Foster - Board Members

Ex Officio: Brody Blonquist–Water System Manager; Trevor Townsend; Carol Steedman

Guests: Dan Kemper - D-19; Bill Groot - Plat E, Lot 70AM; Jon Henry - E16; Tom Deaver - E-71-A; Johnson Henry - B-16; Mike Gonzales - G-53; Dan Heath

President Cylvick called the meeting to order at 6:45 p.m.

Minutes - February 16, 2011

MOTION: Cal Cragun moved to APPROVE the minutes of February 16, 2011 as written. Eric Cylvick seconded the motion.

VOTE: The motion passed unanimously.

Financials

The Board reviewed the profit and loss/budget versus actual. Eric Cylvick noted that 77.5% of the total income budgeted had been received. The breakdown was 84% of the standby fees and 82% of the meters.

Mr. Cylvick asked if the life insurance premium was an annual or semi-annual payment. Carol Steedman replied that it was annual. Cal Cragun stated that he had other options to propose later in the meeting.

MOTION: Eric Cylvick moved to APPROVE the profit and loss, budget versus actual, January 1 through March 16, 2011. Cal Cragun seconded the motion.

VOTE: The motion passed unanimously.

The Board reviewed the balance sheet. Mr. Cylvick asked for clarification on the DDW note payable. Carol explained that \$326,000 was the amount from 2010 and it should be moved forward. The actual DDW loan amount is \$3.2 million. The original loan was \$3.6 million.

MOTION: Cal Cragun moved to APPROVE the balance sheet as written. Bill George seconded the motion.

VOTE: The motion passed unanimously.

Unpaid Bills

Brody Blonquist reviewed the unpaid bills. All West and Catapulsion was for the internet. The bill for \$394.90 from Coalville Auto Farm Supply were chains for the utility truck. The bill from Delco Western was for the PRV on Tollgate. Evco House of house was for hoses to replace cracked hoses in the PRVs, and for new hoses they had built for switchback when they were trying to find the leak. Extreme Excavating was for the dozer used for Tollgate. Brody recalled that the HOA would pay a portion of that cost. The bill from Ferguson was for parts. Geary Construction was for dirt to backfill Tollgate. Horrocks Engineers was an engineering retainer. Mr. Cylvick explained that there was still money left on the loan and the Board decided to dedicate that money for analyzing engineering work for the Tollgate well and the well at Oil Well Road, and for replacing the Pine Meadow Drive pump line. KGC Associates was the bill for Carol's services. Mountain States Water Works still showed a credit, with the exception of \$1,026, which was for sleeves and valves that were used down in Tollgate. Regence Blue Cross is for life insurance. Sinclair Fleet was for fuel. Suburban Propane was for the tank. Utah State Division of Finance was the loan payment. Verizon Wireless was for the cell phones.

MOTION: Eric Cylvick moved to APPROVE the unpaid bills in the amount of \$40,688.74. Brian Zelch seconded the motion.

VOTE: The motion passed unanimously.

Manager's Report

Brody Blonquist assumed it was common knowledge that there was a leak they could not find, but they were able to pump water and hold water in the tank. Two weeks ago they switched over to a booster pump that runs off a different pressure, and they were able to put 5,000 gallons per day into the tank, which was sufficient to service the water needs. However, in those two weeks, 5 gallons per minute, 10 gallons per minute and 15 gallons per minute leaks surfaced and the water level is starting to drop back down. Brody estimated that currently that they had approximately 48 hours of water left in the tanks.

Brody reported that Leak Detection tried to find the leak and he and Trevor dug with the trackhoe to find the leak. Both were unsuccessful. There is a foot of ice on top of the

road and two feet of frost underneath the road, which presents a challenging situation. Brody stated that tomorrow afternoon they would shut off all the areas and concentrate on filling the tanks. If there is no water in the tanks when they look for the leak after the snow melts, it will be impossible to detect a leak. Brody stated that his recommendation would be to shut off Forest Meadows and the valve on the corner that shuts off Navaho, Pine Loop and Uintah View. He would like to leave A Plat turned on. He noted that A-Plat was shut off a week ago for six hours, and when they opened the valve, no water was lost. He understood that could have changed at this point, but he wanted to leave an area turned on. As they fill the tanks, they can begin to turn on portions of areas for two or three days to see what happens.

Brody explained that as the lines drain off, it is difficult to fill the lines back up. When the lines are filled, they need to watch the history transfer for 24-36 hours to see what the history trends reflect.

Mr. Cylvick clarified that the first leak was on Pine Meadow Drive two weeks ago. He prepared a spread sheet and back calculated the amount of water being lost to calculate the location of the leak relative to the amount of water being lost. Water was found percolating up, however a major problem is that an old water line runs next to the new existing water line. The water was running along the new pipe and down the inside of the old pipe and hitting a gravel pack area, and that was where the water bubbled up. After digging with the backhoe and the trackhoe, they found the wet spot but realized that it was not the source of the leak. A 20 foot section was dug and they saw water pouring out of the old pipe. Mr. Cylvick explained that leaks can be deceiving because there is still old pipe buried near the existing water lines. When the water visibly bubbles up, the leak could be 100 to 200 yards up the road.

Mr. Cylvick stated that Pine Meadows Drive is has one line that serves as a pump line and a service line. With the leak, the pressure from Uncle Tom's is so greatly reduced that when the pumps were on in Tollgate they were getting approximately 41 gallons per minute. The pumps are on for 45 minutes and off for 45 minutes. Therefore, the average water is approximately 20 gallons per minute. The problem is that the leak significantly decreased the pressure in the pump line, and when it hit the booster pump at the switchback it wasn't enough back pressure to run through the booster pump. Up until that point, it was the only leak on the Ranch.

Mr. Cylvick noted that another jet inline pump is set up in a storage tank external to the vault and that pump was turned on and cycled to bypass the booster pump. They were pumping from there up to the 500,000 tank and at that time gained leeway on the water. In the meantime, the new leak occurred off the 200,000 storage tank, and those tanks were drained. The warmer weather is thawing everything and water is running down and into meters that were frozen, which created additional leaks. Mr. Cylvick remarked that source is a major problem. There is an average of 22 gallons per minute coming out of Uncle Tom's, 7 gallons per minute out of Tollgate, and 5 gallons per minute out of Bobcat. He noted that 32 gallons per minute has always been the source capacity. Having a leak on the service and pump lines decreases the pressure, which in

turn, decreases the amount of water supply. Looking to the future, the only solution to resolve the problem is to have significantly more source. Brody estimated that the system was losing 42 gallons per minute. If they had a source that pumped 100 gallons per minute, it would still put 64 gallons per minute into the tank, even with the leak.

Brody stated that in the nine years he has managed the system, he felt lucky that they have not had major problems running the water system off of 27 to 34 gallons per minutes. He gave credit to the property owners for conserving water to make it possible. Mike Gonzalez, Lot G-53, suggested that they shut everyone down and fill up the tanks, and then turn them back on one at a time and monitor what happens for two or three days. It would take a lot of time to restore all the water, but they would be restoring confidence. Leaving A-Plat open will help identify any leaks if they occur. They should do the same with each area. Brody clarified that he had proposed to fill the tanks and then open sections slowly, while monitoring the history trends.

Mr. Cylvick stated that the main reason they have to shut down is because Pine Meadow Drive is a source and a feeder line. When that goes down, the main 22 gallons per minute source is depleted by 60% or gone completely. Mr. Cylvick noted that Brody had contacted the Division of Drinking Water and the Water Company can receive additional funds.

Mr. Cylvick stated that one advantage is that they made it through most of the winter before this problem occurred. Another advantage is that they used the \$65,000 that was left on the loan to drill a test well at Tollgate and found the potential of up to 300 gallons per minute in that well. In addition, they have been advised that they have a legal right to the well on Oil Well road, which would provide another 100 gallons per minute. Mr. Cylvick explained that the main reason they have to shut down is because Pine Meadow Drive has a source and a feeder line. When that goes down, the main 22 gallons per minute source is depleted by 60% or gone completely.

Mr. Cylvick noted that Brody had contacted the Division of Drinking Water and found that the Water Company can obtain additional funds. Mr. Cylvick was told that the existing 20 year loan could be rolled into a 30 year loan and the amount could be increased by another \$3.1 million. He pointed out that \$3.1 million would allow them to develop the source in Tollgate, drill another well on Oil Well Road next to the existing well, provide new lines and pump houses, and replace the Pine Meadows Drive line. Brody remarked that Uncle Tom's would still be kept as a source, but it would be replaced so there is a pump line and a feed line. Mr. Cylvick stated that the downside is that specs needs to be written for well in Tollgate and easements need to be obtained for Oil Well Road. He explained that the Water Company would expand on the well and the people in Aspen Ridge would keep all the water they have now. A well would be installed that is brought up to the Division of Drinking Water standards, which is not the case with the existing well. The existing well was drilled as a water source for an oil well and the water is not drinkable. Mr. Cylvick stated that the well site would be developed and Aspen Ridge would be allotted the 2 acre feed they are currently allotted. The owners would be given the option to annex into the water system in the future for fire flow. The line

would come from Forest Meadows and the owners would need to pay for the hook and meter if they decided to annex.

Mr. Cylvick remarked that the two wells could not be done until next summer because of the paperwork that has to go through the State. However, if they fix Pine Meadow Drive, they would still be able to put all the water from Uncle Tom's into the tanks. Currently, they do not have that ability. Two projects that could be done this summer are Pine Meadow, and another bypass line to I-Plat to provide fire flow.

Mr. Gonzales was concerned about pipes freezing and breaking if the system is shut down. Based on past experience, Brody was confident that shutting down the system would not create problems. The downfall is that opening up a line involves more than just turning it back on. He and Trevor will need to open every PRV, bleed the air, and get them back up and running.

Dan Kemper, Lot D-19, asked why the Water Company would not subsidize the plowing on Pine Meadow since it is the main pump line. He suggested that it might be easier to find the leak if the road was plowed better. He noted that he recently moved in and he does not have water. If he pays \$1,000 to help plow the route and another \$1,000 per year for water, he felt the Water Company should also contribute towards plowing the road. If they could plow the road wider it might help to locate the leak.

Brody pointed out that there are 32 miles of roads on the Ranch, which means the Water Company would have to pay towards plowing all those roads. Mr. Kemper understood that the problem was on Pine Meadow Drive because of the line. Mr. Cylvick stated that the line has had band-aid fixes for many years. The Water Company was proposing to replace the line with a Drexel pipe. The line is the main problem, but they still have to deal with many other lines. Mr. Cylvick stated that Pine Meadow Drive is only being plowed half way down. It is unplowed from that point back to Uncle Tom's well. The problem is that the source is three miles away. The intent is to consolidate 99% of the water capacity close by so if a pump goes down in the well, it is easy to get a truck and pull the pump. Both of the wells sites at Tollgate and Oil Well can be accessed year-round, and it would be easier to do repair and maintenance work. However, due to circumstances, that could not be done this year. Brody reiterated that the plan was to do Pine Meadow Drive this summer.

Mr. Cylvick estimated that the cost to do all three projects would be approximately \$2.9 million. That amount included a \$118,000 buffer for management fees. He noted that the last project came in significantly less than what was projected. He noted that the \$2.9 million correlates to a \$16.16 per month increase per lot owner, or \$193 per year.

Tom Deaver asked if the increase was a construction increase or if it would be a permanent increase for water. Mr. Cylvick replied that it would be a 30 year increase to service the loan. Brody pointed out that the Ranch is only to half build-out. As the build out increases, more people would be paying into the water system and many things can change over time. The engineers have drawn up a 20 year outlook that predicts an ad-

ditional 200 lots would be built on in 20 years. It is only an outlook and circumstances could change that number either way.

Mr. Cylvick explained that the Water Company would increase the rate by \$193 per year, wait a couple of years to see how they do, and then increase the annual base amount of water for each lot if possible. Mr. Cylvick stated that in his opinion, if they borrow additional money, they should get every ounce of source possible. He noted that there is no available funding source other than the State, where they could get money quick enough to do Pine Meadow Drive this summer.

Bill George asked if paperwork was holding up the Tollgate well. Brody replied that they were pushing the paperwork through the Division of Drinking Water process. They need to prove that no septic tanks run down into that water. Trevor pointed out that they also need to be able to prove a 250 day migration in the water. The nearest contaminant to the well has to travel at least 250 days before it would reach the well, and that engineering study requires a minimum of 9 months.

Mr. Cylvick explained the process for initiating the loan and how they put the application together in two weeks. He believed the advantage was that they struck "gold" at Tollgate with the last \$60,000 of the first loan. Without that water, the only solution would be Oil Well. Brody thought the issue was that property owners do not understand the pumping capacity of Pine Meadow, and they expect the larger sources they hear about in other communities. Brian Zelch pointed out that using a garden hose at full force for an extended length of time would use up the capacity. Brody agreed and commented on previous situations where that had occurred.

Brody wanted it clear that he and Trevor would be turning on the water as soon as possible after they isolate an area. He noted that they go house to house when looking for a leak. The problem is that nobody marks their meters and it is difficult to find a meter during the winter when it is buried under several feet of snow.

Bill George suggested that Brody explain the new automatic meters to the property owners in attendance. Brody asked if the Board would consider using loan money to replace all the meters on the Ranch with electronic meters. He estimated the cost at approximately \$65,000. Mr. Cylvick was comfortable using the money to replace the meters if they come in under budget and have extra money. Bill George favored the idea if they could cover the entire Ranch. Brody pointed out that currently the plan was to have the property owners purchase their own meter if they were interested. However, he did not believe the part-time owners would spend the money because they do not live there or use their property that often.

Mr. Cylvick and Brody explained how the meter works electronically and how it helps Brody and Trevor quickly identify the source if there is a leak.

Mr. Cylvick summarized several discussions that were taking place at one time. The first was that Brody and Trevor would shut down the water system, fill the tanks, and try

to find the leak. The second discussion was what to do short term for leak issues, which would be Pine Meadow Drive and the idea about changing out the meters. The last discussion related to long-term solutions, which only had one answer. If they do not find another source, they will not have enough water for build-out. The upside is that for now they do have adequate source, and \$16.00 per month is a minor increase compared to a \$3500 one-time special assessment similar to Timberlakes or other locations.

Someone asked if they could not get extra capacity as a base rate at the beginning, as opposed to waiting a couple of years, since they would be running 300 gallons per minute versus 32 gallons. Mr. Cylvick preferred to wait a year to track their revenue because they need to service the debt. The \$16.00 per month increase would cover the principle and interest on the loan. He stated that if the repair and maintenance costs, as well as overhead expenses to run the Water Company decrease or stay the same, they could possibly increase the base rate capacity. Mr. Cylvick noted that some of the money comes in as excess water usage. They need to look at the profit and loss to determine if that would make a difference.

Mr. Deaver asked when they would begin work on Pine Meadow Road. Brody replied that if the loan goes through, the soonest they could start would be the middle of June and hopefully finish by mid-October. Mr. Deaver wanted to know what they would do if the loan falls through. Mr. Cylvick replied that private funding sources could be pursued. Mr. Cylvick believed that if they could do Pine Meadow Drive, they have a good chance of making it through the year. The current problem is the loss of pressure in the line that has affected the source.

Carol Steedman explained the timeline and process for the loan application and approval. A special survey is required and the engineering could play a part in the timing. She reiterated that the loan would not be approved until June at the earliest. Mr. Cylvick remarked that if he can obtain the easements, there may be a way to do Oil Well earlier since they are drilling next to an existing well. The well at Oil Well would produce 100 gallons per minute. If they have the money, he would like to do Pine Meadow Drive, Oil Well Road, and possibly replace all the meters with the new meters this summer. Mr. Cylvick explained that the difference between drilling a new well like the one at Tollgate, and upgrading an existing well on Oil Well, is two different applications. One requires a one-page application and the other involves a 9-month process.

Mr. Cylvick commented on the hours Brody and Trevor have spent trying to locate the leak, and their frustration over not being able to provide water to the owners. He complimented Brody and Trevor for doing a phenomenal job of keeping the Water Company running.

Brody thanked the property owners for taking the time to attend the meeting. He felt their attendance showed interest and concern with the Ranch and he appreciated their efforts.

Miscellaneous Business

Hutch Foster asked if someone would write a brief statement explaining why the water would be shut off, so he could post it on the Owners Association website and send it out via email. Brody suggested that Mr. Foster copy the one he wrote from the Water Company website.

Carol asked the Board to consider the idea of forming an umbrella, which is called a foundation. She has been working with several people who create money when they need it rather than go elsewhere to find it. The foundation can supply a number of other foundations, but for the purposes of this discussion, she used Pine Meadow Water and Pine Meadow Ranch as the benefactors. Carol used an example to show the difference between contributors and benefactors of a foundation. It would be self-funding. She noted that there are 250,000 angel investors and they all have a different criteria. Most want a rate of return at approximately 26%. The investors invest for the purpose of having a rate of return on their money, because they have too much money to do anything more with the stock market and are looking for tax deductions.

Carol explained that to be able to supply a 26% rate of return, they would need a built-in system that would allow at least a 5% to 30% return on investment. The cost is only what the company does in their normal everyday operational expenditures. Carol clarified that the system is driven by normal, everyday expenditures.

Mr. Cylvick asked for an explanation of the 5% to 30%. Carol replied that it is the rate of return, depending on the members, because it is driven by affiliate membership. Carol stated that she was looking into doing a 501C3. A 501C3 Foundation gives personal and business tax deductions. In order to be a 501C3, they have to prove that they would do something the government does not want to do. For example, the Water Company provides clean water to a community. The Ranch Owners Association would be preserving wildlife and density for their part of the 501C3.

Carol remarked that the problem is that the IRS is out six months on getting determinations for a 501C3. The IRS recommended setting up a private foundation.

Mr. Cylvick wanted to know who would be in the foundation. Carol replied that it could be multiple Homeowner Associations, or it could just be Pine Meadow and Pine Meadow Ranch. Mr. Cylvick was unclear on where the cash would come from to pay the investors.

He wanted to know how Pine Meadow Ranch would fund the 26% return. Carol replied that it is funded by outside contributors who become an affiliate through an established billion dollar system. There is nothing out-of-pocket for the benefactor, unless they choose to become an affiliate through the program.

Mr. Cylvick felt that money was not the issue as much as who would do the work to set up the foundation. He stated that he would be willing to look at it, if Carol could bring in someone who could set it up. He only had time to read a couple of pages and to have a half hour meeting. At that point, he would need to understand where the money comes

from and how it works. He was open to the idea and wanted to learn more about it, but time was an issue.

Carol used Susan B. Komen Foundation as an example to explain how the funding would work. She pointed out that it is the new way of getting money to come in.

Carol presented a letter from Summit County stating that for 2010, 607 parcels at Pine Meadow were assessed at \$105,259,175. Adding Forest Meadow was another \$14,689,694. Carol pointed out that Pine Meadow has \$120,000,000 in assessed value in the area. She, Dan Heath, and Ted Bonnitt were working ideas for funding the foundation with income from properties and normal operational expenditures.

Carol wanted a consensus from the Board to at least create the foundation because she has other HOA's who would be interested. Brody asked if the money could go towards paying back the loan. Carol answered yes. They could still move forward with the loan and the foundation would help pay it back.

Bill George stated that before he knew about the foundation, he had contacted Carol about purchasing or leasing what they call the parking lot at the bottom of the canyon. He asked if the Owners Association owned the property. Mr. Foster answered yes. Mr. George clarified that the Water Company had no affiliation with that property. He asked if the Owners Association would consider sub-leasing or selling the property. Mr. Foster stated that the Owners Association Board has had recent discussions regarding that land and what should be done with it. Mr. George stated that he would like to place metal buildings on the entire parcel and provide security to avoid thief. Mr. Foster noted that the parking lot would be cleaned up this spring and abandoned trailers and vehicles would be towed.

The Regular meeting of the Pine Meadow Mutual Water Company Board of Trustees adjourned at 8:15 p.m.

Minutes Approved

Date