

**SKYLINE RANCH IMPROVEMENT AND SERVICE DISTRICT
MINUTES OF MEETING**

April 13, 2017

A public meeting of the Directors of the Skyline Ranch Improvement and Service District was held on April 13, 2017, at 4:00 pm at the office of Berkshire Hathaway in Jackson, Wyoming.

The following Directors, constituting a quorum, were present: Kurt Harland, Latham Jenkins and Jim Lewis. ISD bookkeeper Carly Schupman was present. Homeowners Garson, Hunt, Machol and Minter also were also present.

Kurt served as Chairman, Latham served as Vice-Chairman and Jim as Treasurer/Secretary.

Kurt called the meeting to order at 4:03 pm.

1. Approval of Minutes

Kurt made a motion to approve the March 9, 2017 minutes. Latham seconded the motion and the minutes were approved unanimously.

2. Items added to/deleted from Agenda

- Postpone review of initial draft FY 2017-18 budget to May meeting (item #9)
- Postpone update on Site Committee project and Road rules & regs (item #12)

3. Treasurer's Report and pay invoices to be approved

The Board reviewed the Treasurer's Report dated 4/13/17. The March expenses totaling \$6,299.19 were submitted for approval for payment in April, which. The 3/31/17 Reserves totaled \$370,300.92, which were broken down as follows following the reconciliation of the reserve account balances:

- Road Reserve: \$ 47,347.30
- Water Reserve: \$ 291,844.54
- Operating a/c: \$ 31,109.08

Jim made the motion to approve the treasurer's report and approve the March expenses to be paid in April, including Director Harland's invoice for \$69.11 for copies from Stinky Prints of Skyline's water system and making copies of keys for the other directors, at Ace Hardware for access to the water tank at the top of NW Ridge Road. Jim made a motion to approve all the listed expenses. Latham seconded and the motion passed by Latham and Jim. Kurt recused himself from the vote.

Warren Machol suggested the board consider for the next year's budget an "administrative expense" category, in addition to the Road and Water, to better account for certain Skyline expenses that do not fall neatly into Road or Water.

4. Decide on FDIC insurance options for excess reserves

Jim reviewed his research with a few banks around town to place some of the District's funds, currently with First Interstate, and in excess of the \$250,000 FDIC insurance limit, with another FDIC covered bank. The best that First Interstate could do was 0.08%-0.10% p.a. out to 24 months maturity, even under the CDars program where FIB would act as a conduit to place the excess funds with other banks. BOJH offers 0.10%p.a out to 24 months as well. Jim also checked with Fidelity Investments, which offers brokered CD's with FDIC coverage, at rates of 0.90% for 3 month maturity, increasing to 1.10% out to 12-months. Jim also checked with First Western Trust, located in Jackson. Deposits up to \$250,000 are FDIC insured and they offer 1 month at 0.44%, 3-months at 0.51%, increasing to 0.85% for 1 year. Although Fidelity is higher, Jim felt that it would be preferable to deal locally just in case we ever had an event where we needed to borrow against the funds. After board discussion and public comment from Warren Machol, Jim made a motion that we begin a banking relationship with First Western Trust and open CD's not to exceed \$200,000, with maturities of 6 and 12 months. Latham seconded, and the motion was approved unanimously.

With this new banking relationship, and once the CD's are opened, all the District's funds will have FDIC coverage, and the reserves at First Western Trust will be earning much more than the 0.10% at First Interstate.

5. Review ISD's balance sheet, fixed asset schedule and depreciation

Jim presented the updated and corrected balance sheet, fixed asset and depreciation schedules which were reconstructed by Barb Fields, with the historical data provided by Bob Norton. All fixed asset accounting entries were reconstructed from the acquisition date of the asset, going back to 1996, and brought forward. Assets that were fully depreciated were also identified. All accounting entries were duplicated by Carly on her Quick Books software. This gives a more accurate portrayal of the District's asset's, liabilities, and net equity, as of 12/31/16. These are attached to the minutes.

A discussion followed about the cost of chip sealing, the frequency needed, and the periodic overlaying road every 20-22 years. There was also discussion about better understanding the engineering aspects of not chip sealing, and just do an overlay more frequently than 20-22 years. The board discussed possibly getting a bid from an engineering company for such a study, as there would be no cost for getting a bid. The board also discussed giving the homeowners a heads-up, prior to the spring road sweeping, so that any winter grit on homeowner's lawns could be sweep into the road, prior to the sweepers coming through.

6. Review full year budget vs. 9-month YTD actual; by road, water and combined.

Jim handed out a sheet showing the ISD's full year approved budget for 2016-2017 and compared that with our 9-months YTD actual broken down between road and water, which segued into the next agenda item being the amended budget, and showed the expense categories that needed to be revised for the balance of the fiscal year ending June 30 so that the District would not exceed certain budgeted categories prior to expenses being incurred.

7. Public comment- and adoption of amended budget for 2016-2017

Mike Minter raised a question about the rationale for the increase in certain expense categories, such as Contract Labor-Road, which was originally budgeted at \$4,000 and the amended budget shows \$17,175. Jim commented that this was based on looking at the last two years of historical financials, when we budgeted \$8,000 and came in around \$14,000, and we still have the road sweeping and weed spraying that has to be done in the spring. In the past, the District did not submit an amended budget, this year we will.

Jim referred to the sheets showing the originally approved FY 2016-17 budget and the proposed amended budget for the following categories:

- Clerical contract services-water (increase from \$5780 to \$8700)
- Clerical contract services-road (increase from \$2640 to \$4300)
- Professional fees (increase from \$500 to \$6000)
- Contract labor road (increase from \$4000 to \$17,175)
- Office supplies (increase from \$200 to \$600)
- Utilities (increase from \$5000 to \$7000)
- Water quality testing (increase from \$1200 to \$2500)

Some other expense categories, such as Contract Labor-Water, were reduced to partially offset these increases but overall, our budgeted cash expenses (excluding depreciation charges) will increase from the original budgeted level of \$187,295 to \$199,000 for FY 2016-17.

At the conclusion of the public comment, Kurt made a motion to approve the amended budget. Latham seconded and the motion approving the amended budget carried unanimously.

Prior to leaving the meeting, Carly wished to advise the board of a few items:

- The new format for the Treasurer's report
- A letter from the county requiring additional information for preparing the budget.

- Action on the water quality report- Jim said he would send it to her and that it should be uploaded to the website with copies mailed with the next water billing.
- LGLP liability insurance renewal- Jim said he would complete the application and would get a copy to Carly and would see that it was submitted prior to the May 1st deadline.
- Accounts Receivable- Jim reviewed the report and advised that a number of A/R's have been cleared up, and that of the roughly \$5,000 in A/R's, approximately \$3,600 was over 90 days, and of that approximately \$1,300 was due from one homeowner who was trying to repay the adjusted meter usage. Overall, the A/R's have been reduced as one homeowner paid off his full adjustment invoice of approximately \$1,700.
- Latham and Kurt signed invoices for approved services they rendered to the District.

Carly left the meeting at approximately 5:20pm.

8. Review draft Water Rules & Regulations

Susan was unable to attend the meeting via Skype to go over the draft Rules & Regs she had prepared. The directors had read the draft and Kurt and Jim commented favorably on the initial draft.

9. Review of water marginal cost analysis & recommendations

Warren mentioned as a preamble that there wasn't an analytical rationale provided to homeowners supporting the increase in water usage charges from \$1.25/1000 gallons to \$1.90 back in July 2015, and even prior to that, with the increase to \$1.25, despite past requests for data. With the data provided in December 2016, a water analysis could be done. Warren's presentation, being a part of the Minutes, is on the website (under the Water section, under John Willott's earlier presentation on Skyline's long-term source of water). The pages headed with a blue banner are facts and those headed in green are Warren's recommendations.

On the page titled- Analysis of Marginal Cost of Water:

Warren stated the shows that based on a net water usage of 22 million gallons/year our marginal cost of water per thousand gallons is approximately \$0.20/1000 gallons, and our cost to collect is about \$0.46/1000, based on approximately 320 water invoices sent per year (80 X 4), excluding the 9 lots that that have historically never been charged the \$300/year. As these lots benefit from the water system, they should be charged the \$300/year just like everyone else.

Before turning to the page titled "Collection of Water Revenue", Kurt raised questions on the costs, such as the wear and tear on the system from a usage standpoint, i.e. the greater the usage, the greater the wear & tear, and weather those usage costs are accounted into the analysis in getting the water to the curb stop. Warren responded by saying that one of our pumps, is 28 years old, and the pump has a depreciable life of 20 years, so we've fully depreciated it and gone 8 years

beyond, so "wear and tear" doesn't seem to be a factor. The same with our pump house, which has been fully depreciated and has been for 19-years. These will need to be replaced as and when necessary in the future, but they've gone well beyond their depreciable life. Another way of looking at it is we're not using them up faster than our usual depreciation period, thru increased wear and tear. Kurt said his biggest concerns are the main lines and valves but Warren responded that from the standpoint of wear and tear, our equipment is not wearing out faster than the depreciable life, e.g. in 10 years vs. 20. Mike Minter questioned about the repairs on the line in the 1st section, which is asbestos concrete. Kurt responded that all of the repairs are on the homeowner's service line, which is galvanized pipe, not the District's main line. Warren agreed that there are things we should be looking at in our system to optimally improve things, and he noted a few on the last page of his presentation, but that's a second subject, addressed after the determination of what is the ISD's true cost and delivery of water. Jim said, that to properly determine what our system's needs are in terms of enhancements/improvements, a water infrastructure study should be conducted. Following that we would then have a roadmap of the things to be considered, over time frame, their priority, and finally how how best plan to pay for what is decided upon.

On the page titled- "Collection of Water Revenue" – Warren's proposal

The water collection numbers based on current billing practices will result, for this full fiscal year, approximately \$66.9 thousand in water revenues, based on the base rate of \$300 and water usage rate of \$1.90/1000 gallons. That amount is almost 40% greater than the \$48,000 that the ISD publically presented in its budget for FY 2016-17.

Since it costs the District so much to collect it's water charges, Warren proposed that instead of charging \$300 in post-tax dollars from homeowners, in addition to the \$1.90/1000 gallons in post-tax dollars, to placing a \$500 charge on all 89 lots, not just the 80 hooked up to the system. There would be no charge for water usage.

This annual charge would be paid along with our property taxes. All billing would cease, with the monies collected by the County in May and November and deposited into our account, similar to the road taxes. Warren stated that in his view, as these would be on the property taxes, homeowners could, if they so chose, deduct it as an itemized deduction. If they did so, and if they were in the 25% tax bracket, and itemized their deductions, that would be a \$375 after tax cost to the homeowners, approximately \$75 more than we pay now for our annual fixed fee of \$300.

There was some discussion about the tax deductibility of a water fixed fee of \$500, and while it would be dependent on each homeowners tax advise, generally, it was felt that a fixed fee for maintaining and operating the water system system could be deductible, but variable water usage costs could not be, even if put on the property taxes for collection efficiency. Latham commented that in addition to the analysis Warren has done and all the billing and collection that is being done, it does not take

into account the intangible cost of all the time the Board spends on discussing water issues generally. Kurt said that all these administrative issues are improving, as it's been a work in progress. He said we still don't have photos of all meters, but now many people are getting their invoices by email. The meter photo's have uncovered faulty readings by homeowners where there's been a fixed zero, and the water usage and was being under-reported, and the District was not collecting for the water usage it was due. Kurt said our administrative system is evolving and getting better and better each year. Jim said that this proposal cuts to the heart of the problem and allows the ISD to collect revenues, in a tax efficient manner without the hours and hours spent in invoicing for reported variable usage, collecting the funds from 80 homeowners.

Latham asked then why should we care about reported usage if it's not being charged for, and the thinking was that this data could provide an important early warning to the District that a homeowner may have a leak, if an unusual water increase is seen. Kurt said that the District has a sonic system check done annually that checks for leaks, so there are other ways to check for leaks. One concern Kurt mentioned was if someone leaves a garden hose running for days, it could erode the road, which happened on Teal and resulted in \$20,000 in road damage repair costs. Warren commented on the importance of gathering water data at various points in our system, including, but not limited to water volumes being pumped from the wells, which at this point are recorded manually by Clearwater.

On the page titled- "Analysis of Water System Reserve Growth"

Warren restated that our system is 43 years old, so things will have to be planned for, we just don't know what. In looking at the current reserves of \$291,000, and given that our typical average direct costs are \$21,500, our reserve coverage ratio is 13.5 times annual expected costs. Adding the projected additions to reserves of \$23,100 annually based on this proposal would generate an additional \$231,000 in reserves over a 10-year period. Now we don't know what we have to spend, as we haven't done a thorough analysis of our system, but barring extraordinary expenses we could have reserves in excess of \$500,000 in 10-years, which is twice the \$247,000 depreciated book value of our water system. Even today, our \$291,000 in reserves exceeds our book value of our water system.

On the page titled- "Next Steps Forward Water System analytics"

Warren included some thoughts on water system enhancements that should be considered when the District looks at the overall water infrastructure. Mike Minter asked the Board if that study would be done, and Kurt responded that we would first go out with an RFP to determine what such a study would cost, some of the things that Warren listed, as well as other things, such as an accurate map of all curb stop location. This study would provide the District an idea of what each improvement would cost and how best to utilize our existing reserves or build additional reserves through special assessments. Mike felt that after the study is done, and if it's determined that we need more money to build reserves, then those that use more water should proportionally pay more through variable usage charges.

Jim responded that there was never any analytical justification for the \$1.90 rate, when it was increased from \$1.25. Now, after we've heard from John Willott, that we have a plentiful water supply, and now that the analysis is done, and seeing that our marginal cost of water is in the order of \$0.20/1000 gallons, it is difficult to justify why we should continue charging \$1.90 for this next fiscal year with no plan of what should be done to our water system. Jim stated that his view is to make a change in our water collection for this next year, as a test, have the study finalized, and then make decisions on what should be done, over what time frame, at what cost, and how these should be financed. Jim Hunt commented that we might have been lucky in that perhaps the reason for our current reserve level is deferred maintenance on some things that perhaps should have been looked at, so that the reserve level may be giving us a false sense of comfort. Warren added that what is being forgotten, is the high cost of collection given how the current process works, and we've created mechanism that creates a lot of work without creating revenue. Latham said while he's not a fan of "all you can eat" in terms of water usage, our current process builds in risks to the District, as everything rests on our one book keeper for all invoicing and collections. He would like to see a fixed fee approach, as a test, and remove the variability and risks in the current billing system, and have a more efficient collection process. Kurt's view is that homeowners who use significant amounts of water should not pay the same fixed rate that low water users pay, that we should be good stewards of our resources, and we should not adopt the "all you can eat" mentality. Additionally, by going to a fixed rate, the summer water consumption will likely surge even more, putting more stress on our system. Whatever we decide on needs to be equitable. Kurt's in favor of putting the \$300 per annum base fee on the property tax, but some form of equitable variable charge should be considered, perhaps on a tiered usage basis, and after we have the water study completed. Kurt mentioned that he would be in favor of auto readers at curb stops at cost of approximately \$180,000 to the district as it would save time in collecting and billing for usage, detect leaks, and since it would be at the curb stop, it would identify any irrigation systems that are installed before a meter. But until we get the engineering study, he's said he's not in favor of changing anything.

Jim said that as we're preparing the budget for the next fiscal year, we cannot again build-in a water usage charge of \$1.90 that was used in the past, with no analytical foundation and our responsibility to deliver good quality water at a fair price. Kurt said he had just heard that the State Water Board looks favorably at districts, which have increasing variable rates, based on usage, and he'd look into that further by the next Board.

Latham said that from his standpoint, from a fiduciary capacity, and not from his personal views of the "all you can eat" mentality, he would look to what has the greatest certainty of outcome and that would be a flat rate plan, adjusted, based on further study, what that flat rate should be to provide clean, reliable water, efficiently to our subdivision. He too, worries about what the water usage could be this summer, but we'll live and learn and can adjust it as needed. Latham was concerned about the impact on homeowners who are paying less than the proposed

\$500 (current \$300 base+ proposed \$200 flat rate), and asked about certain homeowners, but the billing information was not at hand at the meeting. Kurt said he's not prepared to vote for a flat rate until we have the engineering analysis, but would consider a changed lower variable rate, even at \$0.20/1000 but we don't disrupt our system and consider a flat rate for this fiscal year, until we have the study concluded. Kurt also mentioned that if we go to a flat rate and we'll likely need a 3rd well, sooner than later.

Jim said that he is not in favor of continuing our present process for yet another year, with the system we have, with all the billings and collecting that needs to be done, while we get the engineering study. We can start the process of changing the system and then fine-tune it when we get the engineering study, and make any needed changes in assessments for the subsequent fiscal years based on the findings. What we have currently is a usage rate that cannot be defended.

Kurt mentioned that if we're going to do an experiment, perhaps we should just limit the amount collected to the current base rate of \$300/year, as charging a variable rate of \$0.20/1000 for the year won't have any impact.

Latham felt that moving to a flat rate of \$200 removes the variability from our system, is more efficient, and after a study is conducted, which should start as quickly as possible, we can look at things again. Kurt added that there are things that definitely need to be looked at such as the pump house roof, and if that needs to be replaced, then we'll need to consider the capacity of the tank, given the pumps current cycling frequency during peak usage periods. Discussion continued about issuing an RFP and perhaps getting someone to help us draft an RFP, as the board doesn't have experience with this. Jim said he'd call around to other water districts and see if we could get help in drafting or reviewing our RFP. Kurt also mentioned we should start thinking about the accessibility of a 3rd well, and approaching Crane Creek for an easement for another well, as he feels that Skyline's water consumption will go up as the load will increase even if it's caused by a dozen more homes irrigating in the summer. Latham added, to Kurt's comment, that in the summer, he already experiences lower water pressure at night.

After lengthy discussion of all points of view, Jim made a motion to move to a fixed charge of the existing \$300 base rate, plus the \$200 flat rate, with variable water usage costs being zero, for a one-year test period, with everything moved to the property taxes. Before seconding, Latham wanted it to be clear that this was just for one year, as he wanted to have more information on other approaches such as the Aspens Water & Sewer's ARU methodology in charging for water, without metering. With that on the record, Latham seconded the motion. There being no further board or public comment, the motion carried with Jim and Latham voting in favor, and Kurt was not in favor.

The board then discussed charging the \$300 base rate and the \$200 flat rate to the 9 lots that are not build upon. Currently those lots have never paid the base rate for the water yet enjoy the benefits of an operating water system and substantial water reserves. The lots have been annually charged for the road assessments, but not for the water. Jim made a motion that commencing with the new fiscal year beginning July 1, that these lots be charged the same \$500 as the other 81 lots, and this would be reflected in the budget. Jim made the motion and Kurt amended the motion that this would be called a readiness to serve fee for these lot owners. This being the only amendment, Kurt seconded the motion. There being no other board comment, the motion passed unanimously.

10. Discuss and approve seeking bids for a water infrastructure study from at least 3 experienced engineering firms.

This item was tabled as the board agreed that we first had to seek help in drafting an RFP. Jim said he'd reach out to Aspens Water & Sewer and others and ask for guidance in drafting an RFP. Latham mentioned that perhaps we should pay someone, as a consultant, an hourly rate to come in and help identify what we want covered. While the Aspen's may just take a look at it, Latham felt that we might want to hire someone to help us make sure we're asking the right questions. We owe it to our stakeholders. We may seek this out from one of the 3 engineering companies as a separate deliverable, which we pay for, because then the District owns the output. This wouldn't preclude them from bidding on the actual RFP.

11. Update on ARC/Site Committee liability coverage

Jim advised the board that he received a quote from Hub Int'l for \$500,000 in coverage for \$2,100 and quote from Tegeler for \$500,000 for \$1,250 and a \$1,000,000 at \$1,400. The other option is getting an amendment to our covenants, which would be a very time consuming process given the high percentage of affirmative votes needed to effect a change. The Board felt that the most expeditious route would be to get the insurance coverage from Tegeler. Jim made a motion to secure the liability coverage for the Site Committee and the ARC through Tegeler at the \$1,000,000 level of coverage. Kurt seconded the motion. There being no other board discussion, the motion passed unanimously.

12. Update on meter photos and meter readings

Of the 9 letters sent out, all but one homeowner has responded either via email or verbally. Krisik has not. Some have either sent in photos with the meter reading, or in two instances, said that on their return to Jackson in May and June respectively, they'd send the photo. One said he'd provide it in early May when gets into crawlspace.

13. Follow-up actions from March board

Kurt will follow-up with Helms after he checks his notes.

Latham provided a draft of what will be put on the website to provide guidance to homeowners how to contact the board.

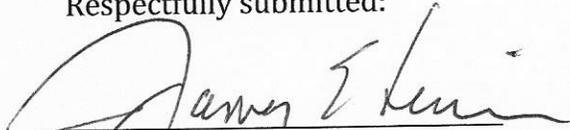
14. Other business

Jim said he's having difficulty in reconciling the number of lots in the east and west sections to the 37 and 53 lots reflected in all the budgets over the last few years. He said counted them on the plat map repeatedly and it came out to 42 and 48 respectively. He still needs to look at this more. Jim mentioned that based on a density per linear foot basis, there's more traffic density in the east section, i.e. more wear and tear. Kurt added that the road guy he'd talked said that since we don't have heavy equipment on the roads, like a highway, the road breakdown is more a function of weather and that our chip sealing is meant to increase the longevity of our roads and the freezing and thawing that occurs each year. Jim said that for this year's budget we leave the assessments of \$504 and \$840 unchanged.

The next ISD Board meeting will be held on Thursday, May 11th at 4:00pm at the offices of Berkshire Hathaway, at 138 N. Cache Street.

There being no other business, Kurt adjourned the board meeting at 7:45pm.

Respectfully submitted:


Jim Lewis Treasurer/Secretary


Kurt Harland


Latham Jenkins