

RECORD OF PROCEEDINGS

MINUTES OF A REGULAR MEETING OF THE BOARD OF DIRECTORS OF THE BACA GRANDE WATER AND SANITATION DISTRICT HELD FEBRUARY 21, 2014

A regular meeting of the Board of Directors (referred to hereafter as "Board") of the Baca Grande Water and Sanitation District (referred to hereafter as "District") was held on Friday, the 21st day of February, 2014, at 8:00 a.m. at the offices of the District, BGWSD Shop, 57 Baca Grant Way South, Crestone, Colorado. The meeting was open to the public.

ATTENDANCE

Directors In Attendance Were:

Vicki Matthews
Martin Macaulay
Cindy Reinhardt
Kyle Grote

Also In Attendance Were:

AJ Beckman and Lindsay Ross; Special District Management Services, Inc.

Jennifer Gruber Tanaka, Esq.; White, Bear & Ankele, P.C. (via speakerphone)

Steven Harrell; District General Manager

JoAnn Slivka; Administrative Manager (for a portion of the meeting)

Brad Simons; TST Inc. of Denver (via speakerphone – for a portion of the meeting)

Marcus Lock, Esq.; Law of the Rockies (via speakerphone - for a portion of the meeting)

Michael Scully; Resident

Matthew Crowley; Resident

Dom Spillane; Resident

Lisa Cyriacks; Resident

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Joanna Theriatt; Resident

DISCLOSURE OF POTENTIAL CONFLICTS OF INTEREST

Disclosure of Potential Conflicts of Interest: The Board discussed the requirements pursuant to the Colorado Revised Statutes to disclose any potential conflicts of interest or potential breaches of fiduciary duty to the Board of Directors and to the Secretary of State. Attorney Tanaka noted that conflicts were filed for applicable Directors at least 72-hours prior to the meeting. Mr. Beckman noted that a quorum was present and requested members of the Board to disclose any potential conflicts of interest with regard to any matters scheduled for discussion at this meeting. No further conflicts were disclosed.

ADMINISTRATIVE MATTERS

Agenda: Mr. Beckman reviewed the proposed Agenda for the District's regular meeting with the Board.

Following discussion, upon motion duly made by Director Macaulay, seconded by Director Reinhardt and, upon vote, unanimously carried, the Agenda was approved, as amended.

Resignation of Director and Appointment of Director: The resignation of Director Johnson was acknowledged. The Board expressed its sincere gratitude for Director Johnson's years of dedicated service to the District and the community.

The Board then considered the appointment of Michael Scully to fill the vacancy created by the resignation of Parvin Johnson.

Following discussion, upon motion duly made by Director Reinhardt, seconded by Director Macaulay and, upon vote, unanimously carried, Michael Scully was appointed to fill the vacancy created by the resignation of Parvin Johnson. The Oath of Office was administered. Attorney Tanaka noted that documents must be filed with the court before Director Scully can vote; however, she encouraged his participation at today's meeting.

Director Compensation: The Board discussed permissible compensation of directors. Attorney Tanaka noted that the statute allows directors to be paid \$100 per meeting with a maximum annual compensation of \$1,600. Upon motion, duly seconded, the Board unanimously voted to allow director compensation effective immediately.

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May 6, 2014 Directors' Election: The Board entered into discussion regarding the status of the May 6, 2014 Directors' Election and discussed the interest from the community in serving as election judges. Mr. Beckman explained that he has seven interested members of the community but feels that realistically there is only enough work for six judges. Mr. Beckman noted that the deadline for interested candidates to submit their names for consideration is Friday, February 28, 2014 at 5:00 P.M. Ms. Cyriacks inquired into recent changes in the election laws for special districts, which were addressed by Mr. Beckman and Attorney Tanaka. Mr. Beckman also noted that a lot drawing must be conducted to determine the order in which names will appear on the ballot. This will be conducted after March 4 and prior to the March 7, 2014 deadline to certify the ballot.

Following discussion, upon motion duly made by Director Macaulay, seconded by Director Grote and, upon vote, unanimously carried, the Board directed Mr. Beckman to appoint six election judges by holding a lot drawing. Mr. Beckman will notify the election judges and coordinate the lot drawing.

New Board Member Orientation: The Board entered into discussion regarding holding a Board member orientation following the May 6, 2014 Directors' Election once it is determined who the new directors will be and the necessary scope of the orientation.

Following discussion, the Board directed Mr. Beckman to add this matter to the May agenda to discuss the scope of the Board member orientation and to plan on conducting the orientation in June.

Consent Agenda: The Board considered the following actions:

- Approval of Minutes of the January 17, 2014 regular meeting.
- Engineer's Report.
- Operations Report.
- Administrative Report.
- District Manager's Report.

Following discussion, upon motion duly made by Director Reinhardt, seconded by Director Macaulay and, upon vote, unanimously carried, the Board reviewed, approved and accepted the Consent Agenda items. It was noted that the January 17, 2014 Minutes were approved as amended.

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LEGAL MATTERS

Request from Shumei International Institute (“Shumei”) for Well Exemption: Mr. Crowley addressed the Board. He explained that Shumei is interested in adding four cabins and an agricultural improvement to a currently undeveloped parcel within the District. Shumei is requesting an exemption from water and sewer services on the parcel due to the cost of the line extensions estimated at over \$100,000 and the desire to irrigate crops without the use of chlorine in order to conform to Shumei’s guidelines for natural agriculture. Mr. Crowley explained that Shumei would prefer to use well water and a septic system to serve the new development. Ms. Cyriacks asked about the potential impacts to the community of a septic system. Mr. Crowley explained that the concept of the septic systems serving four cabins has been discussed with the state regulatory agencies and would be installed according to state requirements. Director Scully asked about the use of composting toilets. Mr. Crowley explained that Shumei has not researched this but is interested in pursuing options with the least impact to the environment. Attorney Tanaka advised the Board of previous decisions made by the Board with regard to well exemptions. The Board determined to discuss the matter in executive session and follow up with Mr. Crowley following the meeting.

PUBLIC COMMENTS

Public Comments: Mr. Spillane asked if the Board has considered the financial impact to the District and its constituents of granting a well exception. Director Reinhardt explained that this would be considered when the matter is discussed further in executive session. Mr. Spillane then asked if there was a follow up to the letter from Michael Onewing regarding the use of Soda Ash and the impact on her tea kettle. Mr. Beckman explained that he has been in contact with Ms. Onewing and in the last correspondence she requested that the District give some thought to the idea that the use of soda ash may have allowed the release of previously sequestered minerals. Mr. Beckman explained that this is something the staff will keep in mind going forward and unless there is anything further to be considered he is considering the research complete at this point.

Ms. Cyriacks noted that she appreciates receiving the meeting packets in advance of the meetings so that she can review and know what is going on. She also expressed gratitude for the extent to which the election process has been thought out and the involvement of the members of the public as election judges. She also commented that she thinks the use of purchase orders as discussed in the Manager’s Report will be very helpful going forward.

Mr. Spillane inquired into whether the iPads being considered for purchase will enable the Operations Staff to track the route for the meter readings. Mr. Harrell

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noted that the tablets will not be able to read the meters and he does not believe they will be able to track the route of the readings.

Director Reinhardt noted that the Board received a letter from a member of the public regarding the increase in fees and taxes. Director Reinhardt noted that she has received comments from other members of the public as well. She thanked Director Macaulay for taking the time to draft a response to the letter.

OPERATIONS

Corrosion Control Study: Mr. Beckman reported that he has been in contact with the District's Water Engineer, Ron McLaughlin, and the Colorado Department of Health and Environment ("CDPHE") regarding the status of the CDPHE's response to the District's submitted corrosion control study. The CDPHE has indicated in an email that they will issue an official letter regarding the approval of the current corrosion control treatment technique within the next two weeks. Mr. Beckman will follow up with the Board on the status.

Operational Follow-Up: Director Reinhardt called to the attention of the Board the award granted to Mr. Harrell by the Colorado Rural Water Association Wastewater as Operator of the Year. The Board acknowledged the achievement and expressed their appreciation for Mr. Harrell's dedication to self-improvement.

Mr. Harrell discussed a sewer line backup on Alpine Overlook. The District discovered a low point or "belly" in the sewer line. He noted that this has led to sewage backups in the residences of two different customers. One of the customers hired an outside contractor to clear their sewer line at a cost of \$325. The District's staff cleaned the sewer line for the other customer. Mr. Harrell noted that the first resident requested that the District pay for her cleaning since the District did not charge the second resident for the cleaning. Mr. Harrell recommended that the Board authorize this payment to the resident in the amount of \$325 because, in his opinion, the backup was the result of an issue on a portion of the line which is owned, operated and maintained by the District. In addition, he recommended that the Board authorize repairs to the sewer line to correct the low-point for an estimated cost of \$2,000.

Director Reinhardt inquired as to liability issues when the District performs work on residential lines. Attorney Tanaka noted that the District is exposed to liability in such circumstances and the use of contractors will provide some protection; however, each situation requires a judgment to address the urgency of the situation.

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Following discussion, upon motion duly made by Director Grote, seconded by Director Reinhardt and, upon vote, unanimously carried, the Board approved repairs to sewer line and repayment to the customer.

Mr. Harrell reported that he recently lost two mobile phones provided by the District while horseback riding; the first was covered by insurance, the second was not, and he will personally cover the cost of the phone pursuant to the District's policy requiring such replacement by employees.

Mr. Harrell reported that he had a customer express dismay over the recent rate increase. He noted for the Board that in good faith he brought to the resident's attention that there was a home similar to the one owned by the resident outside the District which is not subject to the District's taxes or fees. He was surprised to see that the resident subsequently mentioned this in a complaint letter. Mr. Beckman reported that he had a subsequent telephone conversation with the resident in which the resident acknowledged that Mr. Harrell was providing this information in good faith and not suggesting that District residents move if they are not happy with the District's water and sewer fees.

Management Follow-up Items: Mr. Beckman reviewed the District Manager's Report with the Board. He pointed out that in the report he noted that Ms. Slivka rated Ms. Skibinski's support level at 80% of optimal. The rating should in fact be 60% of optimal. He discussed the use of District generated purchase orders as a means of guiding budget review, expense coding and contractual conformance. Members of the Board reviewed a sample purchase order.

Ms. Ross discussed the on-line payment portal through the Statewide Internet Portal Authority ("SIPA") with the Board. She explained that the payment portal will allow customers to make payments on line with the fee for credit card use being billed to the customer rather than the District. This will eliminate the process of taking credit cards over the phone and reduce bank fees. She will review with Ms. Slivka and implement within the next month.

CAPITAL IMPROVEMENTS

Capital Projects Summary Sheets and Designate Priorities:

Priority Definitions: Mr. Beckman reviewed the proposed priority rating definitions with the Board.

Mr. Simons joined the meeting via speakerphone.

Meter Replacement Project: Director Scully inquired as to what would be a "normal" water loss rate. Mr. Simons reported that approximately 5% is a typical

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loss rate, and 10% would be excessive. He noted that the District's estimated present loss of approximately 69% is higher than he has seen in any other District. Director Grote asked about addressing additional leak detection and repair work, specifically the repairs noted in the Hydraulic Model prepared by TST Inc. of Denver ("TST"). Mr. Simons and Mr. Harrell explained the scope of work associated with this project noting that, to a large degree, the work would entail the installation of pressure reducing valves. The Board directed staff to prepare an additional capital project sheet for additional leak detection work including replacement of Pressure Reducing Valves ("PRVs") including engineering and repairs of high loss areas identified in the Hydraulic Model previously created by TST.

Well 18 Pump Replacement and Well Rehabilitation: Mr. Harrell reviewed the project with the Board and explained that the work will prevent the premature failure of pumps due to sand being drawn into the pumping equipment.

Stables Lift Station Pump Upgrade: Mr. Harrell reviewed the project with the Board. Mr. Simons explained that the pumps currently in service were not properly selected for the facility.

Main Line Redundancy – Well 17/18 Transmission: Mr. Harrell reviewed the project with the Board noting that there have been several breaks in the transmission line in the past few years. The work proposed will ensure continued service if a break were the line crosses a creek.

Mobile Home Estates Water Tank: Mr. Harrell reviewed the project with the Board. Director Reinhardt asked if Mr. Harrell was comfortable with this project as a priority level 3. He noted that he is comfortable with the priority since there is no water quality concern.

Mobile Home Estates Pumping Equipment: Mr. Harrell reviewed the project with the Board and noted that the reliability of the pumping equipment depends to a great degree on the ability of the District to use the Golf Course Well.

Mobile Home Estates Booster Pump Station: Mr. Harrell reviewed the project with the Board.

Mobile Home Estates Pumping Equipment and Tank Controls (SCADA): Mr. Harrell reviewed the project with the Board. He explained that the project would tie the equipment into the remote monitoring and control system currently in use for much of the infrastructure.

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Wagon Wheel Lift Station Electric Power Upgrade: Mr. Harrell reviewed the project with the Board noting that the work would be performed by contractors.

Aspen Wastewater Treatment Facility Headworks Design: Mr. Beckman reviewed the project with the Board noting that the majority of the work would be funded with a Planning and Design Grant previously approved through the CDPHE.

Bio-Solids Management Project: Mr. Beckman reported that this summary is a place holder with funds earmarked in the amount of \$169,939, which is the balance that was remaining for the Reed Bed Project. Additional research will be necessary before a presentation of a specific project will be presented.

Director Reinhardt requested that the Capital Project Summary Sheets be updated to include the date of preparation as well as the names of the persons preparing them. She also requested that in the event priorities change that an indication of the conditions necessitating the change in priority be noted on the summary.

Following discussion, upon motion duly made by Director Reinhardt, seconded by Director Macaulay and, upon vote, unanimously carried, the Board approved the definitions for project priority as presented and the initiation of the Priority One projects.

Capital Funding Sources and Uses: Ms. Ross reviewed the report with the Board. She explained that the Civil Penalty to be paid to the CDPHE is included in the Sources and Uses since the funding will be paid from the Capital Projects Fund.

Mr. Simons reviewed the Engineer's Report with the Board. He noted that he is obtaining pricing for pumps and motors for the Stables Lift Station. Once he gets the information he will forward to Mr. Harrell. He further reported that he will have a preliminary engineering report for the Flow Equalization Basin for the March Board meeting. Mr. Harrell noted that he has done a cleaning of the Stables Lift Station. Mr. Simons discussed the potential use of Chlorine Dioxide as a water sanitization method. He noted that he has been in discussions with the CDPHE, and has found that not many other systems are using the product. Mr. Harrell noted that with this particular product it is difficult to maintain a residual at the end of the system, as required by the CDHPE. Mr. Simons went on to explain that some larger systems have used the product, but he is not aware of any smaller systems using it. Director Grote inquired as to the use of Ozone. Mr. Simons noted that he will inquire with the CDPHE. Mr. Harrell noted that according to information he has reviewed, Ozone has no residual and is

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expensive to use. Director Grote inquired as to the points of treatment on the system. Mr. Harrell explained that there is one treatment station at the Well 18. There are no chlorine booster stations on the system.

Mr. Simons departed the meeting at this time.

FINANCIAL MATTERS

Claims: The Board considered approval of the payment of claims through the period ending February 21, 2014, as follows:

General Fund	\$	17,415.30
Debt Service Fund	\$	-0-
Capital Projects Fund	\$	91,110.88
Enterprise Fund	\$	<u>64,921.83</u>
Total Claims:	\$	173,448.01

Following review and discussion, upon motion duly made by Director Macaulay, seconded by Director Grote and, upon vote, unanimously carried, the Board approved the payment of the claims for the period ending February 21, 2014, as presented.

Financial Statements: Ms. Ross reviewed with the Board the unaudited financial statements of the District setting forth the cash deposits, investments, and budget analysis and accounts payable vouchers for the period ending December 31, 2013 and January 31, 2014 and the current schedule of cash position and cash flow projection through August of 2014.

Following review and discussion, upon motion duly made by Director Grote, seconded by Director Macaulay and, upon vote, unanimously carried, the Board accepted the financial statements for the period ending December 31, 2013 and January 31, 2014 and the current schedule of cash position and cash flow projection through August of 2014.

Scenarios for Possible Refinancing of the District's Series 2010 General Obligation Refunding Bonds: Mr. Beckman reviewed information from George K. Baum, the District's Underwriter, indicating that a refunding could make economic sense in 2020 depending on interest rates at the time, but most likely would not until then due to prepayment penalties associated with the current debt.

Paychex Payroll Services: Ms. Ross discussed making the transition to Paychex Payroll Services at the end of the year as it was understood that Paychex would

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provide reliable and accurate payroll processing services. She further discussed the rationale for transitioning to Paychex noting the following:

- Utilizing a payroll company that understands governmental payroll and will complete the Colorado Unemployment returns and calculations properly so that the District is in compliance. This has not been done correctly in the past and the District was being billed by the State quarterly for unemployment taxes due.
- Ms. Slivka frequently reported inefficiencies regarding the time to complete payroll and the time she spent on hold when she had to contact QuickBooks, and mentioned looking into other services several times over the last 9-12 months.
- Paychex has the experience and ability to help Ms. Slivka with salary changes and updates as well as other routine payroll functions
- Paychex indicated that if the District transitioned prior to the end of 2013, they would issue all W-2's at no charge and amend all the Colorado Unemployment returns.

Special District Management Services, Inc. ("SDMS") will further research tax withholdings from District Employees. Ms. Slivka joined the meeting at this point. She reported that the timing of the transition coupled with the issues encountered with Paychex during the transition was extremely burdensome for her. Ms. Ross then discussed potential issues discovered with withholdings while QuickBooks was the payroll service. The Board directed SDMS to further research any ability to cure any withholding issues and report back at the March Board Meeting.

Long-Term Planning: Ms. Ross reviewed the five-year projection with the Board. She noted that she will update the capital projects budget numbers to mirror the capital projects summary sheets.

Line Extension Fees: Mr. Harrell discussed fees owed in the amount of \$1,966.25 by one of the District's customers for design review costs associated with a line extension project. The Board directed Mr. Harrell to contact the customer and request that the amounts due be paid by the end of the month. In the event the amount due is not paid by the end of the month, the Board directed Attorney Tanaka to prepare a demand letter requiring payment within thirty days with payment to include all applicable late fees and penalties.

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LEGAL MATTERS CONTINUED

Amendment to Rules and Regulations: Attorney Tanaka reviewed with the Board the Amendment to Rules and Regulations which clarifies the requirements, procedures and timelines for all line extensions.

Following discussion, upon motion duly made by Director Macaulay, seconded by Director Matthews, and upon vote, unanimously carried, the Board approved the Amendment to Rules and Regulations.

Attorney Lock joined the meeting via speakerphone.

Water Matters: Attorney Lock reported that his partner Kendall Burgemeister has been attending committee meetings to review and discuss the Rules for Augmentation, proposed by the Division Three Water Engineers. Attorney Lock reported that the rules now anticipate that ground water users will have one year from the date of the implementation of new rules to prepare an augmentation plan. He anticipates that the rules will go into effect in 2015 and that it is possible they will be challenged which will extend their effective date.

EXECUTIVE SESSION

EXECUTIVE SESSION: Pursuant to Sections 24-6-402(4)(b) and (e), C.R.S., upon motion duly made by Director Macaulay, seconded by Director Grote and, upon an affirmative vote of at least two-thirds of the quorum present, the Board convened in executive session at 11:06 a.m. for the purpose of discussing negotiations and receiving legal advice, as authorized by Sections 24-6-402(4)(b) and (e), C.R.S.

Furthermore, pursuant to Section 24-6-402(2)(d.5) (II)(B), C.R.S., no record will be kept of those portions of the executive session that, in the opinion of the District's attorney, constitute privileged attorney-client communication pursuant to Section 24-6-402(4)(b), C.R.S.

The Board reconvened in regular session at 11:17 a.m.

OTHER BUSINESS

Neighbors Helping Neighbors ("NHN"): Director Reinhardt reported that NHN is not able to set up an account for the purposes distributing funds to needy members of the community for the purpose of assisting with water and sewer bills. Director Reinhardt will continue dialogue with Neighbors Helping Neighbors.

2014 Goals: Mr. Beckman reviewed goals discussed at the Board retreat and added that refining work distribution and administrative processes for the District

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Office.

- Mr. Beckman: Capital Project prioritization
- Mr. Harrell: Operator Training and certification
- Mr. Beckman: Objective measurement of labor utilization
- Director Scully: Discussed participation in support of community energy generation
- Director Grote: Water treatment alternatives, alternative energy, and system leak repairs
- Director Reinhardt: Recycling and plan to reduce legal and administrative consulting fees. She would like the Board to take a look at consulting services and create a baseline, then set priorities for services provided and determine which services the District can reduce. Directors Scully and Reinhardt volunteered to be committee members to meet with consultants to discuss scope of services currently being provided. Mr. Harrell noted that one of the important benefits to working with SDMS is that they are able to provide continuity of service in case the District were to lose staff. Director Scully commented that he has observed issues with the POA regarding lack of continuity of services. The Board directed Mr. Beckman to send the agreements and scope of services for White, Bear and Ankele, P.C. and SDMS to Director Reinhardt. She will schedule a time to discuss services provided with White, Bear & Ankele, P.C. and SDMS.
- Director Reinhardt: Revisit PILOT agreements and put additional ones in place with those entities which do not currently have them.
- Director Reinhardt: Preventive maintenance and proactive approach to capital need and maintenance list. Mr. Harrell reported that North Line GIS is in the process of developing software for this purpose.

Retreat Review: Director Macaulay mentioned that he would like to have the retreat at a separate location or on a separate day and location so that full focus can be given to the items. Director Reinhardt concurred and recommended that the retreat coincide with the budget timing.

EXECUTIVE SESSION

EXECUTIVE SESSION: Pursuant to Sections 24-6-402(4)(b), (e) and (f), C.R.S., upon motion duly made by Director Macaulay, seconded by Director Reinhardt and, upon an affirmative vote of at least two-thirds of the quorum present, the Board convened in executive session at 2:27 p.m. for the purpose of discussing negotiations and receiving legal advice, as authorized by Sections 24-6-402(4)(b), (e) and (f), C.R.S.

Furthermore, pursuant to Section 24-6-402(2)(d.5) (II)(B), C.R.S., no record will

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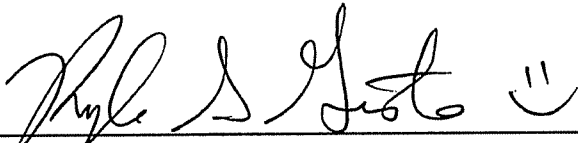
be kept of those portions of the executive session that, in the opinion of the District's attorney, constitute privileged attorney-client communication pursuant to Section 24-6-402(4)(b), C.R.S.

The Board reconvened in regular session at 3:45 p.m.

ADJOURNMENT


There being no further business to come before the Board at this time, upon motion duly made, seconded and upon vote, unanimously carried the meeting was adjourned.

Respectfully submitted,

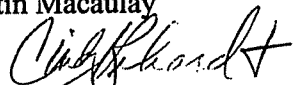
By 
 Secretary for the Meeting

THESE MINUTES ARE APPROVED AS THE OFFICIAL FEBRUARY 21, 2014 MINUTES OF THE BACA GRANDE WATER AND SANITATION DISTRICT BY THE BOARD OF DIRECTORS SIGNING BELOW:

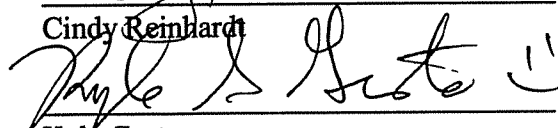
Vicki Matthews



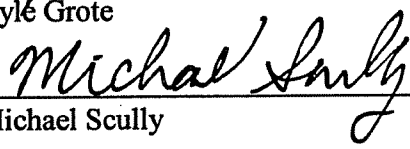
Martin Macaulay



Cindy Reinhardt



Kyle Grote



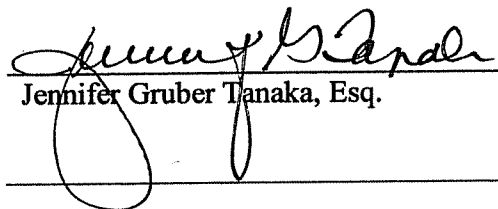
Michael Scully

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**Attorney Statement
REGARDING PRIVILEGED ATTORNEY-CLIENT
COMMUNICATION**

Pursuant to Section 24-6-402(2)(d.5)(II)(B), C.R.S., I attest that, in my capacity as the attorney representing the Baca Grande Water and Sanitation District, I attended the executive session meetings convened on February 21, 2014 for the purpose of discussing negotiations with third parties, discussing personnel matters and receiving legal advice as authorized by Sections 24-6-402(4)(b)(e) and (f), C.R.S. I further attest it is my opinion that a portion of the executive session discussions constituted a privileged attorney-client communication as provided by Section 24-6-402(4)(b), C.R.S. and, based on that opinion, no further record, written or electronic, was kept or required to be kept pursuant to Section 24-6-402(2)(d.5)(II)(B), C.R.S., for those portions of the executive sessions.

Signed


Jennifer Gruber Tanaka, Esq.