

Summary of Hidden Lake Water Project and Loan Approval

February 2 2022
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2022 Board President

The following information will be discussed in the Zoom call on Saturday February 4, 2023. The purpose of this call is to provide the background information on the Utah Department of Drinking Water (UDDW) loan we have been approved for. It is important to remember we have only passed the approval phase of this effort. The next step, should we proceed, would be to close the loan. At the closing of the loan is when the pay pack period would begin.

The reason why we applied for this loan stems from the UDDW letters we received in January and February of 2020 indicating our system was going to be listed as 'not approved'. The UDDW Director at that time was very focused on rules enforcement. The UDDW utilizes the IPS report, a demerit points based system, to determine the status of a water system. Ideally you do not want any points on this report. In January of 2020 we had 260 points. We also learned we have a significant issue (SIG) based on our system not being able to deliver 800 gallons per cabin per day. The UDDW at that time was not budging on this specific issue, indicating we needed to come into compliance.

We were aware we had points on the IPS report. This had not been a major issue in the past, but in 2020 it was. We learned that the UDDW reorganized in late 2019 including a management change, specifically appointing a new Director. Her focus was on rules enforcement using the tactic of potentially fining organizations if they did not comply. On a phone call during that time, we were told we could be fined up to \$10,000 per month for noncompliance.

Based on these circumstances the Board took action.

We had worked with water experts in the past to resolve our non-compliance water well issue. That well issue occurred because the final paperwork to register the well had not been completed back in the 70s. We asked the firm that helped us with that issue and were advised to seek out a water engineering firm to help resolve our current UDDW issues.

We sent out a Request For Proposal (RFP) to 4 water engineering firms. We selected Aqua Engineering (Aqua) based on experience with Summit County, experience with UDDW, willingness to work with us and ironically their lower cost. At no time were we contacted by any water engineering firms to help resolve our issues.

Aqua first focused on lowering the IPS points, working directly with their contacts at the UDDW. We learned that many of the accumulated points were based on clerical issues. For example, for some reason our monthly inspections were not being registered as required. But we also learned that the significant deficiency (SIG) was indeed a major concern.

Aqua could not make the significant deficiency go away without some action. We also tried to reason with the UDDW at that time, indicating we were not like a standard housing development, with everyone living year round. They did not care, saying that was the current standard and we needed to comply. The seemingly only timely and expensive solution was to increase capacity through a system upgrade. Aqua found a compromise by filing Corrective Action Plan (CAP). Filing a CAP provided us time to plan. The focus of the CAP is to provide water usage data. Our CAP expires in October 2025. Our CAP required us to install water meters to gather water usage values. We made sure this work would be used in any future system upgrade. The meters are in place. But at that time, the UDDW was not budging on the 800 gallon rule. At that time the UDDW, at the direction of the then Director, was to enforce rules without compromise.

With the CAP in place we now had time to figure out our next move. Based on other research, we learned of the possibility of low cost loans to fund large water projects. We also learned to apply for such a loan would require us to have a project plan proposal to upgrade the system. The plan needed to be created by a Professional Engineer (PE) with a focus on water systems.

At this point in time our original work with Aqua was now complete. The Board then decided to ask Aqua to help us with finding funding for a large scale upgrade. Aqua indicated they had done this work in the past, as for example most recently for Oakley. The board approved having Aqua help us apply for funding. The proposal plan would also be able to be used in the actual project should we obtain funding.

In this second round of work from Aqua, a Preliminary Engineering Report (PER) was created which was needed with loan application. A PER involves studies of the system based on geographic surveys, elevations, existing pressures and much more. A hydraulic engineering model was created and filed with the UDDW. We provided required aspects, such as a minimum water pressure of 40 psi per service. The final PER involved the recommendations of a new well, new tank and replacement of lines as needed. Cost estimates are also part of the PER. The cost estimates, by design, should be at the higher end of standard, anticipated costs to ensure the requested loan amount is adequate to cover actual costs. The final total cost estimate was \$3.8M.

The first draft of the PER was completed in July of 2022 and reviewed by the Board. We also checked into some of the listed costs to get a sense of reality. For example, we contacted the company who drilled and maintains our exiting well. We learned a new well for a private water system (PWS) was estimated at \$250k which was in line with the number in the PER. The board was satisfied with the numbers in the PER.

The loan application was filed in November of 2022 and went before the UDDW financial board on January 10th 2023. We passed the loan approval process on that date. We are now approved for an unprecedented 0% loan for 100% of our projected cost of \$3.8M with a 40 year payback period. Aqua indicated they have never seen such an opportunity offered from the UDDW.

This information was passed on to the owners. A number of questions came back. Mike Davis took it upon himself to investigate. He contacted the UDDW. He learned the previous director was asked to step down seemingly based on the tactics she had employed.

Since Aqua had reduced our IPS report to 0 points, we were no longer a focus of their attention. The CAP, that is still in place, hides the significant deficiency. This deficiency is still an issue that puts us in non-compliance with two rules that being related to source and capacity. We brought this to the attention of the UDDW who now seemed more willing to work with us, but who also stated the rules have not changed.

We also learned that the current Director of the UDDW is much easier to work with and some things can also be adjusted at the Directors discretion.

The CAP involved us installing water meters. The original plan was to gather 3 years of data. We have had issues with some of the meters in that they have been under water do to being located by the river. We will be providing as much data as we can to the UDDW to see what their current position is on us needing to meet 800 gallons per cabin per day. They did say that the rules have not changed, but the Director can make decision at their discretion. The current UDDW administration understands that small water systems like us differ greatly from metropolitan systems of cities and that not all rules should be applied the same.

During all of this our system continues to show it's age. We recently replaced 1000 feet of water main at Riverside because the existing main pipe split due to freezing. Our maintenance costs have gone up over the years. We also have had numerous bacterial hits on the Riverside spring. Currently, due to construction at the cabin between the gates on the canyon road, the Riverside spring is not providing water to our system. Riverside is utilizing well water. Ever since that cut over has occurred we have not had a bacterial issue. A seemingly obvious solution is to possibly stop using the Riverside spring, as we did with Meadow spring in Mountainside a few years back. Currently our system has two water sources listed the well and the Riverside spring. If we do away with using the spring we will be lacking a second source which would be considered another significant deficiency.

The Utah State Legislature is very much focused on water rights. The same can be said for the Federal Government. This is common knowledge if you listen to the news. Funds for water projects have been made available and it seems we may be on the receiving end of such an opportunity. The loan opportunity will not be available for ever and we were told we would never be able to seek funding from the UDDW for this project if we do not utilize this opportunity.

We currently own five (5) Utah State water shares, of which we use one (1) for our well. Four(4) of them are unused. Who knows what the future holds for the four (4) unused shares, but we could utilize one (1) of them with a new well. One thing I think that can be said is changes are coming with regards to water rights.

We are currently faced with the opportunity to take advantage of a 0% 40 year loan. The next step, should we decide to go this way is the 'close' the loan. This process is anticipated to take a year. During

this time the actual costs are defined. Any work to be funded by the loan requires three (3) bids to be obtained. We are able to do work which we are capable to do, such as laying pipe, but we would need to follow the process. At loan closing, when the final loan amount is known, the loan payment is calculated. This payment is a yearly payment. The payment is drawn from a reserve account setup for the repayment process. Basically the loan payment starts when the loan closes but this can involve a 1 to 1.5 year grace period. Work done during the loan closing process is typically paid for after the loan closes. Contractor's familiar with this process, doing work during this time, understand how this works. We could also simply pay out of pocket for the work during this time. We do know we will require legal services and engineering services during this time.

The utilization of this loan must follow a very strict project planning process established by the UDDW. We have an assigned UDDW Loan Project Manager who will oversee this.

I have indicated to our Loan Project Manager we will not be able to provide details on our next steps until after our May owners meeting. I also indicated I may not be involved as I will not be on the Board nor will I be President as of that meeting. I will always be ready to help as needed or as asked to help.

Terry Ulanich
2022 Board President
Hidden Lake Association