

KANE COUNTY WATER CONSERVANCY DISTRICT

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August 23, 2005

Shareholders of the Swains Creek Pines
Lot Owners Association
Duck Creek Village, Utah 84762

Re: Phase VI of Duck Creek Village Water Improvement District System – Ballot Enrollment
Forms and Payment Information

Dear Swains Creek Pines Lot Owners Association Shareholder:

I am writing in regard to the Kane County Water Conservancy District (KCWCD) culinary water improvement project that has been under construction for the past five years. The KCWCD has now completed Phases I - IV and will have Phase V finished by November 27th of this year. To-date, the KCWCD has invested over 20 million dollars in Phases I - V. After a rough start the first year, the Duck Creek Village Water Improvement District System has met or exceeded all of the expectations of the KCWCD Board of Directors and of the water users on the system. Based on a positive vote and support from your Swains Creek Pines Lot Owners Association (SCPLOA) Board of Directors, we have completed the preliminary engineering plans and are finishing up the environmental work so that we can now make a serious proposal to each lot owner in the subdivision to build a new culinary water system in Swains Creek (Phase VI) in 2006.

Phase VI will involve the placement of almost 16 miles (83,000 feet) of 10", 8" and 6" PVC C-900 pipe, construction of a 500,000 gallon concrete storage tank at an elevation which will provide the desired water system pressures and fire protection to the area, drilling and construction of a new deep well with state approved protected aquifer status, and a modern hypochlorination facility. The pipe will be buried to a depth of six feet to eliminate the possibility of winter freezing. All of the tanks, well, chlorination system, as well as the control valves and

other facilities will be interconnected by a modern Supervisory Control and Data Acquisition (SCADA) System providing the certified operator with remote access and operation as well as protection against illegal tampering with the system from unauthorized persons. All individual lot meters will be constructed with radio controls for automated readings of water usage. Fire hydrants will be installed per code at prescribed intervals. In addition to the Swains Creek construction, the subdivision will also have the benefit of over two million gallons of existing storage, four high capacity source-protected wells at depths in excess of 1,000 feet, four modern hypo-chlorination facilities, and over 65 miles of high-pressure C-900 transmission pipelines. All of the systems are tied together providing the security of backup wells and storage should any malfunctions occur.

All service areas have the advantage of high-pressure year-round fire protection flows, which meet or exceed all state and federal code requirements. During Phases I - V of the project, as an added bonus, the KCWCD worked closely with the Kane County Road Department to improve the roads to the width recorded on the county plats and add drainage ditches, culverts and additional road base which greatly improved access in the various subdivisions. To-date, with the use of federal rural development loans and grants, state drinking water grants, KCWCD tax revenues and self participation by the homeowners, we have been able to provide our customers with excellent quality year-round drinking water, fire protection, and upgraded roads at affordable rates. The roads in the Swains Creek subdivision will also be brought up to these same standards if lot owners approve the build-out.

During the past five years, KCWCD has responded to the need for clean reliable year-round culinary water in the Duck Creek area. We have also responded to the need for fire suppression water that has helped to reduce insurance costs for homeowners. The KCWCD has also supplied emergency water to any company that needed water prior to the new system being constructed. At the present time, we are delivering water to over 1,500 service connections. As many of you know, our engineering company and I met with many of the members of SCPLOA during the summers of 2003 and 2004. At that time, we presented a water service proposal based on the KCWCD's ability to secure grants and loans for what would be the most expensive build-out to date. Our presentation was well received by the group in attendance and by your Board of Directors. Based on those positive responses received at the membership meetings and from meetings with your Board of Directors, I instructed our engineering firm to develop plans and specifications and provide our KCWCD Board of Directors with preliminary costs estimates to supply year-round culinary water to SCPLOA shareholders. In addition, I made application to the Rural Utilities Service for a grant and loan to complete the project.

The KCWCD has been in regular contact with your of Board of Directors as well as many of the shareholders. We have also had many contacts with Barbara Christensen (widow of Darrell Christensen the developer of the Swains Creek area) who is very supportive of the build-out. We have received letters from your Board of Directors asking the KCWCD to notify all of the members of SCPLOA of the projected overall and individual cost for participation in the new system and call for a vote of the membership for approval or disapproval of the proposed build-out. I am sorry that information and this letter has been so long in coming, but because the fixed

fees per connection involves not only engineering estimates but also what I can obtain in the way of grants and low interest loans, we have only just this past week been able to provide you with that information. The preliminary engineering report indicates a cost for the new system of \$8,773,130. This does not include the costs of the facilities (wells, storage tank facilities and transmission lines) that have already been constructed and would be used as a part of the new system for SCPLOA. These costs exceed 20 million dollars.

On each of our past projects we have been able to keep the connection fees and impact fees low enough to be attractive to the various water companies. Without low interest loans, grants, KCWCD tax monies, and the existing infrastructure, the costs per lot owner would approach \$17,000/lot which I am sure would be unacceptable to most of you. We have submitted an application to the United States Department of Agriculture Rural Utility Service (RUS) for a low interest 40-year loan and a \$4.5 million dollar grant. We have worked with our United States Senator Robert Bennett who chairs the Agricultural Appropriations Committee, which funds Rural Development Loans. His office has informed us that the funding for Swains Creek has been included as intent language in the 2005/2006 Agricultural Appropriations Bill, which is an unequivocal statement from Congress to RUS to approve the funding package. With the almost assured approval, the KCWCD feels that we can continue to move forward with plans for Swains Creek and finalize our engineering plans and specifications this fall and winter. The approval of the SCPLOA shareholders is all that is needed to move forward toward a May 2006 ground breaking. If we meet this timeframe, we will expect to break ground on the project in May 2006 and complete the system by November 30, 2006. Based on the projected costs to construct the new system and accounting for the RUS loan/grant, the KCWCD Board of Directors has agreed to allow the present shareholders in the SCPLOA to connect to the new system in exchange for the following assets and fees:

1. One time **Impact Fee** of \$3,000: Will be used to defray costs of the new \$8.7 million dollar system and previously contracted costs for the existing system (i.e., wells, storage tanks, etc.)
2. One time **Connection Fee** of \$1,000: This is strictly a pass through cost to pay for the installation of a frost-free meter box, piping, and a radio read 5/8" X 3/4" badger meter (standard residential meter) to your property line. (Larger commercial meters will cost more.) This cost is actually lower than the last bid price (our construction cost) received on the Meadow View Heights project, which was \$1,577/connection.
3. Ongoing **Monthly Fees**: A residential fee of \$15.00/month for a 12-month water system. In order to keep these monthly fees low, the \$15.00/month charge does not come with any fixed amount of water; it only entitles the user to purchase water on a \$2.00 per 1,000 gallon basis for the first 15,000 gallons of use each month which is more water than 99% of residents use on the mountain. If you go over the 15,000 you will be charged \$2.25 for the next 5,000 gallons and then \$2.50 per 1,000 for anything above 20,000 gallons per month. Meters will be read monthly and residents will be billed on a monthly basis. **To reiterate, you will be billed a \$15.00/month charge regardless of water use.**

4. The KCWCD will finance 80% of the proposed \$3,000 impact fee and \$1,000 connection fee with 20% down (\$800) at 6% interest over a 10-year period. Low-income homeowners on fixed incomes that can demonstrate a verifiable need can present that evidence to the KCWCD Board of Directors for further consideration of additional financing options. If you take advantage of the finance option there will be a lien placed on your property until the note is satisfied. If you sell or transfer title to your property, the note will become due and payable at the time of the transfer or sale.

5. Existing SCPLOA water rights must be transferred to the KCWCD by the SCPLOA Board of Directors (subject to shareholders approval) along with the sources of water supply, existing facilities, funds, and any easements, rights-of-ways, property, or other assets required by the KCWCD to construct, operate, and maintain the new water replacement facility.

In order for the KCWCD Board of Directors to continue with the planning for your new system, we need an assurance that the shareholders in SCPLOA are supportive of the KCWCD taking over your system. We would like to see a super-majority (75% or more) of the shareholders vote in favor of the new system before more funds are committed to the project. Because of limited funding, as well as a limited amount of source capacity, the KCWCD Board will only respond to those companies that indicate to us that the vast majority of their voting membership (shareholders) truly wants to be served from our new system. **There is no intent on the KCWCD Board of Directors to force any company on the new system. We are merely responding to a need and request for services.**

Please review this proposal and then make a selection **for or against** joining with KCWCD by returning the signed and dated enclosed ballot to the KCWCD with the appropriate box checked before September 19, 2005. **Please include your name and lot number on the ballot.** A ballot is enclosed for each lot that you own. **Only those that vote for or against the new system will have a voice in the outcome.** As stated above, we have received a great deal of support and encouragement from your Board and from many association members in SCPLOA. If the new system is approved, even if you voted to support the new system, you are not required to sign-on to the system. If you own more than one lot you only need to pay impact and connection fees to those lots you want water service on.

In conclusion, we only expect each member to vote for or against the proposal as presented. If a substantial majority of the voting membership votes yes, the KCWCD will proceed with the project. If a majority of the voting membership votes no, we will eliminate SCPLOA's participation in the project. **In other words, it is for all of the SCPLOA shareholders to decide for themselves if they want the KCWCD to provide them with water.** If the vote is a go a **formal and final** vote of the shareholders will follow next year and will be conducted by the SCPLOA Board of Directors. As stated above, we anticipate starting the work on the system in May 2006 and having all of the work completed by late fall of 2006. I know this is a long and detailed letter, but I have tried to answer all of the questions that have previously come up in the past with other water company members. If you still have questions, please contact me at the

SCPLOA Shareholder

August 23, 2005

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phone numbers or e-mail address listed above or contact a member of your Board of Directors. A copy of this letter with additional frequently asked questions will also be posted on our website at www.kcwcd.com.

The Duck Creek Village/Cedar Mountain area is a beautiful part of Kane County. I firmly believe that the proposed new culinary water system will add reliability and value to your property, and with increased fire protection and improved roads it should reduce your insurance costs. I encourage you to review this letter carefully and then decide for yourself the best direction to take for your water company and subdivision. If we build the new system in 2006, we will make sure that you have uninterrupted road access to your property during the summer and it is my understanding that the water delivery trucks will be available to fill your holding tanks. The KCWCD is a Municipal Public Corporation organized under the laws of the State of Utah. The seven member Board of Directors is accountable to the taxpayers in the county and has oversight by the Kane County Commission. The pending loans are approved and monitored by the United States Department of Agriculture Rural Development Administration and the Utah State Division of Drinking Water. Please take the time to review the information in this letter and then return your ballot as soon as possible.

We look forward to serving you!

Sincerely,

Michael Noel
Executive Director

Enclosure: Ballot(s)