

The meeting was called to order at 10:05 AM at the offices of Prudential Canterwood Realty.

Attendees: Steve Muretta, Mike Hondorp, Doug Allen and Michael Williams (Directors); Russell Tanner (Canterwood Development Co.)

The meeting began with a request for approval of the minutes of the January 24, 2012 meeting as distributed previously. Mike Hondorp asked why the minutes didn't include any reference to the February bi-monthly billing change that increased and allocated assessment amounts. Steve Muretta and others agreed that such a change had been discussed and authorized, but it wasn't included in the minutes. It was agreed that a sentence would be added to the January meeting minutes such as:

"The Board discussed and decided to change the billing method starting in February for bi-monthly assessments to agree to the STEP's 2012 budget that was adopted in December."

It was moved, seconded and unanimously approved that the minutes of the January 24, 2012 meeting be approved with that sentence added.

Hondorp then asked why the previously approved minutes of the December 15, 2011 meeting did not reflect a Board action to authorize the STEP's accounting services agent, Kalles Community Management, to start billing the STEP using a higher monthly rate of \$3.00 per household effective January 2012. The Board Members agreed that the group had accepted Kalles's explanations justifying the higher rate, but that the discussion and decision was not reflected in the minutes. Also, as reflected in the December meeting minutes, Russell Tanner had asked the Kalles staff to provide the Board with a new contract summarizing all the services that Kalles performs for the STEP since no such formal agreement currently existed. Kalles has not yet furnished the Board with the formal agreement. Steve Muretta agreed to follow up with Kalles on that matter. Hondorp then asked that the December 15, 2011 minutes be amended in the appropriate place to include a sentence such as:

"The Board concurred with the request by Kalles to increase its billing rate to \$3.00 per household, effective January 2012."

It was moved, seconded and the Board approved Hondorp's request for the minutes edit.

Copies of the financial statements for January 2012 were distributed. Hondorp said he had a few questions for Debbie from Kalles about matters in the financials, but since she wasn't at the meeting, he said he would send her an email and copy the other Board members for their information.

With respect to Kalles services, Steve Muretta informed the group that he had met earlier in the day with Jennifer Landon and Debbie Rench from Kalles to talk about service levels and the new 2012 rate hike. He said he had informed them that the Board, out of a desire to better control STEP costs, wanted Kalles to return to its old rate of \$2.50 per household per month. In return, Muretta said that Kalles did not need to send staff to all STEP Board meetings and that Board demands on Kalles staff would return to normal levels now that the new Board, elected last summer, has been acclimated to STEP business activities. Kalles was agreeable to the suggestion that the rate be returned to \$2.50 so long as the service levels are reduced as proposed. Muretta said the change would be effective as of March, 2012, and that the Kalles fees for January and February, which used the higher \$3.00 rate, would not be impacted by the rate reduction. There was consensus support among the group for this proposal, but the members still want to see an agreement with Kalles that outlines normal services that are covered by the \$2.50 per household fee. It was then moved, seconded and unanimously approved that the Kalles billing rate be reduced to \$2.50 effective March 2012.

Muretta then brought up the current year budget and a concern he had about how certain costs, namely the LOSS feasibility consultant fees of \$5000, were being included in the 2012 O&M budget.

Rather than being a burden on current member assessments, Muretta asked if such costs should be paid out of the accumulated replacement reserves. Hondorp explained the accounting justification for keeping the consultant costs in the O&M budget until the LOSS project is officially sanctioned as a capital project once all the feasibility work is done. Until then, Hondorp explained that the costs are treated as deferred charges which is sort of "in limbo" accounting until final project status is determined. Hondorp noted that the current meter replacement project is a capital project which will be funded by existing replacement reserves rather than current year member assessments. He said that all costs associated with that effort should be recorded as a new capital asset by Kalles as such costs are incurred.

Hondorp asked that the group discuss his proposed change in the STEP's bi-monthly assessment billing procedure as outlined in his February 29, 2012 e-mail to all Board members and Tanner. He outlined the reasons for the proposal, which is basically a standard method used by HOAs to bill assessments, the advantages to the STEP members of a fixed bi-monthly billing during each year, and to benefit to Kalles in administering such a process. There was brief discussion by the group of the merits of the new billing proposal. The group also discussed whether it was appropriate to consider changing the 2012 annual budget for known changes such as a reduction in Kalles budgeted fees for 2012 due to the aforementioned rate reduction to \$2.50 per household. Hondorp pointed out the relatively minor fiscal impact of the Kalles rate reduction to the overall budget (less than \$1600) and suggested that the original adopted budget be used for setting the new 2012 assessments at this time. The group concurred. It was then moved, seconded and unanimously approved that the STEP bi-monthly billing procedure be changed, effective for the April 2012 billing cycle, to use the procedure wherein the adopted annual budget is divided by the bi-monthly billing cycles and by the number of STEP members in order to derive a fixed assessment amount per each billing cycle of each year. For the five remaining billing cycles in 2012, an assessment of \$208 per cycle will be billed to each member (before any applicable past due amounts or late fees) starting with the April billing. The group also agreed that an appropriate billing insert needs to be included in the April 2012 assessment which explains the reason for the billing change and its advantages to the members.

(Note: On March 8, 2012, the Board voted unanimously to adopt a revised budget for 2012 totaling \$322,895 based on expected reductions in costs for utility taxes and Kalles fees. The Board also reduced the previously approved bi-monthly assessment rate of \$208 per billing cycle to \$200 based on the revised 2012 budget. Furthermore, for utility tax reporting purposes, the Board approved changing the invoice dates on future bi-monthly billings to the last day of "odd numbered" months, eff. March 2012, so that assessment revenues will be recorded in the same monthly accounting cycles as the related payments for City treatment costs. A billing insert letter to members for the next billing cycle was also approved.)

Doug Allen asked where the STEP records are maintained since he has the STEP's new D & O insurance policy for filing. Russell Tanner indicated that Canterwood Development Co. maintains a file of permanent and historical STEP records, although Kalles maintains financial and other records in its files as well as the official registered agent for the STEP.

Board administration was discussed and Tanner suggested that Susan Anderson of CWD Co. be allowed to assist the STEP with some of its records and meeting organization. The group was in favor of that assistance so long as the monthly fee to CWD Co. remained at \$205 for the balance of the current year. It was decided that Susan would send meeting reminders/draft agendas to the Board members prior to the each monthly STEP meeting and start gathering their input on agenda items and meeting materials. She will then work with Steve Muretta to finalize each agenda based on that director input. Susan will e-mail the finalized agenda and related materials to all Board members, preferably several days prior to

the scheduled meeting. She will also prepare "hardcopy" packets of the agenda and meeting materials and have them present at the start of the each Board meeting.

Hondorp asked whether the services covered by the \$205 that the STEP currently pays the CWD Co. have been summarized in writing. Tanner said that still needs to be done, along with an inventory of the various STEP records kept by the CWD Co.

Hondorp asked about the status of a September 8, 2008 document, previously provided by Tanner, called the "Step System Fees and Procedures List" in light of the January 24, 2012 Board meeting discussion and action to change the policy on As-built Deposits. Doug Allen reported that the wording changes in paragraphs 6 and 7 of that document have been adopted, but not yet incorporated therein. Hondorp then asked whether the fees cited in paragraph 3 are still accurate and valid in view of the large rate hikes the STEP has received from the City of Gig Harbor since 2008. Tanner said he'd have Susan Anderson verify that the City connection rate is still valid and that it was his opinion that increases to the other fees are not warranted at this time. He said he would have Susan update the document's date, the City fee amount, if needed, and the wording changes to reflect the new As-built Deposits policy (This was accomplished immediately following the meeting). Allen also said that the revised document needs to be posted to the STEP web site.

The following website changes were requested:

1. Add the 5-page City of Gig Harbor Ordinance No. 1179, dated January 1, 2010 to the Homeowner Information section (key documents);
2. Add an un-signed copy of the STEP's Financial Policy document to the Homeowner Information section (key documents);
3. Move the Financial Statements now listed in the restricted Board Member's section to a new main section accessible by everyone.
4. Add a new section to the main page called Builder's page and include the recently modified Step System Fees and Procedures List and the Builders Application Form.

Tanner reported that he is proceeding to get bids and to compile all the costs necessary to buy and install the new Magmeter along Baker Way. The main issue is getting electrical service to the meter. Trenching for that service across Baker Way will add to the project's cost. Tanner is looking into Solar power as a way to reduce the cost of this project. Tanner expects to have the cost estimates in approximately two weeks. Hondorp asked about the budget and Tanner said he has been authorized by the Board to commence work if the total of the bids are under \$10,000. Higher cost will require Board consideration and approval.

Muretta provided copies of the corrected contract with consultant David Jensen, P.E., for engineering services in connection with the feasibility of the LOSS. While Jensen's contract was previously approved by the Board for \$3,200, there is also a need for excavation services for the PERK testing which are outside the scope of Jensen's contract. Tanner said he will speak to Rush Construction about using its excavating equipment near the property in an attempt to lower these extra costs. It was moved, seconded and unanimously approved that up to \$2000 be authorized from the budget for 2012 consulting services to pay for the excavation work needed to assist Jensen in his analysis.

Tanner said he has had difficulty obtaining complete and detailed historical cost data about the sewer system infrastructure assets that have been donated by the community developer to the STEP over time. He said he would provide the Board with whatever data he can obtain, but it won't be by major divisional segment or as time specific as requested. Hondorp indicated that the data is needed for financial reporting disclosures and, more importantly, for evaluating future replacement reserve

requirements. Hondorp noted that the STEP is no longer providing funding from assessments for replacement reserve replenishment and that this matter would need to be addressed before the start of 2013. He also noted that the STEP did not prepare a formal Capital Budget for 2012. According to Tanner, the Magmeter project is the only capital asset replacement expected in 2012. The funds for that project will come from the \$80,000 currently in the replacement reserve fund.

Tanner mentioned that he has obtained member water usage data from Peninsula Light and provided it to Muretta for analysis. The intent of obtaining the data was to use the analysis results in future discussions with the City of Gig Harbor about water treatment cost spikes and the impact of water intrusion, seasonal or otherwise, on the STEP system flows and treatment needs.

Hondorp indicated that he had nothing to report on his February 15, 2012 letter to the WA Dept. of Revenue requesting a ruling on the applicability of the public utility to the STEP since he had not yet received a reply from the DOR.

(Note: Later that day, Hondorp received the requested ruling from the DOR via e-mail. The DOR ruled that the public utility tax did apply to the STEP, but that the STEP could:

- 1. Deduct payments to the City of Gig Harbor for sewage treatment costs in determining future tax obligations, and**
- 2. Seek refunds for excess taxes paid in 2012 and the four previous calendar years.**

DOR outlined the STEP's appeal rights in the event the STEP Board did not accept DOR's ruling. Hondorp transmitted the DOR ruling to all other Board members on March 2 via e-mail.

In an e-mail to Board members, Hondorp asked the directors to vote electronically on his motion to reject an appeal of the DOR ruling and to authorize him, in conjunction with Kalles staff, to start work promptly to address the changes in future tax filings and to commence work when time permits on filing amended returns to recover overpayments to the state from 2008 through February 2012. All Board members voted via e-mail in the affirmative to Hondorp's motion.)

There was a discussion of the status of delinquent accounts receivable as of January 31, 2012. Doug Allen said he would review the current status of the problem accounts and report further on actions taken or to be taken at the next meeting.

The STEP Board meeting calendar for 2012 and 2013 was discussed. It was decided that we would continue to hold monthly Board meetings through 2012 and would hold these on the third Thursday of each month, except December. E-mails for calendaring future meetings will be sent out to all Board members, using 4:00 to 5:30pm on the agreed upon dates, and notice that meetings will now be held at the Kalles business center in downtown Gig Harbor. At any time that Kalles cannot accommodate the Board meetings, they will be moved back to offices of Prudential Canterwood Realty.

Hondorp commented that, in accordance with the STEP Bylaws, the December meetings should be considered for the required annual membership meeting since the annual budget is now adopted at that time. He also noted that the Bylaws require 3 of the 5 current directors to stand for election in 2012. This will necessitate a ballot mailing process in the fall.

The meeting was adjourned at 11:55 AM.