

**SHOREWOOD FOREST UTILITIES
425 UTILITY DRIVE
VALPARAISO, IN 46385**

SPECIAL MEETING

CTA EXPANSION

President, Greg Colton
Vice President, Dan Clark
Treasurer, Jerry Hanas
Secretary, Ken Buczek
Director, Terry Atherton

December 15, 2016

NOTE: All minutes are summarized to give the community the essential information of what has taken place at meetings and what votes were taken. Board discussions and public comments are not presented verbatim.

Pursuant to notice, duly mailed to the members of Shorewood Forest Utilities, Inc. as required by the Utility's By-Laws, Board President Greg Colton called the December 15, 2016 Special Meeting to order at 7:06 p.m. in the Shorewood Forest Club House. Directors Greg Colton, Dan Clark, Ken Buczek, Jerry Hanas, and Terry Atherton were present, along with Plant Manager Forest Ash, John Sturgill from McMahan Associates (the Utility's engineering adviser), Don Blum (the developer of the proposed Arbor Lakes South subdivision), and nineteen members of the Utility.

To begin the meeting, President Colton asked each Board member to introduce himself.

- Terry Atherton, Director, has lived in Shorewood Forest for ten years. Terry served on the Board for eight years, and was President for seven of those years. He is a professional engineer, and the former Director of Utilities for the City of Fort Wayne's sewer and storm water divisions. He served as the manager of the Northwest District of Indiana American Water Co., and most recently was in charge of Chesterton Utilities, until his retirement.
- Ken Buczek, Secretary, has lived in Arbor Lakes for two years and joined the Board in 2015. He is a licensed engineer, and spent 35 years in the utility business, followed by five years as a consulting engineer for water and wastewater systems. He is now retired.
- Jerry Hanas, Treasurer, has lived in Shorewood for three years and joined the Board in 2013. His background includes managing large construction projects for the railroads. He recently retired from his role as General Manager of the South Shore Railroad.

- Dan Clark, Vice-President, has lived in Shorewood Forest for a year and a half and joined the Board a few months ago. Dan is an engineer for a petroleum company and works with underground pipeline systems.
- Greg Colton, President, has lived in Shorewood Forest for twelve years and joined the Board in 2013. He is an attorney and has 19 years of utility experience, at NIPSCO as in-house regulatory counsel, and with the Indiana Utility Regulatory Commission.

Forest Ash is the Manager of the Utility, and is a Class III Wastewater Certified Operator. Forest has worked for the Utility for 19 years

Process for the Utility to expand its CTA. President Colton explained that the purpose of today's Special Meeting is to hear membership input on a preliminary resolution approved by the Board of Directors at its November 17, 2016 meeting. The preliminary resolution proposed to expand the Utility's CTA (Certificate of Territorial Authority) in order to provide utility service to a proposed subdivision called Arbor Lakes South, as well as a few other, much smaller, neighboring subdivisions. Pursuant to the Utility's Article of Incorporation, the Board itself does not have authority to expand the CTA; this can only be done by a vote of the Utility's membership. After hearing comments from the membership at today's Special Meeting, the Board can either approve the initial preliminary resolution, amend it, or reject it. If the resolution is approved or amended, the next step is to put the matter to a vote of the membership. If the membership votes to approve the CTA expansion, the next step is for the Utility to file a petition with the Indiana Utility Regulatory Commission seeking IURC approval of the requested CTA expansion. In total, the approval process would likely take eight months or so.

Mr. Atherton reminded everyone that the Utility's CTA has been expanded three times since its inception. The CTA was expanded in 2005 to include the Edgewood subdivision, and a couple of years later it was expanded to include Sagamore, Shellbourne, and Deer Creek. In 2008, Arbor Lakes (north) was added to the Utility's CTA.

A member asked for a brief history of the Utility. Mr. Colton replied that Shorewood Forest Utilities, Inc. was created in the mid-1970s at the time Shorewood Forest subdivision came into existence. It is organized as a nonprofit corporation, and originally provided both water and sewer utility services – hence the plural name of the Utility. The water utility was sold to Indiana-American Water Company in the late 1990s. The Utility presently serves approximately 1,064 customers.

Arbor Lakes South. Don Blum, the developer of the proposed Arbor Lakes South subdivision, explained his plans to the membership. Mr. Blum explained that he previously developed the Arbor Lakes subdivision on the north side of 100 North. He has since purchased land on the south side of the street where he plans to build Arbor Lakes South. Mr. Blum explained that Porter County prefers that he connect the new subdivision to a sanitary sewer system, but if he is not able to do so, the County would allow him to install septic systems. Mr. Blum pointed out that if he had to install septic systems, the drainage from the leach fields would drain back to Lake Louise, because the subdivision is in the Lake Louise watershed. The proposed subdivision encompasses 154.8 acres, and if he is permitted to connect to the Utility

Mr. Blum stated he would build 208 homes. If he has to use septic fields instead, he would build approximately 130 homes.

Mr. Colton clarified that all costs of the proposed expansion of the Utility's CTA will be paid for by the developer, Mr. Blum; there will be no cost to the Utility. If the membership votes in favor of expanding the CTA, the developer will pay the cost of engaging an attorney for seeking approval from the IURC. If the IURC approves the CTA expansion, the developer will then incur all costs necessary to build a system of collection mains throughout the Arbor Lakes South subdivision, a lift station, and the cost of extending mains to the Utility's existing system. All of those facilities, when completed, will be contributed to the Utility. In addition, the developer will have to pay a capacity fee of \$2,000 for each home that will be served by the Utility. Once a home is ready to connect to the Utility's system, a \$1,000 tap-in fee is also required. Thus, each home in Arbor Lakes South subdivision would be required to pay \$3,000 in cash in order to receive service from the Utility. Thus the Utility stands to receive more than \$600,000.

Mr. Colton opened the floor for questions for Mr. Blum. A member asked if there was going to be a lift station for the new subdivision, and if so, where the lift station would be located? Mr. Blum showed on a map that the lift station would be located on the south side of 100 North, within the new subdivision.

Other neighboring subdivisions. The Board's Preliminary Resolution includes expanding the CTA to serve Summerhill (22 homes), Stonegate (12 homes), Rolling Meadows (65 homes) and 350W (11 homes), all of which presently treat their sewage with septic systems. Mr. Colton explained that given the high cost of obtaining IURC approval (roughly \$30,000), it makes sense to "piggyback" these small subdivisions on the Arbor Lakes South proposed CTA expansion. An informational meeting was held on December 13, 2016 with roughly 23 homes represented from those subdivisions. At that meeting Mr. Colton explained that even if those subdivisions were added to the Utility's CTA, Indiana law allows individual homeowners to avoid hooking up to the Utility for up to 20 years if their septic systems are in good working order. At the end of the informational meeting, a short survey was circulated. Seven homeowners were interested in receiving Utility service immediately. However, all twelve homeowners from Rolling Meadows said they never wanted to receive Utility service.

Utility Plant Capacity. John Sturgill from McMahon Associates, Inc., the Utility's engineering adviser, explained that the capacity of the Utility's treatment plant is rated at 450,000 gallons a day, and has a peak capacity of 1.35 million gallons per day. In early 2014 the Board asked McMahon Associates to prepare a Wastewater Treatment Facility Capacity Evaluation to determine how many new homes the Utility could serve beyond the 1,308 homes the Utility was already committed to serve. (The figure 1,308 is the total of 1,064 existing customers already receiving service, plus 244 vacant lots in subdivisions on which new homes could be built.) The Evaluation showed that the current CBOD of the plant is around 228,000, leaving a little more than 222,000 of usable capacity that could be used to serve new customers. Based on IDEM rules which assume an average home produces 310 gallons of sewage per day, McMahon Associates determined that the Utility could serve an additional 716 homes before reaching its plant capacity. However, Mr. Sturgill strongly believes that the figure of 716 homes

is a very conservative number, because the Utility's actual experience shows that the average customer in fact produces only 174 gallons of sewage per day.

Bob Band, a member of the Utility, asked how many votes would be needed to approve the proposed CTA expansion? Mr. Atherton explained that our Bylaws require a quorum of 10% of our members, and out of that 10%, only a simple majority is needed in order to approve a proposal. So out of 1064 customers, a minimum of 107 votes would have to be cast, and out of that 107 there would have to be at least 54 in favor of the expansion in order for it to be approved.

A member asked if there was a down side to the proposed CTA expansion? Mr. Atherton, answered there is no down side to the expansion. If you are looking for a down side it would be to *not* expand, because in the future it will become necessary to deal with the cost of repairing or replacing the aging clay pipe that is found in much of Shorewood Forest subdivision. If the customer base does not expand, that cost will be shared by a smaller pool of customers.

Mr. Colton then asked if there were any further informational questions concerning the proposed CTA expansion. Hearing none, he opened the floor for comments from the members.

Input from the Members. Greg Schafer, a member of the Utility, stated that he has been a resident of Shorewood for about 34 years, is a contractor, and has done sewer and water work, including work for Twin Lakes Utility. Mr. Schafer stated he knows Mr. Blum to be a competent contractor. Mr. Schafer stated that some may think he is against the expansion, but that is not the case. He just wants to inform the membership. One of his major concerns is that every time the Utility expands its CTA, it dilutes ownership by the Shorewood Forest residents. The million-dollar question is what does the expansion do for Shorewood Forest residents? Mr. Schafer commented that the bond that was issued by the Utility a couple of years ago for plant improvements did not result in savings as was thought - it seems that all it did was to give us more capacity. He stated that we do not need any more capacity, the capacity is sufficient for what we already have. He also stated the \$2,000 capacity fees we would charge Mr. Blum for each new home can only be used for the plant, and cannot be used for repairing or replacing the aging clay pipe sewer lines that run throughout the Shorewood subdivision. Mr. Schafer stated that he knows that there are tanks in the plant that are in need of replacement because of their age and failing structure. Mr. Schafer stated that he contacted other sewer departments in the area and asked what their rates are and Shorewood Forest Utilities is the highest of all that he had contacted.

Another member followed up on Mr. Schafer's comment, and asked if it was true the Utility cannot use capacity fees to replace clay pipe? Mr. Atherton explained that several years ago the Board passed a resolution that capacity fees are to be placed in a restricted fund to be used only for treatment plant infrastructure. General revenues that have accumulated over the years, or left over bond funds can be used to replace clay pipe that has failed.

Mr. Colton then addressed some of Mr. Schafer's comments: (1) With regard to capacity, we have not increased our capacity since the 2005 project that resulted in the construction of a concrete aeration tank. As mentioned by Mr. Sturgill earlier, the purpose of

doing the head works and other recent projects was to *recover* the capacity we had lost due to aging and failing tanks. (2) With regard to Mr. Schafer's survey of rates charged by other utilities in the area, Mr. Atherton stated that the utilities that were mentioned were much larger and had many more customers. They have cheaper rates because expenses can be passed on to more people. (3) With regard to Mr. Schafer's statement that money received from Arbor Lakes South would be used to increase the Utility's capacity, Mr. Colton disagreed. The Board wants to use the new money to help fund the construction of a second concrete aeration tank - not in order to increase capacity, but to comply with IDEM requirements that the Utility have back-up redundancy for every step of the treatment process. Whether we receive funds from Mr. Blum or not, the back-up tanks that are failing will still have to be replaced. (4) With regard to Mr. Schafer's concern about dilution of ownership, Mr. Colton noted that because the Utility is a 501(c)(12) nonprofit corporation, proceeds from the sale of the Utility (if it were sold) would not be distributed pro rata among the current members, but instead would be divided among ALL members, past and present, based on how many years those members paid for utility service.

There was a discussion about whether members who live outside of Shorewood Forest subdivision are liable for fines that might someday be assessed by IDEM. Mr. Colton and Mr. Atherton responded that every member of the Utility, not just those who live in Shorewood Forest, would be responsible for any charges that are assessed against the Utility, and would most likely be paid through rates.

A member asked why the developer isn't being charged a higher capacity fee. By having sewer utility service, the developer is able to build more homes in a given space than he could if septic systems were used. Why not charge a rate that allows the Utility to capture some of that benefit?

Mr. Colton asked if there were any comments on the potential addition of existing subdivisions to the proposed CTA expansion, such as Summerhill and Stonegate and the homes along 350W. Mr. Atherton commented that all of these areas are within the Lake Louise watershed, and it is in the interest of Shorewood Forest to have those homeowners hookup to the Utility instead of using septic fields that can potentially leach into the lake.

Opinions of Board Members. When there were no more comments from the membership, Mr. Colton asked each Board member to give his thoughts on the proposed CTA expansion.

Dan Clark stated that as a Board member he has no agenda other than to protect Lake Louise, and to defer the impact of cost increases as long as possible. When you have a fixed customer base, costs will have to go up eventually. But if you bring in more customers you can defer that rate increase for a longer period of time. The proposed CTA expansion will not require any money from the current customers. There are capital improvements that need to be done to the collection system and the treatment plant on a continuing basis. But those capital improvements will not increase the capacity of the treatment plant, but rather provide the required redundancy in our treatment plant that will benefit all of the Utility's customers. As he sees it, the residents of Shorewood Forest will unfairly benefit from a CTA expansion because the clay pipe in Shorewood will fail long before the PVC pipe in the newer subdivisions will fail.

Thus, customers located outside of Shorewood Forest will end up helping to pay for those clay tile repairs. In sum, he does not see a “growth agenda” beyond protecting Lake Louise, and help keep the rates where they are. We have not had a rate increase for eleven years.

Terry Atherton stated that he is trying to look at the pros and cons of this. The pros are to mitigate potential rate increases by expanding the customer base, and to eliminate potential contamination of Lake Louise by protecting the water shed. He also believes it is important to protect the future viability of the Utility which is the main reason we are on the Board. The Board members have a responsibility to operate this company effectively and to operate this Utility in a sound manner. That responsibility is to the membership and to the bond holders as well. To him, the only thing he heard on the negative side is a concern about a potential loss of control by adding customers outside of Shorewood Forest subdivision. To him, this concern about loss of control of the Board is not as important as the potential loss of control of the Utility itself. He noted that in the past, the Board was barely able to field a quorum for over a year; Terry was unable to find people willing to serve on the Board. At times we could not even have a monthly Board meeting because we did not have a quorum. At one point he asked IDEM what would happen if there were too few Board members to field a quorum and run the Utility. IDEM answered that the members of the Utility are ultimately responsible. If fines come down, each and every member will have to pay the price. To him, there is the issue of a loss of control in one hand, but in the other hand it is maintaining this Utility in a sound fiscal and financial manner in the way it ought to be.

Ken Buczek stated that he would echo what has already been said. He believes expanding the CTA is the best option for maintaining reasonable rates long term, and protecting the lake.

Jerry Hanas stated that he agrees with what others have said. Mr. Hanas believes that if an increase in rates does become necessary, expanding the customer base could soften the impact. The Utility has debt of over three million dollars that will be with us for a long time. We know that we are getting tight on the budget, and we also know that we need capital improvements for a back-up aeration tank. Thus, new revenue sources and new capital contributions would be important to us. However, it is important that the membership get their chance to vote.

Greg Colton stated that we have an underutilized asset, with additional capacity that is sitting idle that could be generating revenue to help pay down our debt, and help keep our rates from increasing more than they would otherwise. The proposed CTA expansion is a costless way for us to immediately get capital funds and, at a later time, additional revenues. He did not see any downside to the expansion at all. He also expressed interest in making utility service available to existing neighborhoods in the surrounding area. Residents in Summerhill are already having septic system problems and those people would like to hook up with us. Why not allow them to do so? It would protect the lake and we already have the capacity to serve them. Why not allow them to join the Utility. He saw this as a win for everyone that is already a part of the Utility, and a win for those who want to join as well.

Mr. Colton then re-read the preliminary resolution approved at the Board’s November 17, 2016 meeting:

RESOLVED, that Shorewood Forest Utilities, Inc. on a preliminary basis, is interested in expanding its Certificate of Territory Authority to include the Arbor Lakes South Development, and to include the surrounding adjacent areas, contingent on the developer paying all the cost associated with the extension of service, and expansion of the territory, as has been the practice of the past.

Mr. Colton asked if anyone on the Board had any comments or changes to propose. Mr. Atherton stated that he does not feel that we should include Rolling Meadows because of their lack of interest, nor should the Jesse property be included. He believes that we should take all the North side of 100 and Arbor Lakes, along with Summerhill, Stonegate, and the homes on east and west of 350.

Terry Atherton made a motion to amend the previous motion to read:

RESOLVED, that Shorewood Forest Utilities, Inc. should expand its Certificate of Territorial Authority (service territory) to include:

- (1) the 208 homes planned for the Arbor Lakes South development; and**
- (2) the 11 homes with frontage on 350W that are located south of Shorewood Forest; and**
- (3) the 39 homes/lots located in the existing Summerhill and Stonegate subdivisions; and**
- (4) the 5 homes located on the north side of 100N, between Summerhill and 350W; contingent on the developer for Arbor Lakes South paying all costs associated with obtaining IURC approval for the expansion of the service territory, and contingent on the developer for Arbor Lakes South and the homeowners listed above each paying all costs associated with the extension of service to their respective parcels, as has been the practice in the past.**

Dan Clark seconded the motion. All were in favor and there were none against. Therefore, the motion passed.

Mr. Colton then informed the members that there will be a ballot mailed to the members for a vote.

Mr. Colton adjourned the meet at 9:05 p.m.

Respectfully submitted;
Greg Colton
President,
Shorewood Forest Utilities, Inc.