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THE KEYSTONE NEIGHBOURHOOD COMPANY
ANNUAL MEMBERS MEETING
NOVEMBER 22, 2002

I. Call the Meeting to Order

The Keystone Neighbourhood Company Annual Members' Meeting was called to order by Mr. Paul Stashick on Friday, November 22, 2002 at 3:05 p.m. in the Greys Peak Room at the Keystone Conference Center.

Board Members Present Were:

Paul Stashick, President, At Large Director
Roger McCarthy, Vice President, Resort Director
Bill Pell, Secretary, At Large Residential Director
Thomas Davidson, At Large Director
Doug Sims, Ski Tip Residential Director
John Boyd, River Run Residential Director
Bob Oliva, At Large Commercial Director
Don McCoy, River Run Commercial Director
Dave Hierholzer, Treasurer

Representing the Keystone Neighbourhood Company Were:

Connie Gruber, Executive Director
Heidi Stenhammer, Office Manager
Molly Speer, Operations Manager
Miki Hodge, Events Manager

Homeowners Present Were: Please contact the Neighbourhood Company for a list.

Others Present Were:

Luke Slottow, Director of Property Management
Jeff Steele, River Run Property Management
Chris Love, Property Manager
Craig Abramson, Property Manager

II. President's Address

Mission Statement

It is the Neighbourhood Company's mission to make the Neighbourhoods at Keystone a premiere mountain community by maintaining a high quality environment and investing in facilities and events that will attract visitors and create a vibrant four-season community.

Introduction of Executive Board

Mr. Stashick introduced two new Neighbourhood Company Board members who were recently appointed by the Declarant to fill two vacant positions due to corporate reorganizations at Intrawest and Vail. John Rutter was relocated to another Vail Resorts property in Wyoming and his position as COO at Keystone and Vice President of the Neighbourhood Company Board has been filled by Roger McCarthy who will remain COO of Breckenridge Resort in addition to his new responsibilities at Keystone.

Thomas Davidson has been appointed by the Declarant to replace Mike O'Connor as the At Large Director. Thomas has worked at Keystone Resort since 1985 and has been the Planning Manager at Keystone Real Estate Developments since 1996.

Election and Voting Update

The current voting analysis reflects a total of 3,045.71 votes of which 29% are held by Homeowners, 33% are held by Vail Resorts and 38% are held by Keystone/Intrawest LLC. As build-out of the master plan progresses, the percentage of votes held by Keystone/Intrawest will decrease and the percentage of votes held by the Homeowners will increase.

At the time of this meeting a total of 165 proxies were received of which 100 were in favor of the budget and 64 were opposed. Mr. Stashick noted that there are three Homeowners on the Executive Board, one Merchant, three representatives for the Developer and three representatives for the Resort. The Neighbourhood Company currently has 800 Members, 9.3 acres of territory, 4.3 miles of roads and \$6 million in assets.

According to Neighbourhood Company documents and regardless of whether a quorum is present at the meeting, unless 67% of all Neighbourhood Company votes (2,040 out of 3,046) to reject the budget as proposed by the Board and sent to the Members, it is deemed ratified.

Commercial Update

Departing merchants include the KRED Development Office, Portierra Designs, Deli.com, Gondola Wines and Spirits, Ore Exchange Arcade, Brighton by Silver Buckle and Voila.

New Merchants include Keystone Child Care, Scenic West Real Estate, Fritz Alpine Café, Keystone Jewelers and the Slope Tracker Kiosk.

III. Approve Previous Meeting Minutes

Mr. Spencer made a motion to approve the previous meeting minutes dated July 5, 2002, as presented. The motion was seconded by Mr. Mathewson and carried unanimously.

IV. 2002 Year-In-Review

Accomplishments for 2002 include the completion of the Information Center, the purchase and construction of the Park Lane Pavilion Performing Arts tent and the updating of the Reserve Fund Study. Items completed with Capital Reserve Funds included road seal coating, curb repair, replacement of banners, new holiday decorations and repairs to the pool.

Summer events were highly successful due to excellent weather conditions and a strong marketing synergy with Keystone Resort and Vail Commercial. Merchant revenues were up an average of 20% from June through August 2002 over 2001. Festival revenue was up 46% over 2001 with over 26,000 attendees combined. Foot passenger rides on the gondola/chair were up 328% over last year with a 180% increase in bike hauls.

The Park Lane Pavilion had approximately 10,000 combined visitors at 56 events. Promoter relationships were established to offset costs/risks and programming featured a wide variety of events including National Repertory Orchestra, Kids Club, Speaker Series, Comedy Nights and Concerts.

The Finance Committee fine-tuned the Long Range Financial Forecast throughout the year. New development decreased as a result of the slowing economy which adversely affected the financial model which still projects another 1,500 units to be constructed prior to build-out. The recently completed Reserve Fund Study suggests an annual contribution in the amount of \$300,000 per year which is currently not being met due to reduced revenue.

The question of Merchant contributions towards events was raised and it was noted that Merchants, Vail Resorts and Keystone/Intrawest LLC pay Annual Real Estate Assessments into the Neighbourhood Company.

V. Finance Committee Report

2002 Year-End Projections

Year-end projections reflect income at \$1,917,461 or 81% of budget, expenses at \$1,998,436 or 91% of budget for a net income of negative \$166,984. These projections include the proposed removal of the \$89,771 Improvements Reserve Fund allocation which is an item on today's ballot. It was noted that the projected deficit can be covered from the Improvements Reserve Fund but needs to be paid back.

A few noteworthy items include the rebidding of general liability insurance and the decision to switch from Chubb to Colorado Casualty. Chubb was projecting a 76% increase in rates which prompted the rebidding process. Additionally, the Neighbourhood Company was removed from the Intrawest employee health insurance policy and needed to provide a small group health policy effective October 1st to its employees which was an unanticipated and costly expense. Road Snow Removal is projected to be significantly under budget due to the lack of snow fall early in 2002.

2003 Budgets

The Finance Committee went through two drafts of the budget and made two proposals to the board: 1) Reduce services or 2) Keep similar level of service and increase mil levy. After two more passes at cost reductions and three meetings to discuss, the board recommended the 2003 budget with an increase in mil levy from 20 to 29 mils.

While the board considered closing the pool, reducing or even eliminating security, events and transportation, it felt that Neighbourhood Company members needed time to think about such drastic changes. It should be noted that 72% of Neighbourhood Company Members rent their units and such changes could dramatically affect rental business. It was decided that instead of drastically cutting costs a better approach would be to cut costs as much as possible while maintaining similar services and minimally increase the mill levy to cover 2003 services and the 2002 deficit.

Ms. Knoles inquired about the possibility of a mill levy reduction in future years if revenue from other sources increases. At this time it is not anticipated that the 29 mills would be reduced in future years unless the economy and development significantly improve.

Thanks to commitments from Keystone Resort and Goldmine Property Services, Security, Transportation and Road Snow Removal rates were capped through 2006 at 2002 rates. Base Area labor was held at 1.5% annual increases and Event expenses were reduced by eliminating many non revenue producing

activities such as Halloween, Board dinner and Members picnic.

A recent analysis of similar Master Association fees reflected the Neighbourhood Company as still competitive even with the proposed mill levy increase. Solitude in Utah, the Village at Breckenridge and Copper Mountain still remain significantly higher than the Neighbourhood Company while Telluride Mountain Village (which has a 20% sales assessment) and Winter Park are slightly lower.

Mr. Sims commented that the original model for the Neighbourhood Company reflected the majority of units built in the initial years so that the Annual Real Estate Assessment would support expenses which hasn't happened. Another major factor is the fact that the Neighbourhood Company is not allocating enough money into the Capital Reserve Fund. The current Reserve Fund Study recommends an annual allocation of \$300,000 to cover the eventual repair and replacement of assets. The 2002 budget reflects zero dollars in allocations to that fund and the 2003 budget reflects a \$100,000 allocation.

The 2003 Budget reflects \$2,077,303 in revenue from assessments (which includes a proposed mill levy increase from 20 to 29) and \$319,000 in revenue from other sources. A total of \$2,001,474 is reflected in common expenses and \$394,829 in reserve fund allocations for a zero-based budget.

The Board recommended to the Members that they approve the 2003 budget with the 29 mill levy, maintain services at the current level for 2003 – 2004 and set a goal of funding festivals and Park Lane Pavilion events with revenue and sponsorships. Deficits projected for 2005 and beyond will need to be balanced through the reduction or elimination of certain services as determined by the Board and Members.

Ms. Leoni commented that all of the budget charts for each category should be provided to the members. This will be done in the future.

Mr. Boyd commented on a letter provided to him by Lone Eagle Homeowners Alan Simpson and Jane Gouveia-Simpson. This letter was included in the meeting packet and is attached to these minutes as [Appendix A](#).

Budget Vote

Ms. Gruber requested that all present fill out their ballots which include three voting items. Mr. Kortz commented that since the Declarant holds the majority of votes that this process is a charade. He noted that the Neighbourhood Company has been under Declarant rule for 7 years and with the lack of future development the Declarant rule of the Neighbourhood Company will continue for at least another 7 years. It is not unheard of to have the Declarant abdicate their rule prior to it running out and suggested that they do so within the next 24 months.

Mr. Stashick stated that the Declarant has too much invested in the development at River Run to abdicate their voting power. They take serious consideration to all comments made by the three residential Board Members and the one Merchant representative as well as all other Homeowner comments and make their decisions based on what is best for the vision of the Planned Unit Development at River Run. The Developer is committed to Keystone Resort and has invested in a long-term relationship with the Members. Mr. Sims added that there has never been a split vote by the Executive Board.

The Proxies and Ballots were tallied and the final count was as follows:

RESOLVED, that the Neighbourhood Company approve the 2003 Budget (including a 9 mill increase) as proposed by the Executive Board. 2,300.71 in favor and 74 opposed of which 132 Homeowner votes were in favor and 74 Homeowner votes were opposed.

RESOLVED, that the Neighbourhood Company approve the 2002 projected year-end financial reports that reflect the removal of an \$89,771 allocation to the Improvements Reserve Fund to offset the projected year-end deficit. 2,352.71 were in favor and 19 opposed.

RESOLVED, that Doug Sims be elected as the Ski Tip Residential Director. 47 in favor and 3 opposed.

VI. New Business/General Discussion

Reserve Fund Update

The Capital Reserve and Replacement fund is projected to have a year-end balance of \$490,312 which includes \$24,731 in revenue and \$65,464 in expenses. This fund is budgeted to have \$100,000 in allocations and \$157,800 in expenditures for a year-end 2003 balance of \$432,512. The Reserve Fund Study projects expenditures for future years and while the Board does not anticipate spending the entire \$157,800 in 2003, that amount was still budgeted to cover any unforeseen repairs or replacements.

The Community Facilities Reserve Fund is projected to have a year-end balance of \$218,588 which includes \$91,084 in revenue (which represents the required 10% of Annual Real Estate Assessments allocation) and \$154,031 in expenditures. This amount is not an actual expenditure but a transfer between funds done according to the audit. The 2003 budget reflects \$124,713 in revenue and zero dollars in expenses for a year-end balance of \$343,301.

The Community Improvements Reserve Fund is projected to have a year-end balance of \$657,490 which includes \$547,843 in revenue mostly consisting of transfers between funds according to the audit and \$485,362 in expenses. Significant 2002 expenses include the Information Center at \$163,362, the Park Lane Pavilion at \$250,000 and a sound system at \$30,000. The 2003 budget reflects \$3,132 in revenue and \$32,000 in expenses for a year-end balance of \$628,622.

Winter Events Update

The winter events calendar includes some exciting new recurring activities including a Super Bungee Bounce on weekends, Saturday night disco fever in the Events Plaza and après ski parties in the local bars. Keystone is focusing its marketing strategy towards the younger, single crowd in an attempt to further increase skier numbers.

Dakota Pool

A discussion ensued regarding the expense of the Dakota Pool and the fact that many buildings within the Neighbourhood Company have their own pool and never use the Neighbourhood Company pool at the Dakota Lodge.

During the budget process, the Board considered closing down the pool during the slow months but felt that further discussion should occur with the KNC membership. Mr. Boyd commented that the pool is a Neighbourhood Company asset and while it may not directly benefit all Neighbourhood Company members it is a benefit of being a member similar to the heated road to Lone Eagle and The Timbers which doesn't directly benefit all members but helps to maintain if not increase property values in River Run.

Mr. Boyd was asked to approach the Board Presidents of the Homeowners Associations that do not have their own pool regarding the possibility of them buying the pool from the Neighbourhood Company for a nominal fee. Those HOA's would then be responsible for the repair, maintenance and taxes of the pool

and any insurance and liability associated with its operation. This issue will be raised again during the July 2003 meeting.

VII. Set Next Meeting Date

The next meeting date was set for Thursday, July 3, 2003 at 3:00 p.m.

VIII. Adjournment

The meeting was adjourned at 5:17 p.m.

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