

January 9, 2024

Dear Ranch Homeowners,

On December 12, 2023 the Association held a Budget Ratification Meeting and the 2024 budget was ratified. Four owners opposed the budget. During the course of that meeting, a number of questions were raised and are reflected in the meeting minutes. In order to further inform the membership, the Board would like to provide the following information and answers to these statements and questions.

Litigation Reserves/Line Items. *A number of statements were made surrounding the handling of the expenses and potential judgment in the case Our Lady of the Ranch, LLC v. Keystone Ranch Homeowners Association (the "Fuller Litigation").*

First, our insurance policy is financing the defense of the litigation. The carrier has issued a reservation of rights letter, which is attached, and has retained separate legal counsel who are handling the defense.

Since the Complaint was filed, the Plaintiff filed a Motion for a Preliminary Injunction to stop the Board from acting on behalf of the Association and to stop the vote on the Second Amendment to the Declaration, which regulates short-term rentals and prohibits commercial uses in the community. The Court denied the Motion before Keystone Ranch HOA responded. The Court found that the Plaintiff failed to meet its burden to prove that a preliminary injunction should be granted, therefore it denied the request. The Board has also been engaged in responding to written discovery from Plaintiff, Plaintiff has taken Mr. Pringle's deposition and the entire Board participated in a 5-hour Court-ordered mediation conference with the Plaintiff on December 20th; no resolution was reached. Two more Board member depositions are being scheduled for mid-January. There will also be a Trial Setting conference on January 24, 2024 to set a trial date.

Based on the status of the case so far and the coverage provided by the insurance policy, the Board does not believe that the suit creates a reasonable probability of exposure requiring a special assessment. With respect to reserves for a judgment, that is normally only done if a judgment is more probable than not to occur. At this time, a judgment in excess of our insurance policy coverage is not anticipated.

Finally, with respect to the budgeted legal amount, again, our insurance carrier is financing the defense of the litigation. There may be some costs related to the litigation that fall in this category, for example if our HOA counsel is asked to give some time to the case. It also includes enforcement actions for rule violations, general time for advice and other ordinary course legal requirements.

Reserves. *It was suggested that capital reserve studies be performed for i) the water system; ii) the roads; iii) the swimming pool, and iv) the open spaces.*

With respect to the roads and open spaces, depending on the section of asset at issue, the assets are shared between either 1, 2 or all 3 of the HOAs in the Ranch (specifically, the Ranch HOA, East Ranch HOA and West Ranch HOA) and in some cases Vail Resorts, as well. The Board will pursue discussions with each of these entities to review reserves and past studies and, if necessary, secure their participation and agreement to undertake additional review.

This HOA does not own the water system or the pool. Those assets are owned by Vail Resorts. Similarly, we will pursue discussions with the East and West Ranches to review reserves and the need for additional review. Because Vail owns these assets, at some point the conversation will require Vail Resorts' participation and cooperation as well.

Another owner took the position that there should be no reserve for the pool because it is owned by Vail Resorts.

We reserve for pool expenses and maintenance because we are contractually obligated to pay those amounts to Vail.

The Water System. *It was suggested that Vail should amortize the maintenance and improvement expenses to the water system.*

Over the years, the Board has raised the issue of amortization with Vail several times. Vail has not been willing to amortize those costs and expenses.

One owner stated that the Vail water system should be regulated by the Colorado Public Utilities Commission ("PUC").

This Board does not control who the PUC governs. Colorado law provides that a small, privately owned water company that serves fewer than 1,500 customers is exempt from PUC regulation. The exception is that if 25 customers file a complaint that the water company's rates, charges, terms and conditions are not just and reasonable, the PUC can hear that complaint.

One owner offered that in his experience, it would be more cost effective to retrofit existing meters than to replace them.

The Board has asked this question of T-Solutions, who has been retained by East Dillon Water District/Vail Resorts. They have informed us that it is *not* more cost effective to retrofit. In fact, it is more cost effective to install the new meters.

The issue of metering, in general, was again raised and it was suggested that metering is not necessary and should not be undertaken.

As we've learned from Tetrattech, JVA Engineering, the District Water Commissioner and various discussions about the issue over the past several years, metering allows for a more equitable billing system; low-volume users will pay for what they use and high-volume users will pay for what they use. As such, metering assists with early leak detection, which will allow a leak to be addressed sooner, especially when a home is unoccupied for a period of time. And finally, the drought that has plagued Colorado and the West is real and conservation is important. Metering and tracking consumption can provide important information on a home's usage and help to identify ways to conserve water. People tend to be more water conscious when they are paying for the amount of water they use.

The Board appreciates the constructive questions and input we have received from the community and again state that if owners have additional questions or constructive comment, please feel free to email the Board.

Happy New Year and we hope you had a happy and safe holiday season!

The Keystone Ranch Homeowners' Association Board of Directors