

PALOMINO LAKES MUTUAL WATER COMPANY

POST OFFICE BOX 687 CLOVERDALE, CALIFORNIA 95425

January 5, 2010

REPORT ON THE STATE OF YOUR WATER SYSTEM

AND

NOTICE OF SPECIAL ASSESSMENT

Since the current Board was elected in May 2003, we have attempted to keep the community informed about the state of our water system and, particularly, about our concerns regarding the single well that supplies the community with water. At each annual meeting, in newsletters, and in other mailings, while reporting progress on many issues, we have repeatedly expressed concern over our aging well, its non-compliance with current health standards and with a ground water level that continues to drop. The Board wants to take this opportunity to update you on recent events, to make you aware of successes, to express our continuing concerns and to inform you of our plans to deal with those concerns. The Board also wants to ensure that everyone has access to full, complete information. Recently we have heard from new residents who were surprised by some of the issues surrounding our water system. While disclosure is an issue between seller and buyer, the Board wants all Palomino Lakes residents, both current and future, to have access to information regarding our water system and to understand our system's strengths and its challenges.

As property owners each of us owns a share of the water company and, as owners, we can take pride that there has been a great deal of progress and our water system is in much better condition than it was six and one-half years ago. Importantly, we have delivered over 80 million gallons of high quality water with only a single one-hour unscheduled interruption which affected only 13 homes. We have successfully passed 82 consecutive monthly water safety tests without a single violation and have successfully passed hundreds of other tests for contaminants and pollutants, from agricultural chemicals to radionuclides. We have completed extensive testing to rule out lead and copper contamination all the way to your kitchen faucet. We have hired a new state licensed system operator – an operator who submits tests and reports on time and who doesn't cancel his required insurance to save money. We have spare motors and pumps for all locations and a stock of spare parts, none of which we had in 2003. Although required by law to join Underground Service Alert, a decision had been made to ignore the requirement because it was felt to be too expensive. We joined USA in 2004 for \$150 per year. We have located and repaired several major leaks that were costing us as much as 3,000 gallons per day. One of these leaks had been going on for ten years! We are now completing the replacement of the 'wharf' fill points with standard fire hydrants; the last hydrant will be replaced this week. This work, which began in 2004 and has been carefully coordinated with the fire department, provides the community with 18 fully functional fire hydrants with multiple connections from

which the fire department can pump. These hydrants are capable of delivering much more water than the 'wharf' connections and allow the fire department to actually pump from the hydrants which they could not do from the old fill points. We have installed a modern control system which allows rapid discovery of problems and flexibility in dealing with those problems. As we'll discuss later, the new control system enabled us to quickly reconfigure the well to deal with low water levels this past summer. Using licensed, qualified people, we have installed and tested more than a dozen cross contamination prevention devices. Those of you who have been around a while will remember the controversy surrounding these devices when they were first proposed a few years ago. We have quietly been installing these devices when circumstances warrant and conditions permit. We have replaced most of the water meters in the system. Although the California Public Utilities Commission calls for meters to be replaced every 20 years, our meters were over 25 years old and some had failed altogether. We have also replaced a number of broken and/or sunken meter boxes and that work continues. We found and repaired the air eliminators in the system. These devices, which do what their name implies, are to be serviced annually – ours hadn't been touched since they were installed in 1978. Just finding the air-eliminators was a task as one had been buried by a landslide and another was completely hidden in overgrown vegetation. And, our water system is financially sound. Six years ago the system was in debt and had no reserve. We now pay all our bills on time, have built a small reserve and have established our financial reputation to the point we were able to borrow from a commercial bank to finance our new control system.

We recently have had another major success that marks an important milestone for the community and the water system. When Palomino Lakes was originally established in the 1960s, it was granted a *temporary* ten year permit to access water. The permit was temporary because there were many vacant properties and our water use had not been established. Every ten years Palomino Lakes has applied and been granted an extension; extensions which included increasingly stringent restrictions. When we applied for yet another extension in 2008 we were informed that in addition to several thousands of dollars in fees we were now required to prepare and submit a California Environmental Quality Assessment and would be required to prepare another CEQA when we applied for another extension in 2018. The cost of preparing the CEQA was quoted as \$80,000. Howard Blake and Rick Corriea traveled to Sacramento and met with officials of the Water Resources Control Board and, after explaining our situation, were able to get the WRCB to agree to an abbreviated environmental assessment. The quoted cost of this assessment was \$25,000. When we started the assessment we kept in touch with our WRCB contacts, with whom we were now on a first name basis, and reported interim results. The WRCB reviewed our results, acknowledged that we had done enough and accepted our assessment. The final cost was \$6,000. During our discussions we also decided to ask for a *permanent* license to draw water - not a temporary extension. We have been informed that our license will be granted although the WRCB backlog and budget, coupled with state furloughs, will delay actual issuance for several years. With the approval of our permit all restrictions (including a very troublesome no-pump during low flow restriction) have been lifted. This permit/license outcome, which took a great deal of time and effort, is a huge achievement.

While we have had a number of significant successes, we have not been able to secure a new well. A new well has been our highest priority since this Board took office in 2003. As we have described before, the need for a new well is based on three issues. First, the well is more than 30

years old. Wells have a finite life and, while our well is in good shape, it will not last forever. Last year we completed extensive inspections including video analysis of the entire well and were pleased to find that the well bore and the casing that lines it are in very good shape. So, at least for the time being, the physical condition of the well is not a major concern. Second, all wells are required to have an impermeable seal to prevent surface and sub-surface contaminants from entering the well. The California Department of Health currently requires that the seal be continuous from the surface to a depth of fifty feet. Our well seal, installed in 1978, extends to a depth of only four feet. The Health Department has noted our substandard seal and has required additional testing to detect possible contamination. It is possible that the Health Department will issue a Notice of Non-Compliance and require additional, expensive, water treatment. Finally, our most significant concern involves the lowering of the level of the ground water from which our well draws. Our well draws groundwater which is directly supplied from water flowing in the Russian River. In the thirty years since our well was drilled increased water diversions up-river, decreased flows due to state and federal regulations, lessened rainfall and the lowering of the river bed by natural erosion have impacted the groundwater levels. On September 12, 2008, and again on July 29, 2009, our well was unable to pump because of low groundwater levels. In 2008, a safety device which protects the well pump detected low water level and shut down the pump. We were able to resume pumping after lowering the level of the safety sensor a few inches which we felt safe in doing because the new control system gave us additional monitoring capability to protect the well pump. In the 2009 incident the pump was drawing water faster than it was being replaced and intermittently pumping air. The control system detected the problem and we were again able to restore pumping by reducing the pump rate from its normal 160 gallons per minute to 80 gallons per minute. We continued to pump at this reduced rate until October 27. In both cases our investment in a new control system allowed us to continue to deliver water as we were able to detect problems before damaging the pump and quickly reconfigure the system. It was also fortunate that we were under water restriction in 2009 because we would have had some difficulty supplying normal peak demand at an 80 gallon per minute pumping rate. We remain very concerned about the long term ability of our well to supply the community with water. We are completely dependant on water flows in the Russian River – flows that have become highly variable.

Since taking office in 2003, our highest priority has been to obtain a new, deeper well with a vastly improved contaminant seal. In 2004, we negotiated with Handal Family Vineyards (HFV), the owner of the property where our well is located, to drill several test wells at much deeper depths than our current well. These wells were successful and confirmed that water was available in the area we proposed to drill. We confirmed with the Health Department the viability of this site and the details of the contaminant seal and obtained preliminary Department approvals. For the last five years we have been negotiating with HFV to actually drill a production well. Initially HFV expressed, through its team of lawyers, concern that our proposed well would increase the boron content of their water. When we proposed to hire a geologist and hydrologist to investigate the boron issue, HFV dropped that concern. They then wanted assurances that our proposed well would not interfere with their operations – even though we have been operating a well on the property for more than 30 years. We went back and forth like this for three years with both sides running up attorney fees and getting nowhere. Finally, in 2008, we proposed that discussions between the principals, without attorneys, might clarify the issues and get negotiations back on track. A series of meetings took place between vineyard

owner Dick Handal and Palomino Lakes director Rick Corriea. These discussions resulted in a series of informal agreements and seemed to be heading in the right direction until HFV's lawyer was asked to put an agreement in writing. Over a period of six months, HFV's attorney put together a series of proposals that took us further away from settlement than ever. The attorney's proposals called for PLMWC to drill a single well and if the well was unsuccessful for any reason to remove all improvements from HFV property (including our current well) and go away. This would leave our community without water. The written proposals included the demand that PLMWC reduce and ultimately cease pumping should there be any interference with the HFV well, again leaving Palomino Lakes without water. And, HFV insisted on an un-metered connection to the PLMWC system. This connection could allow HFV to take unlimited amounts of water from our system while the agreement would simultaneously limit the total amount of water we could pump. This situation could conceivably allow HFV to take all the water. And finally, HFV was demanding a compensation package that approached \$200,000. Remember, we have been operating a well on the property for more than 30 years without restrictions and without problems. Negotiations broke off six months ago and there is little prospect positions will change sufficiently to allow talks to be restarted.

In discussions with our attorney and with our water system specialist we have come to the conclusion that we must move to ensure that we can provide the community with water in the event our well is not able to pump. In an emergency we would try to purchase water and have it trucked to Palomino Lakes while at the same time appealing to the state for emergency permission to draw water directly from the Russian River. Since piping water from the river to our pipeline at the well would involve crossing HFV property, we would likely be compelled to take action in Superior Court to gain the right to cross that property. And, since river water requires more treatment than ground water, we would need to rent or purchase and install surface water treatment equipment. The cost of implementing this emergency plan has been estimated at about \$300,000. This is a very rough estimate. The balance of our current reserve fund, which is intended to deal with a limited operation problem, is \$25,000. Purchased water would cost about \$50 per thousand gallons compared to our current cost of \$2.25 per thousand gallons. At normal use rates our reserve would be exhausted in 8 days and there would be nothing for legal and equipment costs. Therefore, in consultation with the Company's attorney, the Board has voted to implement a special assessment to establish an emergency fund. This assessment is \$1,000 per property per year, billed quarterly starting on March 1, 2010. This is a continuing assessment and will continue for at least three years. All other fees, assessments and charges continue unchanged.

The goal of this Board has been to provide our community with a modern, dependable, fiscally sound water company that can deliver adequate quantities of safe, high quality water. Our efforts of the past six years have been directed toward that goal and this assessment and our continuing efforts are intended to secure that goal for our future. We have overcome a number of challenges – we have a few more to go. First and foremost is building both the financial and technical resources necessary to implement our emergency plan should it become necessary. We will continue to try to secure a new well – with HFV if possible and with other River Road neighbors if necessary. We are currently working with a geologist and hydrologist to try to determine the possibility of drilling one or more wells within Palomino Lakes. Geologic studies have already determined that wells on the east side of River Road are very unlikely to deliver the

75,000+ gallons we use on peak days but we hope that wells at our tank sites may be able to maintain adequate firefighting water and provide subsistence levels of domestic water in an emergency. We also intend to continue with our plans to replace water tank #2. This 30 year old redwood tank is nearing the end of its useful life, is the smallest tank in our system, and supplies more homes than any of our other tanks. Replacing this tank with a much larger steel tank will solve a number of problems. We also plan to add several new fire hydrants to our system in order to meet the current fire protection and fire insurance goals of a hydrant within 500 feet of every home rather than the 1,000 foot standard applied when the community was established in the 1960s. Those of you who have recently had fire insurance cancelled will doubtless appreciate these efforts.

Finally, this Board has been at it for more than six years. While we enjoy (most of the time) the work and are happy to work for our community, there is a great deal to do and we ask you to consider joining the effort. Last summer Thomas King, Dobie Thomas, Andy Grose, Jacquie Grose, Tim Monahan and Jan Tolbert all pitched in to help your water company. Their efforts are most appreciated. With Lee Tolbert announcing his decision not to serve again next year, there will be the need for another director. Please consider helping out. In the long run, serving on the Board of the water company is the best way to ensure that your biggest investment – your home – is protected.

This report will be posted and maintained on our community's web site after it is mailed to all residents.

A MEETING TO DISCUSS OUR WATER SYSTEM AND THE SPECIAL ASSESSMENT WILL BE HELD AT 10:00 AM ON SATURDAY, FEBRUARY 6, 2010, AT CLOVERDALE VETERANS MEMORIAL HALL, 205 WEST FIRST STREET

Howard Blake
Director
President

Lee Tolbert
Director
Vice-President

Rick Corriea
Director
Secretary/Treasurer