



Tahoe City Public Utility District

September 8, 2010

Dear Lake Forest Water Company Customer:

We are writing to give you an update on the negotiations and possible acquisition of Lake Forest Water Company. This process has been lengthy and many issues had to be resolved along the way. We very much appreciate your patience.

As you may be aware, public agencies must follow strict procedures when seeking to acquire property or assets. The law is written to protect your public funds as well as to protect the individual property owner's rights. The procedures are time consuming but ensure fairness to all. TCPUD has taken additional time through this complicated process because the Board's philosophy is to work with willing sellers. TCPUD's use of Eminent Domain has been very rare over its 70 year history and, therefore, we have made numerous purchase offers to the owner of Lake Forest Water Company prior to taking our most recent legal steps. The following is a brief summary of what has occurred over the last three years:

Date	Action Taken
7/07	TCPUD receives petitions from 72% of LFWC customers
10/07	TCPUD hires an independent appraiser to provide a fair market appraisal
1/08 – Present	TCPUD retains engineer for design, environmental work and permitting
1/08 – Present	TCPUD applies for grant funding and low interest loans to minimize cost
8/08 – 9/09	Discussions and implementation on Assessment District formation
9/08	TCPUD offers owner appraised value; no counter offer received
6/09	TCPUD offers owner appraised value; no counter offer received
8/09	TCPUD offers owner appraised value; no counter offer received
9/09	TCPUD makes an official Government Code offer to purchase the system, a precondition to commencing eminent domain.
2/10	TCPUD adopts new water system acquisition policy
4/10	TCPUD Board adopts Resolution of Necessity, a precondition to commencing eminent domain.
5/10	TCPUD negotiators meet with owner; no counter offer received
6/10	TCPUD exercises the power of Eminent Domain for the Public Good, and files the necessary legal action and deposits with the Court the fair market value of the Lake Forest water system
7/10	TCPUD files an application seeking an Order of Possession which, if approved, will permit the district to take over the water system in order to commence system upgrades and secure funding from the State

A court hearing is tentatively scheduled for September 21, 2010 regarding TCPUD taking operational possession of the system. Even if the Judge grants operational possession to TCPUD, this does not conclude the process. TCPUD would operate the system under the same rate structure as you currently pay to LFWC until the Court issues its final judgment deciding the owner's compensation. The Court judgment may take another 6-9 months, but, in the meantime, TCPUD would be able to pursue grant funding your system is eligible to receive and prepare to commence improvements during the summer of 2011.

Once TCPUD has acquired the system, following final judgment, your rate structure will be different than what you voted on in the assessment district. This past spring, the TCPUD Board adopted a new water system acquisition policy based on more thorough review of property tax use in water system acquisitions. The Board agreed to implement TCPUD rates as standard policy, which will slightly reduce the rates and charges you would have paid through the assessment district. (please see our website for 2010 rates and the notice of rates through 2013). It is important for you to know that if TCPUD is unable to secure grant funds and financing necessary to pay for system acquisition and complete system upgrades, TCPUD may phase your system improvements over several years. We remain optimistic, but remind you there are several factors that are out of our control.

As we continue through the legal processes, TCPUD staff is preparing to take possession of the water system. We will be contacting you with more information and details once we have them.

Thanks again for your patience. This has been a long and challenging process and we look forward to the final resolution. If you have any questions or concerns, please contact us at 530/583-3796 ext. 36 or at tlaliotis@tcpud.org.

Sincerely,



Dan Wilkins
Board President



Tony Laliotis
Director of Utilities