

The Diamond Peaks Home Owners Association is looking to increase the quantity of water that is available for all homeowners. Currently we have authority to take 15,000 gallons per day from our well, or about 200 gallons per day per lot in our Association. This is the approximate water use during winter months for a 2 bath home with about 4 residents.

Many of the homes being built in our Association have more than two baths, and many are being used by more than four people. Daily water consumption is probably easily exceeding 200 gallons per day per residence. Fortunately at this time only about half the lots in our HOA have a residence on them, but as the number of residents increases the demand for water will also increase.

We have been advised by Klamath County and the state that no additional wells will be permitted in the basin where we get our water. At this time our water use is well within our permitted amount, but as more development occurs we will be hard pressed to stay within our allotted amount without water rationing.

To avoid the potential of rationing, and to ensure that we have adequate water supply for the future, your Board has been examining options. We have been in contact with a water broker, and have identified a POTENTIAL source for additional water.

To obtain this additional water, the HOA will have to purchase "water rights." Water rights are a commodity, similar to real estate, that is purchased and sold. There are no new water rights being established in the Deschutes basin (the last new water rights in the upper Deschutes basin were created about 100 years ago). Our only option is to purchase existing water rights, and water rights in our area do not regularly come on the market.

The water broker has water rights available for sale, and the Summit section has purchased water rights for their section (total cost of about \$50,000). The broker has similar water rights available for sale to our HOA, and the water rights available should double the amount of water available to the HOA. The broker said that these are the first water rights in the upper Deschutes basin that he has seen available in at least 5 years. These water rights are "agricultural water rights" meaning they are for agricultural purposes.

To obtain additional water for our HOA, we would have to purchase existing water rights. After purchasing the water rights, our HOA would have to apply to take additional water from our well. To obtain approval to take the additional water from our well, we would offer the agricultural water rights as "mitigation" for the extra water we would take from the well. The Summit section is going through this process now, and the water broker said that similar mitigation proposals have been approved on a regular basis.

The broker also told us that should the state not allow us to mitigate our request to take additional water from our well, we can always re-sell the agricultural water rights as there is a strong market for them. The only costs to the HOA should we have to re-sell the agricultural water rights would be the broker fees.

At this time the Board is requesting permission to negotiate the purchase of the available water rights. The purchase price, including broker fees, should not exceed \$50,000. This is the going rate for this quantity of water rights.

The HOA Board is still working on the purchase of the well lot, but since the property is in bankruptcy we have not yet been able to even begin negotiations for purchase of the lot.

To fund this purchase the Board is recommending a \$500 one time increase in the HOA dues for 2011. This will not fund to full amount of the purchase, and the Board is proposing to use a part of our reserve funds to fund the rest of the purchase. The one time assessment will be payable with next year's HOA dues, however if any member would like to pay early it would facilitate the purchase of the water rights.

We have reviewed this proposal with the attorney for the HOA, and he has advised us that this is the appropriate approach to take.

The purchase of the water rights will have to be approved at a meeting of the membership of the HOA. We cannot wait until next June for the annual meeting, so the Board is calling a special meeting to discuss this matter. **IT IS CRITICAL THAT ALL MEMBERS OF THE HOA EITHER ATTEND THE MEETING OR PROVIDE US WITH A PROXY VOTE THAT CAN BE CAST AT THE MEETING.** We will need a vote of 75% of the membership to make the election for the purchase of additional water rights official.