



February 8, 2006

Dear Lake Holiday Member,

In light of the letter recently sent by Mr. Murray to the membership regarding the new utility rates and the value of your property, the Board of Directors has decided to respond in order to inform you of the position of the Board on various matters addressed by Mr. Murray in his letter.

Clearly, the utility system is the backbone of our community. Without a properly functioning water and sewer system, your property value will not only be adversely affected, but may even be at very serious risk. Our ability to swim in the lake, get water from our faucets, and flush our toilet is dictated by how well we operate the utility system and fund mandatory maintenance and capital improvements.

Over the years, multiple experts have advised the Board that our utility system suffers from poor installation by the initial developer, coupled with years of neglect. A variety of reports document a long list of serious problems: Lift stations, mechanical and electrical equipment in operation well beyond life expectancy; gauges and valves not working or not even installed; pipes put in backwards or not connected at all; improper repairs throughout the system covering decades of poor maintenance, etc. These reports are available for review by any member who wishes to do so. All you have to do is to contact the General Manager and arrangements will be made to provide you with these reports.

Mr. Murray's contention that it should not cost more this year than last year to operate the system does not take into account all of the issues that the Board has addressed with the membership in the recent past regarding the multiple problems with the utility system. Neither does it take into account the need of the Utility Company to continuously receive subsidies from the reserves of the LHCC. In 2005, the subsidy was \$1,211,861. The Utility Company needed this subsidy to refurbish many failing components of the utility system.

But for a variety of reasons, some of which have to do with the tax laws, our professional advisors have advised the Board that LHCC should not continue to subsidize the Utility Company; accordingly, the Board carefully designed the recent rate increase to make the Utility Company more self-sustaining with a nearly balanced budget. But it is worth noting that the Utility Company, even with the rate increases, will not have a capital reserve.

Mr. Murray further challenges the increased reclamation fee. The reclamation fee is a part of the connection fee and is used for essential capital investments in the system. If the rates were not increased and required work not scheduled, not just new home values but your home value would be directly affected, as well as quality of life and the right to enjoy living in your home and community.

You may ask why we increased the rates at all if we are selling the system to Aqua America, and their rates will be only slightly higher than we paid last year. The answer is that there was no guarantee that the sale would go through. It would have been irresponsible of both Boards to ignore the desperate needs of the utility and simply assume that Aqua America would take over soon. Due to the rate increase, the utility will be on a much sounder financial footing regardless of what happens with the acquisition. The sale to Aqua America remains, by far, the best alternative for all of our members. It not only addresses the infrastructure issues but results in nearly \$2 1/2 million to LHCC that will be used for capital improvements. This new capital can be applied toward meeting the Commonwealth of VA requirements to enlarging the spillway by 2009. The nearly 60% rate increase required if we continue to operate the system ourselves will be lowered

to a 10.1% increase upon the close of the sale with Aqua America. Aqua America can charge these lower rates by spreading short-term costs over many years through long-term borrowing.

So, who is Mr. Murray? He does not reside within the community. He is a developer and a home builder. He currently owns twenty-one membership lots and eight water and sewer available lots. His interest in the community differs from the fiduciary duty of the Board. We have a responsibility to review the interests of all members, both in the short-term and long-term. We suspect his real issue with the new utility tariff is not about the new rates and your property value, but with the new rule that the Utility Company is not responsible for the costs of installing new water and sewer lines for lots that currently do not have them. Mr. Murray has requested the Utility Company to extend water and sewer lines to three of his properties at the expense of the Utility Company, which, in practical terms, means that he wants the Board to assess our membership to pay for this expense. In addition to raising very serious questions about the equity of such a plan, the windfall to any builder would be enormous. In the case of Mr. Murray, experts have advised the Board that the values of his properties would be three to four times the price he paid for them when connected to the utility.

Mr. Murray also criticized the increase in the reclamation fee that we use for capital improvements to the very utility system that Mr. Murray wants the Utility Company to connect to his lots. Capital improvements are necessary for the long-term health of the utility system. While avoiding an increase in the reclamation fee may serve some members well in the short-term, the community will be the major beneficiary in the long-run,

Mr. Murray has not attended Utility Company or LHCC Board meetings in the past. He did not attend the membership meetings that began last July when the Board explained the crisis in the utility system and the huge financial drain on the LHCC. He did not attend meetings when the water system failed early last year. These meetings are opportunities to stay informed about the issues facing our utility system and to express views to the Board and other members.

Instead, the first communication from Mr. Murray to the Board included a long letter from his attorney that concluded with a claim of damages payable to him of more than \$4 million. The next communication was a lawsuit, again alleging that he has experienced losses that would total more than \$4 million. These actions have resulted in three court hearings and at least one more to be scheduled. In the first hearing, he challenged a Membership vote, and the court ruled in favor of LHCC. In the second hearing, he challenged the right of LHCC to sell the utility to Aqua America, and the court ruled in favor of LHCC. At a hearing on February 8th, the issue was Mr. Murray's request for disclosure of the secret ballots cast by members at the election conducted this past October. In sum, he wanted to know who you voted for. He has also demanded access to your personal financial records held by LHCC. We contended that your ballot and financial records are kept by LHCC on a confidential basis. The resolution on the 8th was a confidential review of the October Membership vote to be conducted by the Association's attorney, Mr. Murray's attorney and the independent vote administrator who the Association hired to oversee and validate the vote count. Who you voted for and personal financial information will remain confidential.

Mr. Murray was represented by his lawyer at the October Membership meeting, at which he introduced a slate of seven candidates. He came to the meeting with control over approximately 180 votes as a result of acquiring proxy votes. But his slate of candidates was not elected. Another builder reported that Mr. Murray solicited votes from them with the goal of taking control and creating a "developer friendly" Board. Of course, this is Mr. Murray's right, but the results of the election speak for themselves as to what the community membership wants from its Board.

Mr. Murray has every right to be motivated by the amount of money he can make. But this motivation does not necessarily make him a spokesman for the welfare of the community. Lake Holliday, LLC (Miller & Smith and Oakcrest) is the major developer here at Lake Holiday, with over 700 lots. To date, Lake Holiday, LLC has contributed or committed \$16,116,043 to the benefit of the Association. Mr. Murray's

“contribution” has been to sue LHCC for \$4,000,000 in damages and his continuing efforts to achieve financial advantage. He has not contributed a dollar to our capital needs and he has not indicated that he will in the future.

Mr. Murray challenges the legality and the magnitude of the recent rate increase. He requests that you sign a letter addressed to the Virginia State Corporation Commission (SCC) which requests the SCC to:

- (a) Hold a hearing to determine if the rate increase was fair and reasonable,
- (b) Authorize a refund of any payments in excess of the previous rates, and
- (c) Hold an additional hearing for any rate change filed after January 28, 2006 (the Aqua America sale).

It is your right to make these requests, but we believe the reasons for the increases, as detailed above, are justified. We stand behind the position that they are fair and reasonable.

In order to assist you in your understanding of the applicable law, here are the pertinent sections of the Virginia Code:

VA Code:

56-265.13:3 SMALL WATER OR SEWER PUBLIC UTILITY ACT

56-265.13:3 Applicability of chapter. This chapter shall apply to every certified water or sewer ... company... (ii) that is owned by the property owners' association...

56-265.13:5. Notice of rate changes.

B. Unless a small water and sewer utility notifies in writing all of its customers of any changes in its rates, charges, fees, rules and regulations at least forty-five days in advance of any change in anyone of them, the utility shall not make any such changes.

56-265.13 :6. Public hearing on application; ...

Upon application to the Commission by at least 25 percent of all customers affected by a rate change or by 250 affected customers... a hearing shall be held after at least 30 days notice to the small water or sewer utility and to its customers.

If the SCC calls a hearing to review the rate increases and the application to approve the sale of the assets of the Utility Company to Aqua America, it is essential that the views of those concerned with the welfare of the Association are clearly heard. This means we need YOU to come out and speak in support of the interests of the Association. If the only voices heard are from those whose real purpose is to make as much money as they can or those who do not want to pay their share of the absolutely essential expenses, then the outcome will be determined by them. Mr. Murray is a builder; most members are not. Most members bought their lot to build a community and to have the highest quality of life attainable. Your voices must be heard.

Sincerely,

Chris Allison, LHCC Board President,
for and with the unanimous approval of the Lake Holiday Board of Directors.