

BROOKTRAILS TOWNSHIP

COMMUNITY SERVICES DISTRICT

24860 BIRCH STREET

WILLITS, CA 95490

(707) 459-2494

January 30, 1997

Mr. Gordon Logan
City Manager - City of Willits
City Hall, 111 East Commercial St.
Willits, CA 95490

Re: Annual Sewer Audit

Dear Gordon:

We have reviewed the Annual Sewer Audit. After reviewing our Agreement, we do wish to dispute a number of the items and where possible, offer our reasoning. Please note the following:

I. General

a. Utilization of total flow for apportioning the operational costs.

We have used the dry weather flow for 30 years. There had to be a rationale for said application. Further, to use total annual flow, we think implies calendar year. Yet we are attempting to establish fiscal year costs. When comparing annual flow (calendar year) to dry weather flow they appear to match. Therefore, we think this represents historical logic for utilization of dry weather flow.

b. Calculation of Administration

Our responsibility is limited by our Agreement to the administration of the treatment plant. We dispute our participation in the apportionment of some arbitrary formula to attempt to spread the general city administrative costs. The Agreement is very clear on this item - that the plant is separate and distinct from the rest of the City.

c. Franchise Fee or Public Utility Fee

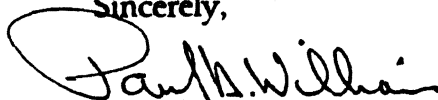
We dispute our participation in any Franchise Fee or Public Utility Fee as being contrary to our Agreement. Obviously, we believe it does not meet the definitions of the costs for which we have any responsibility.

Mr. Gordon Logan, City Manager
City of Willits
January 30, 1997

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Once you have developed the requested documentation or wish to discuss our concerns, please feel free to contact me. Chris and I are available to meet with you and your staff. In the meantime, we have been paying \$13,363 monthly toward the treatment costs and propose to continue to do so until we can resolve these differences. Although there are a number of differences with this year's audit, there are many areas of agreement as well. We look forward to quickly resolving the areas of disagreement and continuing our excellent working relationship.

Sincerely,



Paul A. Williams
General Manager

cc: District Counsel Neary

ROSS WALKER

Attorney At Law

201 N. State Street
Ukiah, CA 95482

(707) 462-9676
Fax (707) 462-1999

March 3, 1997

Mr. Paul A. Williams
General Manager
Brooktrails Township
24860 Birch Street
Willits, CA 95490



Re: Sewer Agreement and Audit

Dear Paul:

Gordon has asked me to respond to your letter of January 30, 1997.

Operating Costs

The agreement could not be more clear on this subject. Section 16 of the second amendment requires that such costs be apportioned on the basis of total flow, not dry weather flow. Furthermore, the agreement specifically states that the flow ratios are to be established by fiscal year. Calendar year is neither mentioned nor implied.

You are correct that the agreement does not address the issue of recomputing past years' costs. On this subject, the City is more than a little taken aback by your confrontational attitude. Clearly, the City has lost revenue to which it was entitled under this agreement for over two decades. The spirit of cooperation which has been alluded to in our recent meetings is embodied in the City's request that Brooktrails only pay its fair share from this year forward, and for the previous fiscal years going back to the fiscal year ending June 30, 1993.

If Brooktrails is unwilling to meet this minimal and eminently reasonable request such that litigation is required to resolve our differences, you should be advised that Willits will consider the issue of invalidating the entire agreement due to Brooktrails' breach of the construction standards provisions with respect to infiltration.

Capital Costs

Each and every item listed in this audit category is apportionable as replacing plant equipment, machinery or facilities due to breakage, obsolescence, or ordinary use, as required by Section 16 of the second amendment. As you are well aware, over the years of this agreement, many items including pumps, gates, valves, computers, etc. have been apportioned according to this provision; albeit at an incorrect ratio calculated on actual dry weather flow rather than flow capacity. Certain items, such as the computer which was purchased and apportioned in the fiscal year ending June 30, 1994, may replace a completely

different method of doing things. Obviously, in such a case, the prior method is now obsolete. Therefore, the computer (or copier, new type of valve, etc.) is required to replace the prior means of doing the job. This is equally true of the purchase of land which, although not mandated by any agency, replaces a facility which has been rendered obsolete due to the development patterns of the community.

It is disconcerting to say the least that Brooktrails, as an entity that purports to be committed to sharing the responsibility for maintaining a first class sewage disposal system, should suddenly be contesting the purchase of the very items necessary to maintain and improve the system for the benefit of all concerned. Suffice it to say that the City is confident that any independent adjudicator, be it judge, jury or arbitrator, will find the items listed in this category to be necessary and subject to the apportionment provisions of the contract.

Administrative Costs

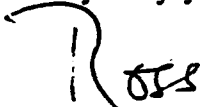
Costs of administration and operation are apportionable under Section 16 of the second amendment. The City's method of spreading administration and operation costs, including its in lieu franchise fee, is anything but arbitrary. Standard and accepted fiscal and accounting procedures underlie the allocation of these costs.

Pursuant to Section 13 of the second amendment, you are welcome to examine City records at any time.

Delinquent Payments

Any deficiency in payment will be charged interest at a rate of 6% per annum pursuant to Section 24 of the second amendment.

Very truly yours,



Ross Walker

c: Gordon Logan, City Manager
Chris Neary, Attorney