



LAS FLORES WATER COMPANY

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Dear Shareholders:

Las Flores Water Company 2017 Update

On behalf of the Las Flores Water Company, the Board of Directors extends its best wishes to all of you as we move into the New Year. Many of you have taken advantage of water conservation rebates and reduced water consumption. This enabled Las Flores meet water conservation targets set by the State. Additionally, we continued to maintain and rehabilitate our aging infrastructure in 2016. Below is a summary of our accomplishments for 2016 and objectives for 2017 of your water company that we want to share with you.

Water Rates: Imported water costs continue to rise. Both Foothill Municipal Water District and Metropolitan Water District of Southern California have increased their charges for 2017. However, these increases will have a minimal impact on Las Flores this year. Therefore we are pleased to inform you that there will be no rate increases or other changes to our current billing structure in 2017.

Capital Improvement Program: The Company completed a major pipeline upgrade in 2016 on Punahou Street. We replaced 1,400 linear feet of four-inch pipeline with six-inch cement lined and coated 10-gage steel pipe. We also installed 31 one-inch copper service connections and two fire hydrants. Additionally, we have been developing our website over the last few months and it will be going "live" shortly. In 2017, we are planning to replace 1,200 linear feet of pipeline on Hill Street between New York Drive and Atchison Street, purchase an emergency generator, and replace a number of fire hydrants throughout our service area. Collectively, the Company has invested about \$3 million in pipelines and facilities over the last 20 years without incurring any debt. We continue to provide strong reliability while we respond to our shareholders promptly and effectively to any unplanned incidents that may occur.

Water Conservation: As we enter the sixth year of drought, we are pleased once again to report that you have positively responded to our request to conserve water. Since January of 2016, consumption has been approximately 20 percent lower compared to pre-drought (2013) conditions. Some conservation rebates programs are still available to shareholders that make approved modifications to their residential water use needs. More information can be found at Foothill Municipal Water District's website at www.fmwd.com/#Conservation.

If you have any questions, please contact our General Manager, William Kimberling, at 626.797.1138 or email at lfvc@pacbell.net.

John Bednarski
Board President