RECEIVED VIA EMAIL: 03/22/2010 @ 4:08 P.M. DOWNEY BRAND LLP 1 JOSEPH S. SCHOFIELD (Bar No. 224448) 2 621 Capitol Mall, 18th Floor Sacramento, CA 95814-4731 (916) 444-1000 Telephone: 3 (916) 444-2100 Facsimile: 4 jschofield@downeybrand.com 5 Attorneys for Respondent 6 7 8 BEFORE THE 9 STATE WATER RESOURCES CONTROL BOARD 10 IN THE MATTER OF: 11 **CLOSING BRIEF OF HIDDEN LAKES ESTATES HOMEOWNERS** 12 Alleged Waste and Unreasonable Use of **ASSOCIATION** Water by the Hidden Lakes Estates **Homeowners Association** 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 1065592.1 CLOSING BRIEF OF HIDDEN LAKES ESTATES HOMEOWNERS ASSOCIATION

I. INTRODUCTION

In 2005, complainants amicably resolved a lawsuit against the Hidden Lakes Estates Homeowners Association (HOA) regarding seepage which they alleged entered their property from the HOA's small aesthetic lake. In exchange for a cash settlement, complainants dismissed the suit with prejudice, and bound themselves to fully and forever release all claims against the HOA. Trying to circumvent the settlement agreement, complainants urged the State Water Resources Control Board (State Board) to prosecute the HOA, hoping to repackage their former lawsuit as an administrative complaint against the unreasonable use of water. This disguised trespass action is a misuse of State Board process, and it is based on a bald mischaracterization of the HOA's northern lake dam: as the evidence amply demonstrates, the earthen dam functions as it should and the seepage is within the expected range for this type of construction. Moreover, any water seeping from the lake passes into a longstanding easement across complainants' property, which they or their predecessors have wrongly interfered with by filling it in and building improvements in it. The State Board should dismiss the complaint, leaving the complainants with the compensation they already received from the settlement agreement.

II. FACTUAL BACKGROUND

The HOA operates two interconnected lakes. Each is maintained by an earthen dam. The HOA purchases water from the San Juan Water District to fill the lower-elevation southern lake. When water is high in the southern lake (e.g., due to rain), excess water flows over an outfall to a nearby creek. The northern lake is filled by a pump that carries water up from the southern lake. When water in the northern lake is high, the excess flows over a weir and back down to the southern lake. (HOA Exhibit (HLE) 42 ¶¶ 4, 7.) Both dams have some seepage. (HLE 16 at 10-11.) Seepage from the northern lake dam passes into the backyards of complainants, together with water from other sources. The subdivision drainage system was designed to use natural swales (easements), and one such easement exists along complainants' property line. (HLE 42 ¶ 13; HLE 3; PT 20 at 4-6) But instead of having a steady sloping gradient toward the street as shown on the

recorded easement map (PT 20 at 4-6), complainants or their predecessors filled in the easement (*id.* at 6-9). This sharply contrasts with other area homeowners, who keep their easements as the open canals they were intended to be. (*Id.* at 2-3; HLE 42 ¶ 13.)

III. ISSUES / DISCUSSION

The Hearing Notice identified two key issues: (1) Does a misuse of water exist at the lake? (2) If so, what corrective actions should be required? The HOA responds as follows.

A. There Is No Misuse of Water at the Northern Lake.

In his summation, the Hearing Officer identified three fundamental questions related to the first issue: (1) Does the lake leak water onto complainants lots (Lots 71 and 72, or the "Lots")? (2) If so, does the leakage exceed that for a typical lake of similar attributes? (3) If so, does that amount rise high enough to consider it an unreasonable use of water under Article 10, Section 2 of the California Constitution? (Record of Testimony (RT) 183:15 to 184:2.)

1. Northern Lake Dam Has Some Seepage.

Regarding the Hearing Officer's first question, the dam has some seepage. The dam is an unlined earthen dam. (HLE 16 at 1.) Most, if not all, unlined earthen dams leak. (RT 14:12-13; 35:16-25; 144:10-11; Prosecution Team Exhibit (PT) 8 at 2; HLE 19 at 7:17; HLE 44 at 2:8.)

2. Northern Lake Seepage Is Typical for an Earthen Dam.

Regarding the second question, however, the evidence conclusively demonstrates that the seepage occurs at a rate that is typical of earthen dams. The claim should thus be dismissed.

The only technical evaluation of the dam material was performed by Paragon Engineering. Paragon drilled four deep borings into the center of the dam (plus one each on either side of the dam), and conducted field and laboratory tests of the boring material to determine the dam's compaction and permeability. (HLE 16 at 2-4, 7-8; 44 at 14-23; RT 141:12 to 142:25.)

Paragon's geotechnical engineer, Mr. Wentz, has extensive experience related to earth dam design, construction, and inspection. (HLE 52.) At the hearing, he testified that the standard minimum soil compaction rate for earthen dams is 90 percent. (RT at 143:5-6.) The tests show that the soils in the northern dam exceed this amount and are compacted to about 91 percent, though Mr. Wentz testified that the actual rate is probably even a few percentage points higher

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because soils are loosened slightly as they are extracted for testing. (RT at 143:7-16.) The soil tests show that the dam is "well-compacted" and the soil compaction is "adequate." (RT at 143:4-5, 16.) Paragon's tests also demonstrate that the soils are less permeable than expected for soils that are compacted to a 90-91% rate. (HLE 16 at 8; see also HLE 44 at 3:22-23; RT 143:21-24.) Based on these tests, Mr. Wentz testified:

In my judgment, the seepage through the dam is not excessive for the type of structure. Rather, the seepage is consistent or even somewhat low compared to what would be expected with the measured level of compaction of the embankment soils. All earth dams seep, and this one does not appear to be performing poorly.

(HLE 44 ¶ 9 (emphasis added).)

Paragon also took monthly readings of the water levels at four locations in and adjacent to the northern dam for about 34 months. (HLE 51.) These readings show seepage through the dam is stable, rising and falling only with local precipitation events. (RT at 146:19 to 147:12.) Paragon also collected some readings from the Lots, but only for about 5 months due to limited, inconsistent access by the Lot owners. (Id.; RT at 72:10-17; 140:22 to 141:1; HLE 16 at 4; HLE 23-27.) Although limited, these data suggest that higher-groundwater elevations on the Lots are similarly driven by precipitation events and local irrigation, not seepage. (RT 147:13 to 148:9.)

The only direct measurement of the annual *quantity* of seepage outflow through the dam was by hydrologist Dr. Humphrey, PhD, PE. (PT 8 at 1.) Complainants collect water on the Lots and pump it out toward the street. Dr. Humphrey assumed that all water pumped off the Lots was from dam seepage, and he measured off-Lot pumping at 1.23 gallons per minute (2 acre-feet per year (AFY)). (Id.; PT 9 at 13 ("observed seepage loss was 2.0 ac-ft measured at Jon Way").) Dr. Humphrey's use of a single measurement and extrapolating it to compute annual seepage outflow appears reasonable given that Paragon's measurements show water levels in the dam are steady except during and after precipitation events. If anything, 2 AFY would be overestimate dam seepage because the measurement includes all water being removed from the Lots, with no adjustment to account for water deriving from other local sources such as irrigation. (PT 8 at 1-

¹ There are multiple sources of the water on the Lots: direct precipitation, storm- and subsurface-overflow (RT 36:19 to 39:9, 129:24 to 131:24; HLE 16 at 9-10, 43 at 3:1-4), perched groundwater (HLE 44 ¶ 12), direct irrigation (HLE 19 at 2:15-16; HLE 54 at 39:16-23, 41:22-23 (describing installation of new irrigation system on Lot 71), 1065592.1

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2.) Dr. Humphrey's measurements are confirmed by repeated visual observations by a neighborhood resident. (HLE 42 at 6:10-13 (outflow at Jon Way is equal to "amount of water flowing from a low-flow sink faucet").) Dr. Humphrey's report states: "Some seepage is expected and *even desirable for earth dams*. Seepage losses of up to 1" per month (2.1 AF) are considered good." (PT 8 at 2 (emphasis added).) Given that the seepage through the dam was measured at 2 AF, the rate of loss would be considered "good" by Dr. Humphrey's standard.

Prosecution witness Mr. Rich found seepage through the northern dam was 6.05 AFY. (PT 21 at 2.) But he did not take into account, and was not aware of, the actual measurements taken by Dr. Humphrey. (RT at 51:13 to 52:11.) Mr. Rich also unreasonably attributed all losses from both lakes (other than evaporation) to only the northern lake dam. Thus, some of the water he attributed to the northern lake dam should instead have been attributed to (1) irrigation of 1.5 acres of landscaping (RT at 43:14-23, 125:5 to 127:12; HLE 35, 42 ¶ 4, 50), (2) seepage through southern lake dam, which is of similar construction to—and has measured water elevation levels similar to those of—the northern lake dam (RT at 176:19 to 179:19, 181:14 to 182:4; HLE 16 at 10-11); (3) overflow into the local drainage (HLE 42 at 3:3-4), (4) evaporation due to a fountain that runs during all daylight hours (RT 51:3-12; HLE 42 at 4:18-19), (5) uptake by local vegetation (RT 49:14-19), and (6) seepage to groundwater (compare PT 8 at 2 (Humphrey's attributing other reservoir losses to groundwater seepage). In calculating the percentage of northern lake seepage, Mr. Rich also inaccurately estimated lake depth at 10', instead of using the 14' depth shown in applicable records and maps. (RT 45:17 to 47:9; PT 7 at 2; HLE 2 at 2.) He conceded his calculation of lake storage would need to be recalculated to account for this difference in depth. (RT 47:5-9.)

3. The Seepage Is Not an Unreasonable Use of Water.

Even though the northern lake dam's seepage is occurring at a reasonable level typical for

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overflow from neighbors' irrigation (RT 90:14-16; HLE 16 at 9-10), leakage from hot tub and pool (RT 178:20 to 179:16), and seepage from the northern lake. Complainants' consulting hydrologist-engineer, Dr. Thompson,

arranged for laboratory tests of various constituent levels of the water in the northern lake and of the water occurring on Lots 71 and 72. The results show that some components are higher in the lake water and lower in the Lots' water,

while others are lower in the lake water and higher in the Lots' water. (HLE 49 at 4 to 7.) These laboratory tests are consistent with the presence of water sources other than just seepage from the lake. (Id., RT 99:15 to 101:19.)

an earthen dam, there has been some suggestion that the seepage should nonetheless be considered a "misuse" of water and regulated by the State Board. After investigating the complaint, Division of Water Rights staff prepared a memorandum concluding that the seepage is unreasonable solely because of alleged damage to complainants' property. (PT 9 at 14-15.) This approach is untenable because complainants have already accepted a cash settlement fully and permanently compensating them for all past and future alleged damage to their property from seepage through the dam. The alleged physical damage has been the subject of a lawsuit, was settled between the parties, and is therefore not an appropriate matter for resolution by the State Board. Moreover, drainage easements authorize flow across complainants' property. To the extent that the "unreasonable use" in this case is premised on a finding of alleged damage to complainants' property, the State Board should take into account that such damage has been permanently mitigated through a cash settlement and dismiss the complaint.

a. Settlement Agreement Resolved All Claims of Damage to Complainants' Property.

In 2004, complainants sued the HOA for various claims related to the alleged seepage, and sought an injunction to stop it. (HLE 57 at 8:21 to 9:6.) In 2005, however, complainants executed a settlement agreement with the HOA forever compensating them, and their successors and assigns, for any damages they may ever claim from water allegedly seeping through the northern lake dam. The settlement agreement states:

In exchange for the unallocated payment of \$_____ on behalf of defendant Hidden Lakes Estates Homeowners Association . . ., Plaintiffs [owners of Lots 71 and 72], for and on behalf of themselves, their heirs, . . . successors, [and] assigns . . ., hereby release and discharge Hidden Lakes Estates Homeowners Association . . ., from any and all claims, demands, causes of action, obligations, damages and liabilities of any kind and nature whatsoever, whether in law or in equity, which either party ever had, now has, or may in the future arising from the claims asserted in the operative complaint and predecessor complaint . . . except as limited by the provisions of Civil Code § 1668.

(HLE 5 at 1-2 (emphasis added), ¶ 6.) The agreement was further intended to "fully and finally and forever settle and to release any and all matters, disputes, and differences, known or unknown, suspected or unsuspected, which do now exist, may exist, may have existed, or may exist in the future which arise out of, directly or indirectly, from the" alleged seepage. (*Id.* at 2.)

The water right complaint that instituted this action was brought by the Woods and Allegras (PT 9 at 1; HLE 57), both of whom signed the settlement agreement (HLE 5 at 6). The Wood property is now owned by the Delaneys (Allegra 15 at 1), who as the Woods' successors are bound by the terms of the agreement (HLE 5 at 1-2). Notably both complainants had actual notice of the moisture on their respective Lots before purchasing. (RT 89:10-12; 85:14-17.)

During the Hearing, complainants' counsel suggested that despite the settlement agreement, the HOA somehow has "an obligation to repair and remediate this [seepage]." (RT 96:3-10.) This position is unfounded. As described above, the complainants settled all damage and injunction claims related to past, present and future seepage, in exchange for a cash settlement, with no requirement to remediate the seepage. (*See generally* HLE 5.) If complainants' position were true, the HOA would lose all benefit from the settlement agreement.

Complainants' counsel also suggested that the settlement agreement is invalid due to Civil Code Section 1668. His argument was apparently that if the dam is causing an unreasonable use of water, then the settlement agreement cannot be said to have properly compensated the parties for alleged damage due to seepage. This is an inaccurate reading of Section 1668. Section 1668 concerns only those contracts "which have for their object, directly or indirectly, to exempt anyone from responsibility for his own fraud, or willful injury to the person or property of another, or violation of law, whether willful or negligent, are against the policy of the law." The settlement agreement's obvious purpose was not to exempt the HOA from responsibility for fraud or willful injury or violation of the law, but to fully compensate the complainants, permanently, for the alleged ongoing injuries claimed in their lawsuit. (HLE 5.)

Regarding private disputes such as the alleged damage of property, as long as a contract release is clear in what it is releasing, it will be upheld against past and future action, *even if the underlying conflict was tortious or involved negligence*. *Baker Pacific Corp. v. Suttles*, 220 Cal.App.3d 1148, 1153 (1990); *Madison v. Superior Court*, 203 Cal.App.3d 589, 598 (1988). It would be difficult to imagine a clearer release of future liability than the settlement agreement. (HLE 5 at 1-2.)

b. The Seepage Occurs in an Established Drainage Easement Across Complainants' Property.

Two drainage easements run along complainants' mutual property line, and were created in part to ensure proper removal of the community drainage, including water deriving from the northern lake. One of the easements is shown as a "meandering drainage easement" on the subdivision maps filed with Placer County. (HLE 3.) The easement moves from the center of the northern lake dam, and continues to the street at the front of the Lots. (*Id.*) This easement is described in more detail in Prosecution Team Exhibit 20, pages 2-5. The other easement is a private drainage easement and also runs along the property line to the street (HLE 4 at 1). This "implied" easement arose pursuant to the common law when the subdivision developer built the reservoir (in 1978) and then sold the Lots, which were built between 1979/1980 and 1988. (HLE 14; HLE 42 at 3:5-11; RT 127:13-22.) The creation and establishment of this separate drainage easement is described in more detail in Prosecution Team Exhibit 20, pages 5-6.

The complainants and/or their predecessors in interest have filled in the easement(s) with fill material, trees, a fence, pools, a play structure, planter boxes, and concrete walks. (PT 20 at 6-9.) These encroachments are the property allegedly being damaged. (*See, e.g.*, RT 73:15-20.) Under the doctrine of unclean hands, people cannot seek redress for the damage they cause.

c. Damage on Complainants' Property Is Highly Questionable.

The record does not demonstrate clear injury to complainants' property. At best, the record has conflicting statements regarding moisture on the Lots. The Lots' owners testified to unwanted sogginess in their yards. But other owners in the subdivision who visited the Lots did not observe that sogginess. (RT 161:7-21.) Consultants tended to find no moisture or limited areas of moisture. Mr. Wentz testified: "During the four site visits we made to Lots 71 and 72 in the spring of 2007, we did not observe obviously wet or saturated ground." (HLE 44 at 4:19-20.) Mr. Stephens' sworn declaration states he observed firm ground and no sogginess, but found much evidence that the Lots had just been irrigated by sprinklers. (HLE 19 at 3:14 to 5:10, 6:8-16.) Dr. Humphrey reported: "No wet areas were observed in yards in June-August 2005 visits."

(PT 8 at 1.) Complainants' expert Dr. Thompson found some soggy areas of "limited size" (HLE 49 at 2; RT 102:4-12), but that was during wintertime site visits (HLE 49 at 2 fn.2).

Complainants' landscaper stated in a sworn deposition that one year after he had installed a

and found them no longer boggy or squishy. (Allegra 6 at 62:21 to 65:2, 62:10-12, 62:25 to 63:2;

French drain on the Wood property (Lot 71), he walked the previously boggy areas in the yard

HLE 54 at 34:23-24.) Photographs also show no standing water. (HLE 41 #2 to #5, 19.) In addition, the record shows that alleged excess moisture on the Lots occurs throughout the

subdivision far from the lake, suggesting strongly that any damage is more likely due to other factors, such as shallow bedrock and rolling topography. (HLE 43 at 2-5; RT 129:9 to 133:14.)

d. State Board Jurisdiction Does Not Extend to Actions to Address Alleged Physical Damage to Private Property.

To the extent that this case involves and considers alleged damage to the complainants' private property, it should be dismissed as beyond the jurisdiction of the State Board. The State Board's authority to prohibit the unreasonable use of water derives from Article 10, Section 2 of the California Constitution. The purpose of this section is to ensure the State's waters are put to reasonable beneficial use, and not wasted. (*Meridian, Ltd. v. San Francisco*, 13 Cal.2d 424, 449 (1939); *Gin S. Chow v. City of Santa Barbara*, 217 Cal. 673, 700 (1933); *see also* Wells A. Hutchins, *The California Law of Water Rights* (1956) at 13-14.) The State Board has authority to enforce Article 10, Section 2. (Water Code § 275.) But neither provision was intended to authorize the State Board to consider private trespass actions that happen to involve water.

B. The Dam Does Not Result in a Waste of Water.

1. The HOA's Water Is Used for Beneficial Purposes.

The assertion that seepage through the northern lake dam is unlawful as a non-beneficial use is simply false. The purpose of the HOA's lakes is to serve as an aesthetic resource in the community, provide a recreational fishery, and foster a migratory bird population. (HLE 42 ¶¶ 15-17.) These are beneficial uses of water under California law. (See Water Code § 1243; 23 CCR §§ 666, 668; RT 35:4-15.) Prosecution Team witness Mr. Nesmith recognized that water is put into the lakes to achieve the above beneficial purposes, not to seep. (RT 36:1-7.) In his staff

investigation report, Mr. Nesmith also recognized that seepage incident to storage is acceptable unless excessive or harmful. (RT 9 at 14-15.) As described above in Section III.A.2, the seepage through the dam is typical for an earthen dam, and thus cannot be considered excessive. As also described above, any harm allegedly resulting from seepage flows through established easements and moreover has already been fully compensated by the settlement agreement. In addition, any seepage ultimately flows through local creeks and contributes to the Sacramento River north of its confluence with the American River, and is available for beneficial use by the City of Sacramento and water users taking supply from the Delta. (RT 60:11-23.)

2. Northern Lake Dam Seepage Does Not Constitute a Waste of Water.

Mr. Rich testified that the northern lake loses 85% of its total volume each year as seepage through the dam, and as such constitutes a waste of water. This figure is sharply contradicted by the record in this case. First, Mr. Rich miscalculated the volume of the northern lake. (*See* Section III.A.2 above.) Second, his calculations did not include the volume of the southern lake, even though the two lakes are operated together and water circulates between them regularly. (*Id.*) Third, he ignored the actual measured quantity of water, which is one third his estimate of dam seepage. (*Id.*) Fourth, he unreasonably attributed all losses from both lakes (other than evaporation) to just seepage from the northern lake dam, ignoring several other substantial losses. (*Id.*) Unlike Dr. Humphrey, who provided a relatively detailed water budget and actual measurements to show a loss of 2 AFY in seepage through the northern lake dam (PT 8 at 1-2), Mr. Rich produced no detailed calculations to support his calculations (*see* PT 21 at 2).

3. Purported HOA Impacts to American River Supply Are Illusory.

A red herring in this case is that allegedly excessive water losses from the northern lake should be considered a waste of water because of shortages in Folsom Lake and the American River. First, as demonstrated in detail above, the northern lake dam does not leak excessively. Second, during dry years, the HOA's water supplier, San Juan Water District (San Juan), dedicates a supply to Folsom Lake and uses groundwater as a substitute source of supply. (HLE 47.) In fact, San Juan is even exploring a pilot project to transfer water from Folsom to southern California during dry periods. (*Id.*) Finally, the HOA is a careful steward of its water resources.

The HOA retained an expert to report on water management, implemented many of the recommendations, installed improvements to reduce water loss, and installed meters to separately track irrigation and lake water. (RT 125:4 to 126:12; 134:4 to 135:14.) By contrast, the allegation that the HOA violated San Juan's water use rules is not supported by the evidence. (RT 62:21 to 63:23; HLE 48.)

4. Due Process Concerns Regarding Waste Allegations

During the years the complaint has been pending, Division of Water Rights staff focused not on the waste of water per se, but on the impact of seepage on the complainants. (*See PT 9.*) This fact is also reflected in the detailed history described in the Nov. 4, 2009 Notice for this proceeding. The first accusations that the HOA has allegedly "wasted" water materialized in January 2010, as part of the testimony for this proceeding. (PT 21.) If the complaint were sustained on the ground of a waste of water, it would constitute a violation of the due process provisions of the U.S. and California Constitutions for lack of adequate notice to the HOA.

C. Possible Remediation of Seepage

The record contains several possible ways to remediate the seepage. The most feasible would appear to be an engineered French drain to capture water and pump it either into the northern lake or out to the street. This method would be more cost effective than lining the reservoir and could be modified over time to increase effectiveness. (HLE 44 ¶ 17.) There are French drains on the Lots now, but they were designed and built by landscapers, not engineers. (HLE 54; RT 90:17 to 92:2.) As shown in the record and described thoroughly above, however, there are numerous factors other than dam seepage that affect the presence of water on the Lots, including other water sources, topography, bedrock, and the blocked easement. If the State Board orders remediation, it should strongly consider conditioning any such work on the Lot owners' making significant financial contributions to the project, authorizing the work to be done on their property, and/or removing all fill and improvements from the easement on their property.

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1 PROOF OF SERVICE I am a resident of the State of California, over the age of eighteen years, and not a party to 2 the within action. My business address is Downey Brand LLP, 621 Capitol Mall, 18th Floor, 3 Sacramento, California, 95814-4731. On March 22, 2010, I served the within document(s): 4 CLOSING BRIEF OF HIDDEN LAKES ESTATES HOMEOWNERS ASSOCIATION 5 BY ELECTRONIC MAIL: by transmitting the document(s) listed above via 6 X electronic mail to all parties listed to receive electronic service at the electronic 7 mail address set forth on the Service List. 8 DIVISION OF WATER RIGHTS PROSECUTION TEAM c/o David Rose 9 State Water Resources Control Board 1001 I Street 10 Sacramento, CA 95814 DRose@waterboards.ca.gov 11 BY ELECTRONIC MAIL: by transmitting the document(s) listed above via 12 × electronic mail to all parties listed to receive electronic service at the electronic mail address set forth on the Service List. 13 **TED ALLEGRA** 14 c/o Glenn W Peterson 15 2267 Lava Ridge Ct., Ste. 210 Roseville, CA 95661 16 gpeterson@mpwlaw.net 17 18 I am readily familiar with the firm's practice of collection and processing correspondence for mailing. Under that practice it would be deposited with the U.S. Postal Service on that same 19 day with postage thereon fully prepaid in the ordinary course of business. I am aware that on motion of the party served, service is presumed invalid if postal cancellation date or postage 20 meter date is more than one day after date of deposit for mailing in affidavit. 21 I declare under penalty of perjury under the laws of the State of California that the above is true and correct. 22 Executed on March 22, 2010, at Sacramento, California. 23 24 25 26 27