

**MONTECITO WATER DISTRICT
MEMORANDUM**

SECTION: 5-A

DATE: SEPTEMBER 29, 2026

TO: BOARD OF DIRECTORS

FROM: AD HOC COMMITTEE & GENERAL MANAGER

**SUBJECT: UPDATE ON THE PROPOSED PARTIAL SALE OF STATE WATER
CONTRACT INTERESTS TO SOLSTRA COMMUNITIES CALIFORNIA
LLC., AND AUTHORIZATION OF A RELATED LETTER OF INTENT**

RECOMMENDATION:

1. That the Board of Directors receive and consider public feedback on the proposed partial sale of the District's State Water contract interests.
2. That the Board of Directors consider authorizing the execution of a Letter of Intent (LOI) outlining the principal terms of a proposed transaction whereby the District would permanently sell a portion of its State Water contract interests, inclusive of water supply, water treatment, and conveyance capacity, to Solstra Communities California, LLC for the proposed Solomon Hills Development.
3. That, upon any authorization to execute a Letter of Intent, the Board direct the Ad Hoc Committee, staff, and legal counsel to negotiate a Purchase and Sale Agreement with Solstra Communities California, LLC, and to undertake such additional actions as may be necessary to effectuate the transaction, including conducting environmental review and coordinating with the Central Coast Water Authority.

DISCUSSION:

For nearly a decade, the District has prioritized the core goal of ensuring a highly reliable water supply for its customers. The District has taken extraordinary actions in pursuit of that goal, including securing a 50-year commitment with the City of Santa Barbara for ocean desalinated supplies; securing an ability to store water for later use in the Semitropic Groundwater Banking Program; and forming a groundwater sustainability agency to ensure effective management of the Montecito Groundwater Basin.

In addition to these supply enhancements, the District has implemented other vital measures to enable customers' efficient water use, including smart meters, water budgets, and water conservation rebates. Collectively, additional supplies and efficient water use have reduced demand and shifted the District's reliance away from unpredictable rainfall-dependent sources like State Water to more diverse, local, rainfall-independent, and reliable water sources.

The District has not utilized State Water to meet customer demands since 2019. The District's minimal reliance on State Water supports leveraging a strategic opportunity to divest a portion of this

asset. Doing so would eliminate significant associated costs and liabilities without compromising water security. Ultimately, this would allow the District to redirect financial resources toward high-priority initiatives, such as strengthening local water supply reliability.

In early 2025, the District completed a periodic update of its *Future Demand and Water Supply Option* analysis, prepared by Dr. Steven Bachman. This analysis indicates that actions taken to shore up water security through local reliable supplies, coupled with supporting efficient water use, have successfully limited projected future water shortages. Additionally, the analysis highlighted a reduced need to import State Water, even under severe drought conditions.

In early 2024, Solstra Communities California LLC (Solstra) expressed interest in acquiring a portion of the District's State Water contract interests for the proposed Solomon Hills Development located in northern Santa Barbara County. Following comprehensive water supply analyses, the District initiated discussions with Solstra in Spring 2025 for the permanent transfer of 1,400 acre-feet of its 3,300 acre-foot contract. This proposed transaction encompasses all related proportional water allocation, treatment, conveyance, and future costs and liabilities. The District and Solstra subsequently spent approximately 15 months negotiating the fundamental terms of a potential transaction. Between June and September 2026, the parties memorialized the terms in a non-binding Letter of Intent (attached). The purpose of the Letter of Intent is to outline the principal terms of a proposed Purchase and Sale Agreement and to provide a good-faith basis for proceeding with negotiation and finalization of a Purchase and Sale Agreement.

Staff, general counsel, special legal counsel, Westwater Research, and the Ad hoc Committee have extensively reviewed the proposed Letter of Intent. The Board of Directors' support of the Letter of Intent would lead to preparation of a Purchase and Sale Agreement, which is anticipated to take approximately six months to complete. Concurrently, the required environmental review would be prepared, and coordination with Central Coast Water Authority would be conducted.

BACKGROUND:

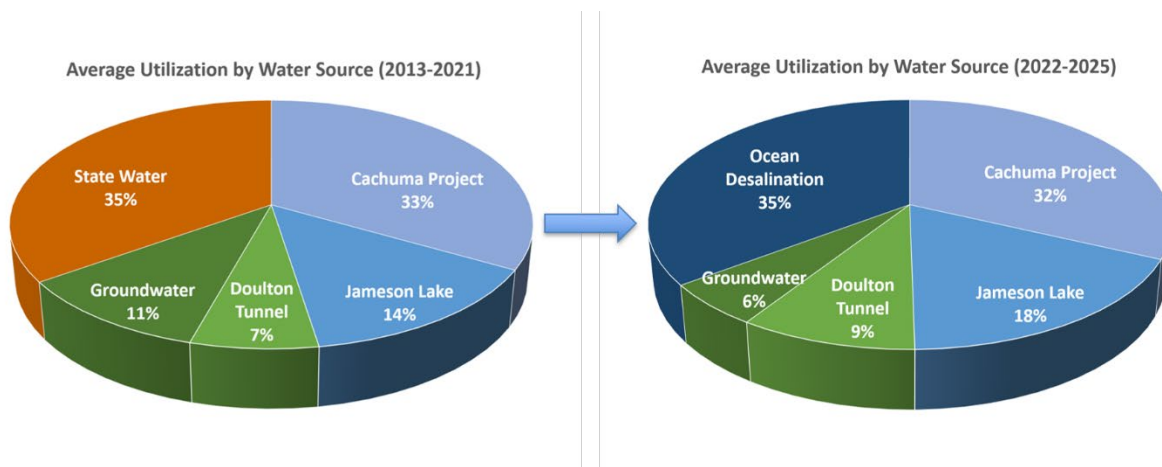
A Decade-Long Transformation, Achieving Local Water Supply Reliability

In 2016, after having implemented water use allocations in 2014 due to severe drought, the District embarked on a decade-long transformation to improve water supply reliability for the community, a critical effort that continues today. This strategic initiative focuses on diversifying water supplies and reducing reliance on rainfall-dependent sources.

In 2017 the District acquired groundwater storage rights in the Semitropic Groundwater Banking and Exchange Program. Participation in the program provides the District with the ability to store and take receipt of up to 1,500 acre feet of water per year, and to store 4,500 acre feet or more of water. Because State Water allocations exhibit a decreasing trend, and supplies are typically available during wetter periods when not fully needed for customer use, participation in Semitropic provides a mechanism to take receipt of that water when available for use during future dry periods when annual allocations are likely to be reduced. Over the last decade, the District has stored nearly 6,000 acre feet in the program which represents approximately one and a half years of current customer demand. While the stored water has yet to be used during a shortage in local supplies, it serves as an important backup amid increasingly variable climate conditions and any potential future shortfall.

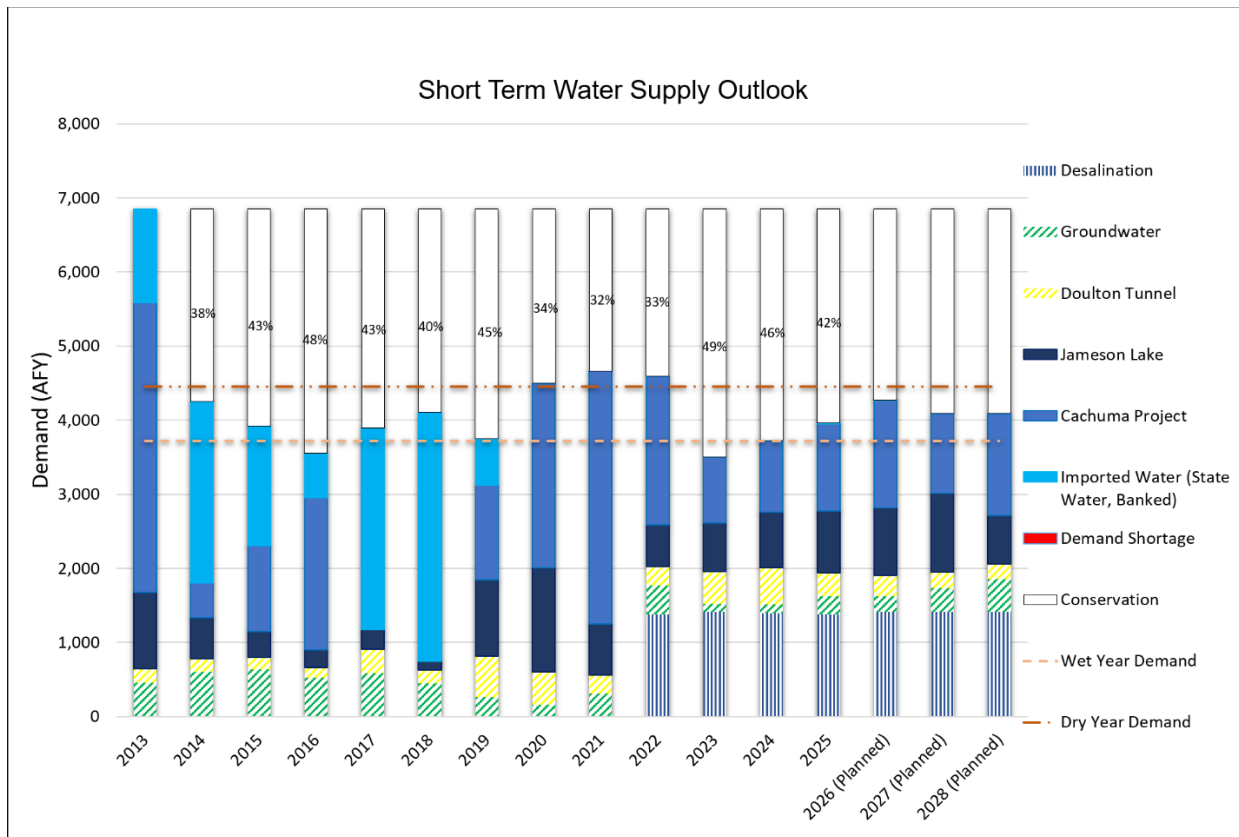
During 2016-2017, the District also embarked on the formation of the Montecito Groundwater Basin Groundwater Sustainability Agency, pursuant to the State’s 2014 Sustainable Groundwater Management Act. These efforts recognized the importance of local groundwater as a drought supply, and the District took action to ensure its long-term viability, including creating and implementing a Groundwater Sustainability Plan approved by the State. Under wet and average conditions, the District reduces pumping to allow the basin to recover. Under dry conditions, the District increases its pumping to support customer water use when surface water starts becoming depleted. The District’s use of groundwater varies between 5 and 15% of total supply depending on surface water conditions and serves as an important part of its water supply portfolio. As of 2026, all available data indicate that the groundwater basin is in good condition and currently maintains a healthy supply of water in storage.

Most notably, in 2020 the District entered into a water supply agreement with the City of Santa Barbara in connection with its Charles E. Meyer Desalination Facility. This 50-year agreement provides the District with 1,430 acre feet water per year irrespective of rainfall. This local, rainfall-independent water supply is nearly 100% reliable and serves as a baseline supply for the District, significantly mitigating the impact of ongoing and future regulatory, environmental, and climatic challenges affecting other water sources. This water source supplies approximately 35% of the District’s current annual water demand and will remain central to its long-term supply reliability.



In addition to supply enhancements, the District has taken actions to support customers’ efficient water use, consistent with its 2022 *Water Use Efficiency Plan*. These actions include smart meters and water budgets to gauge appropriate water use and avoid waste, and water conservation rebates to achieve permanent water-use savings. These actions have helped to achieve a consistent water use reduction of approximately 45% over the last decade.

Collectively, these actions have shifted the District’s dependence on unpredictable rainfall-dependent sources to more diverse, local, rainfall-independent, and reliable water sources, and limited the need for imported water supplies such as State Water. From a water supply reliability standpoint, the District today is not the same District it was a decade ago. The District’s short- and long-term water supply projections indicate sufficient water supplies to meet customer water use with little to no need for imported water supplies or projected water shortages.



The District's short-term water supply outlook is based on the previous decade's trends, reflecting reduced customer use (Conservation) and added supply in 2020 from Desalination.

Long-term Planning & Rigorous Modeling and Analysis

The District enhanced its water supply reliability through significant long-term planning and rigorous modeling and analysis. This is supported by successive updates of the *Urban Water Management Plan*, most recently in 2025, and the 2022 *5-year Strategic Plan*. These were augmented with other important planning documents, including successive updates of the *Future Demand and Water Supply Options Analysis*.

In 2025, the District collaborated with Dr. Steven Bachman to prepare an update of its *Future Demand and Water Supply Options Analysis*, examining its water supply portfolio and comparing it with current and future customer water use projections to determine adequacy and potential for future water shortages. The analysis indicated limited water shortages projected in only a few years over the modeled period and showed that the shortages resulted from conveyance limitations at the Cachuma Project, not an actual water supply shortage. The study also confirmed that the potential future limited water shortages could be met with additional use of local sources and/or a minor reduction in customer water use. The analysis also indicated a very limited need for imported water, including State Water and water stored in Semitropic.

The 2025 analysis also examined various water supply strategies to further shore up long-term water supply reliability, including the transfer or sale of approx. 40% of the District's State Water contract interests or 1,400 acre feet of its 3,300 acre feet contract. As expected, a reduction in State Water

contract interests had little or no impact on future water shortages because of the limited use of State Water over the modeled period.

These Plans and analyses have had a favorable impact on projecting overall water supply reliability, and the benefits of successfully shifting the District to a more local, reliable water supply. For copies of these documents, see the District's website at www.montecitowater.com.

Understanding State Water

The State Water Project (State Water) is a surface water source that supplies water highly dependent on the snowpack and rainfall in Northern California. The District's full State Water Table A entitlement is 3,300 acre feet, which includes a 300 acre foot drought buffer. An interest in State Water represents a guaranteed right to a portion of the system's infrastructure, not a guaranteed right to a volume of water. State Water participants, like the District through the Central Coast Water Authority, do not own an absolute right to a fixed amount of water. Instead, they hold a right to use a percentage of the infrastructure, and a percentage of whatever water is made available in a given year.

The dynamic nature of the contract allocations introduces variability into water supply planning. Because deliveries depend on the Sierra Nevada snowpack and regulatory restrictions, State Water availability remains outside the District's control. State Water allocations have been unpredictable over the past decade, averaging 46% of contracted amounts. The Department of Water Resources reports that future average allocations are expected to decline to between 37 and 43%. The variability of State Water becomes most apparent during severe drought, as in 2021 and 2022 when allocations dropped to 5%. This means that State Water is not available when it is needed the most. Reliance on State Water can lead to extreme vulnerability if there are sudden, severe changes in water availability.

State Water participants are obligated to pay their full share of capital costs and operational & maintenance costs each year, regardless of whether the state delivers a 100% or 0% allocation. The District pays nearly \$5M annually for State Water irrespective of water availability or actual deliveries. Furthermore, these costs are projected to rise to fund critical infrastructure upgrades, address land subsidence, and manage golden mussel mitigation, among other challenges.

The Proposed Sale: Key Terms

In Spring 2025, following completion of extensive and comprehensive water supply planning and analyses confirming significantly improved long-term water supply reliability for the community and highlighting the limited future need for State Water, the District began discussions with a developer concerning its interest in permanently acquiring a portion of the State Water contract interests for the proposed Solomon Hills Project.

The Solomon Hills Project is a planned development located in Santa Barbara County, south of Santa Maria near Orcutt, consisting of 4,000 dwelling units and various commercial uses. Build-out is anticipated to span 14 years with a projected water demand of 1,275-acre feet per year. The developer is Solstra Communities California, LLC (Solstra).

In Summer 2026, the District and Solstra reached agreement on the principal terms of a proposed Purchase and Sale Agreement (PSA) whereby the District would permanently sell a portion of its State Water contract interests, inclusive of water supply, water treatment, and conveyance capacity,

to Solstra for the proposed Solomon Hills Development. The following provides an overview of the key terms:

1. **Buyer:** Solstra Communities California, LLC.
2. **Seller:** Montecito Water District
3. **Property Being Sold:**
 - a. State Water Contract Interests: 1,400 acre feet, representing about 42.4% of District's State Water contract interests.
 - b. Semitropic Groundwater Banking Program
 - i. Groundwater Storage: 550 shares representing 36% of the District's participation (1 share = 1 acre foot annual storage/recovery right, 3 AF maximum stored).
 - ii. Stored Water: 1,650 acre feet already stored.
4. **Upfront Purchase Price:** \$36.5 million escalating monthly based on CPI until financial closing (estimated to be \$40M in 2028)
5. **Annual O&M Costs:** \$1.8M permanently transferred
6. **Transaction Costs:** Funded by Buyer, estimated to be \$600K
7. **Transaction Schedule:**
 - a. Purchase and Sale Agreement within 180 days of execution of Letter of Intent.
 - b. Financial closing within 270 days after final approval of the Solomon Hills Project or upon development receiving final approvals (approx. timeline 2028)

Benefits of a Partial Sale of State Water

A partial sale of State Water contract interests offers the District several key strategic benefits. By permanently divesting a portion of future expenditures associated with State Water, the District can successfully reduce its associated liabilities and its overall costs. This cost reduction would allow the District to redirect financial resources to high-priority initiatives, such as enhancing local water supply reliability. Furthermore, by retaining nearly 60% of these State Water interests, the District ensures it maintains the ability to import water, including State Water, supplemental water, or banked water if/when necessary. Even under severe drought projections, the District's diverse and reliable water sources nearly always exceed projected customer use, meaning that any potential shortages are driven by infrastructure delivery constraints rather than a lack of State Water supplies. Ultimately, the partial sale has substantial financial benefits for the District without risking long-term water security.

Potential Allocation of Proceeds and Cost Savings

Proceeds and cost savings from the potential permanent transfer of a portion of the District's State Water contract interests could be directed toward various initiatives aligned with the District's long-term mission and strategic priorities. While no definitive decisions have been made, the identified potential uses can be grouped into four primary categories:

- **Water Supply Reliability Enhancement:** Advancing water supply security through acquisition of additional local, rainfall independent supplies or securing means of managing existing sources such as participation in local groundwater storage programs.
- **Boost Long-term System Dependability:** Investing in water system resilience by accelerating and/or enhancing the District's Capital Infrastructure Program.
- **Financial Sustainability:** Strengthen the District's financial position by bolstering cash reserves, reducing outstanding liabilities, and increasing budgetary flexibility to mitigate future economic and operational uncertainties.
- **Mitigating Future Rate Increases / Ratepayer Relief:** Offsetting future operational costs to defer or reduce future water rate increases.

Importantly, no decisions have been made about how any proceeds and cost savings would be used. The Board of Directors will evaluate the options carefully, considering both the District's immediate needs and long-term strategic goals, before determining the most appropriate allocation of resources.

ATTACHMENTS:

1. Presentation providing an update on the proposed transfer of State Water contract interests
2. Proposed non-binding Letter of Intent in connection with the proposed transfer of State Water contract interests

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Update on Proposed Partial Sale of State Water Contract Interests

Enhancing Our Reliability & Financial Outlook

Board of Directors Meeting | September 29, 2026

Purpose & Goals



Provide an update on the District's ongoing evaluation of a Proposal to permanently sell a portion of our State Water Contract Interests to optimize our Water Supply Portfolio

- **Showcase Local Water Supply Reliability**
Demonstrate how our portfolio has evolved over the last decade
- **Evaluate the State Water Sale Opportunity**
Why consider a permanent sale?
- **Outline Customer & Infrastructure Gains**
Present benefits this sale returns directly to customers
- **Next Steps**
What to expect next as the Board considers the proposed sale

Local Water Supply Reliability



A Decade Long Transformation

The Old Vulnerability: Reliance on imported, rainfall dependent water supplies increased exposure to fluctuations in availability and elevated the risk of water shortages during droughts.

The Response: Investment in predictable, locally controlled and reliable sources.

Today's Reality: Millions invested to secure a more diverse, local and rainfall independent water supply.

Supply Security: Rigorous modeling and analysis demonstrates adequate local water to meet customer demands even during severe drought conditions, with only a limited future need for imported supplies, including State Water.

Future Vision: Additional investments in local water supply would further strengthen reliability.

Vulnerabilities and shortages experienced during the 2012–2016 drought were a vital wake-up call.

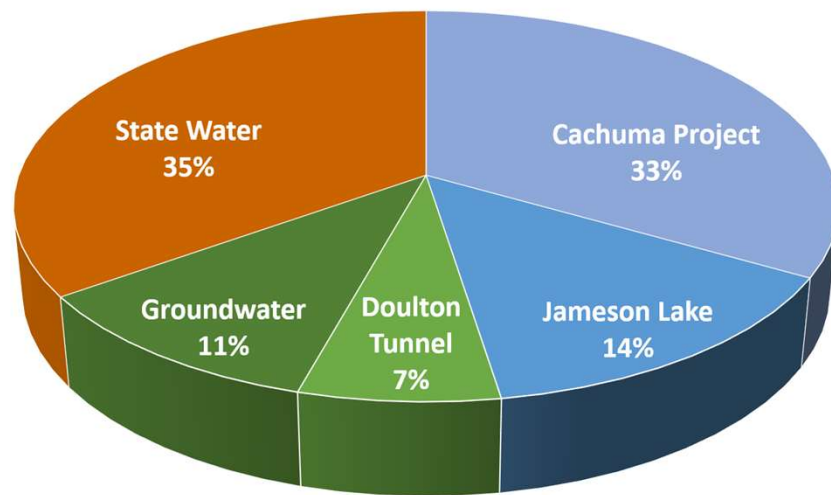
Depleted local supplies, and high reliance on imported state water left the community vulnerable to forecasted shortages and mandated cuts. Our response was aggressive and focused on improving long-term water supply reliability.

Local Water Supply Reliability

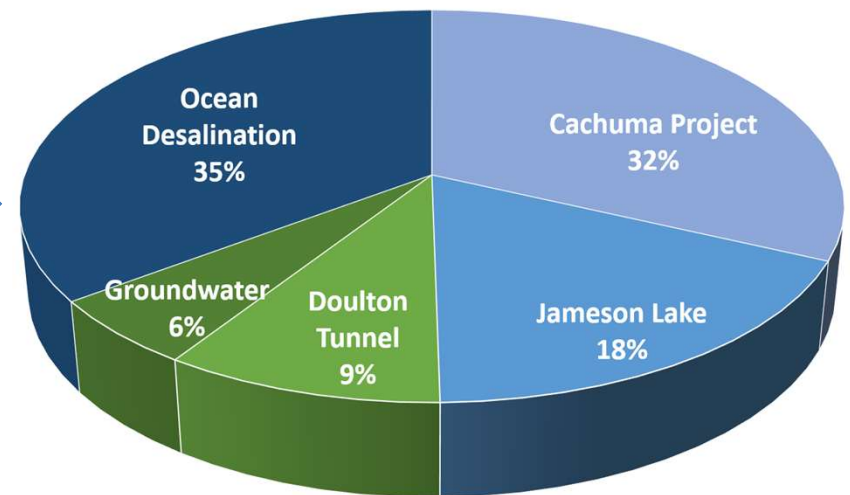


A Decade Long Transformation

Average Utilization by Water Source (2013-2021)



Average Utilization by Water Source (2022-2025)



Local Water Supply Reliability



Significant Long-term Planning & Rigorous Modeling and Analysis Conducted

- ✓ 2020, 2025 > Urban Water Management Plan Update
- ✓ 2022 > 5-Year Strategic Plan
- ✓ 2022 > Water Use Efficiency Plan
- ✓ 2024 > Asset Management Plan
- ✓ 2025 > Climate Action and Adaptation Plan
- ✓ 2025 > Future Demand And Water Supply Options

Favorable Impact: Implemented actions; shift to more local reliable water sources; limited need for imported supplies; greater constancy in a variable environment.



Local Water Supply Reliability

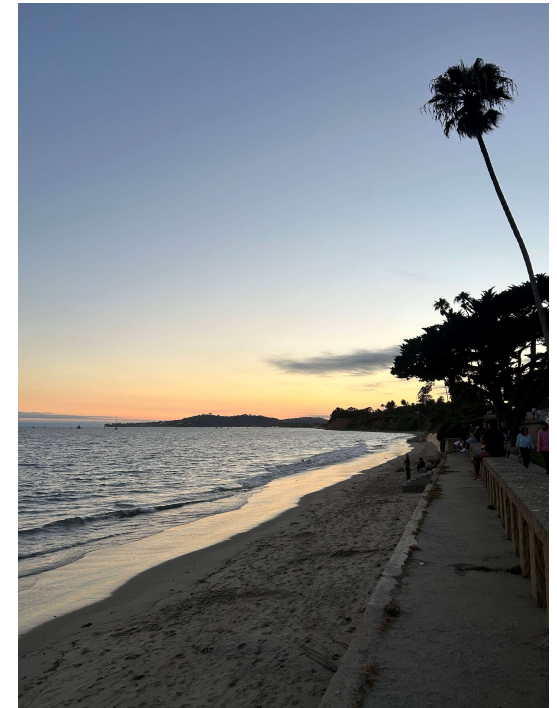


At the Core of the District's Water Security

A diverse mix of local and statewide water resources, blending rainfall-dependent supplies with climate-resilient ocean desalination and groundwater storage.

Strategic investments over the last decade form the core of our water security:

- **Ocean Desalination** – a consistent, climate-resilient base supply, unaffected by local rainfall or Sierra snowpack, and delivering 35% of total customer use
- **Regional Groundwater Storage** – allows for State Water or other water to be banked when available, reducing losses to spills or evaporation and providing operational flexibility needed to help mitigate drought impacts
- **Local Groundwater Management** – safeguarding the long-term sustainability of the Montecito Groundwater Basin, establishing localized data-driven protections against chronic level declines and seawater intrusion, and helping to ensure the viability of this critical drought supply

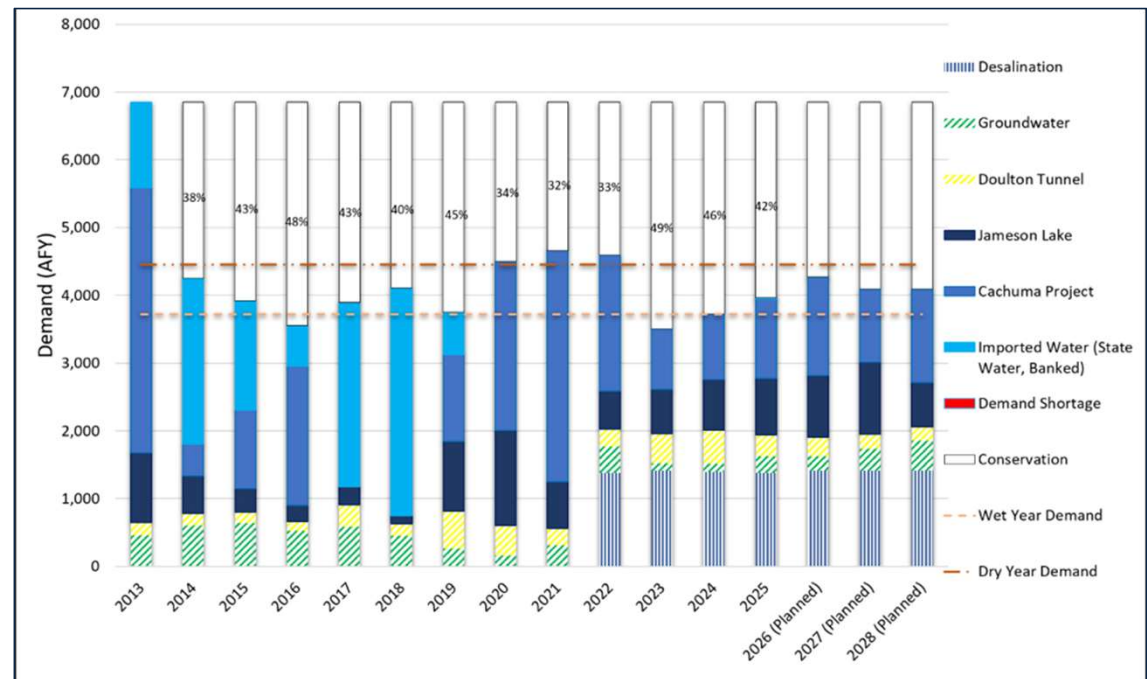


Local Water Supply Reliability



Current Supply and Demand

- **Desalination**
 - Since 2022, base supply
 - Local and rainfall independent
- **Groundwater**
 - Montecito Groundwater Basin (GSA)
 - Doulton Tunnel
- **Local Surface Water**
 - Jameson Lake & Cachuma Project
- **Conservation**
 - Community partnership
 - ~45% demand reduction ongoing
- **State Water**
 - Last used 2019; Surplus banked or sold
 - No near-term use



Local Water Supply Reliability



Future Supply and Demand Analysis

- **Desalination**
 - Base supply; Local and rainfall independent
- **Groundwater**
 - Local, consistent and drought supply
- **Local Surface Water**
 - Local control, increased availability
- **Conservation**
 - Water Efficiency measures & requirements
 - ~45% demand reduction ongoing
- **State Water (Imported)**
 - No or limited need during severe droughts
- **Potential Shortages**
 - Extremely low frequency and amount
 - Conveyance capacity is the constraint, supply is sufficient

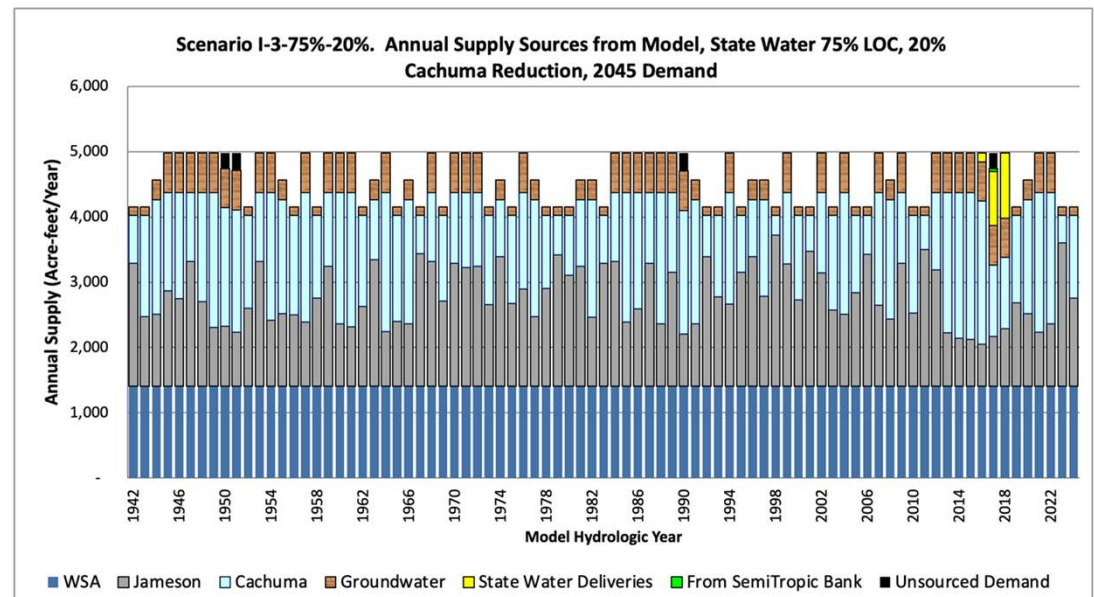


Figure A- 7. Sources of supply for Scenario I-3-75%-20% from results of 83 years of hydrology in the model. Future SWP deliveries are from 75% Level of Concern, Cachuma deliveries are reduced by 20%, drought extended by two years.

Evaluate the State Water Sale Opportunity



Understanding State Water

➤ A Conveyance Right, Variable Water Deliveries

- Contract interest represents a right to a portion of the State Water Project, but not a guaranteed allocation.
- Allocations change year-over-year based on Sierra snowpack and regulatory restrictions.
- Annual allocations average 46% over last decade. DWR projects future allocations to average 37-43%. During recent dry years (2021-2022) allocations dropped to as low as 5%.

Year	State Water Allocation	
	%	AF
1997	100%	3,300
1998	100%	3,300
1999	100%	3,300
2000	90%	2,970
2001	39%	1,287
2002	70%	2,310
2003	90%	2,970
2004	65%	2,145
2005	90%	2,970
2006	100%	3,300
2007	60%	1,980
2008	35%	1,155
2009	40%	1,320
2010	50%	1,650
2011	80%	2,640
2012	65%	2,145
2013	35%	1,155
2014	5%	165
2015	20%	660
2016	60%	1,980
2017	85%	2,805
2018	35%	1,155
2019	75%	2,475
2020	20%	660
2021	5%	165
2022	5%	165
2023	100%	3,300
2024	40%	1,320
2025	50%	1,650
2026	45%	1,485

Evaluate the State Water Sale Opportunity



Understanding State Water

➤ High Costs Regardless of Availability

- Fixed: District currently pays nearly \$5M annually irrespective of allocation or deliveries
- Variable: Additional costs are incurred if allocations are delivered
- Costs are anticipated to increase over time to fund items such as critical infrastructure replacements for aging assets, land subsidence, and golden mussel mitigation
- Expense may be for water that is not received and / or no longer needed



Evaluate the State Water Sale Opportunity



The Proposed Sale: Key Terms

1. **Buyer:** Solstra Communities California LLC for Solomon Hills Development located in northern Santa Barbara County
2. **Seller:** Montecito Water District
3. **Property:** Permanent transfer of:
 - i. 1,400 acre feet of State Water Contract interests (inclusive of conveyance and treatment);
 - ii. 550 acre feet of groundwater storage rights in Semitropic Groundwater Banking Program; and
 - iii. 1,650 acre feet of water stored in Semitropic
4. **Purchase Price:** Upfront payment \$36.5M in 2026, inflated annually through financial closing; estimated to be \$40M in 2028.
5. **Annual Cost Transfer:** 40% of fixed and variable costs permanently transferred to Buyer: \$1.8M + variable (2026)
6. **Transaction Costs:** Funded by Buyer, estimated to be \$600K
7. **Schedule:** Sale to be final when development receives final approvals, approx. timeline 2028

Evaluate the State Water Sale Opportunity



Potential Benefits of a Partial Sale:

- **Reducing Liabilities:** Permanently divesting a portion of future expenditures associated with State Water and reducing District costs.
- **Redirecting Financial Resources:** Providing for strategic reallocation of funds to high-priority initiatives, including enhancement of local water supply reliability.
- **Retaining Nearly 60% for Flexibility:** A majority of State Water interests would be kept, ensuring we maintain flexible backup options for importing State Water, supplemental water, and/or banked water if/when needed.
- **Water Security:** Even under severe drought projections, our diverse and reliable water sources, nearly always exceeds projected long-term customer use. Delivery constraints are the driver of water shortages, not a lack of State Water supplies.



Evaluate the State Water Sale Opportunity



Potential Risks of a Partial Sale:

➤ Non-renewal of long-term contracts:

- 50-Year Water Supply Agreement (City of Santa Barbara)
- Cachuma Project (United States Bureau of Reclamation)
- State Water Project (California / Department of Water Resources)

➤ Future conditions exceed modeling parameters

- Drought severity / duration, Demand variation

Possible Mitigation:

- Acquire alternate local and/or District controlled water supplies and arrangements (other desal; groundwater banking; recycled water, etc.)
- Reduced demand

Evaluate the State Water Sale Opportunity



Potential Uses of Proceeds and Cost Savings:

Estimated \$40M upfront proceeds; \$1.8M annual cost saving. Proposed use(s) is open for Board determination based on policy objectives.

- **Enhance Water Supply Reliability**

Acquire additional local, rainfall-independent supplies and secure participation in groundwater storage programs.

- **Boost long-term system dependability**

Accelerate infrastructure replacement schedules and/or enhance system capacities. Increased funds, strengthened borrowing power.

- **Bolster Cash Reserves**

Strengthen financial reserves to ensure long-term fiscal stability, protect against sudden revenue fluctuations, and provide for emergency expenditures.

- **Avoid Future Rate Increases / Ratepayer Relief**

Mitigate future water rate increases by offsetting systemic operational costs.

- **Debt Reduction**

Retire outstanding district liabilities early, reducing interest costs and freeing up annual cash flow.



Next Steps



September 29, 2026 (Today)

Board Considers Approval of *Letter of Intent*

- Provide update on the proposed partial State Water sale and the proposed Letter of Intent
- Receive public input
- Board of Directors consider public input and approval of non-binding *Letter of Intent* at the publicly noticed meeting

October 2026 – March 2027

Prepare a *Purchase and Sale Agreement* & Perform Public Outreach

- Negotiate and draft a *Purchase and Sale Agreement* in 180 days.
- Perform public outreach and evaluate feedback received
- Conduct environmental review
- Coordinate with Central Coast Water Authority, the State Water contract holder, as needed

Spring 2027

Board Considers Approval of *Purchase and Sale Agreement*

- Board of Directors consider public input and approval of a *Purchase and Sale Agreement* at a publicly noticed meeting

Next Steps



Recommendations

1. That the Board of Directors receive and consider public feedback on the proposed partial sale of the District's State Water contract interests.
2. That the Board of Directors consider authorizing the execution of a *Letter of Intent* (LOI) outlining the principal terms of a proposed transaction whereby the District would permanently sell a portion of its State Water contract interests, inclusive of water supply, water treatment, and conveyance capacity, to Solstra Communities California, LLC for the proposed Solomon Hills Development.
3. That, upon any authorization to execute a Letter of Intent, the Board direct the Ad Hoc Committee, staff, and legal counsel to negotiate a *Purchase and Sale Agreement* with Solstra Communities California, LLC, and to undertake such additional actions as may be necessary to effectuate the transaction, including conducting environmental review and coordinating with the Central Coast Water Authority.



Questions & Discussion

Submit Comments: info@montecitowater.com

Thank you for partnering with us to build a more secure, local, resilient water supply for our community.

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LETTER OF INTENT

September ___, 2026

To: Montecito Water District
c/o Nick Turner, General Manager
583 San Ysidro Road, Montecito, CA 93108

From: Solstra Communities California, LLC
Klaus Hasbo, Chief Executive Officer
1130 East Clark Avenue, Suite 150 #286, Orcutt, CA 93455

Re: Purchase and Sale of 1,400 Acre Feet of State Water Project Contract Interests

Dear Nick:

This Letter of Intent ("**LOI**") sets forth the principal terms of a proposed transaction whereby Montecito Water District ("**Seller**") would sell a portion of its State Water Project water supply contract interests, inclusive of water supply, water treatment, and conveyance capacity, to Solstra Communities California, LLC ("**Buyer**"). This LOI is intended to form the basis of, and establish the material terms for, a subsequent detailed Purchase and Sale Agreement ("**PSA**") to be drafted for signature by the parties incorporating these basic terms and any necessary additional terms.

ARTICLE 1 — PARTIES AND PURPOSE

1. **Parties.**

a. **Seller.** Montecito Water District, a County Water District organized and existing under and pursuant to the California Water Code §§30000 – 33901. Seller is a member of the Central Coast Water Authority ("**CCWA**") with contractual rights to 3,300 acre feet ("**AF**") of State Water Project ("**SWP**") contract interests, which includes 3,000 AF of Table A water and a 10% Drought Buffer equal to 300 AF.

b. **Buyer.** Solstra Communities California, LLC, a California limited liability company. Buyer is the owner of certain land located in the unincorporated area of northern Santa Barbara County ("**County**") just south of the community of Orcutt and is in the process of seeking land use entitlements and approvals from the County for construction of up to 4,000 dwelling units and ancillary commercial uses (the "**Solomon Hills Project**").

2. **Purpose.** The purpose of this LOI is to outline the principal terms of the proposed PSA and to provide a good-faith basis for negotiation and finalization of a PSA between the parties. Except for the provisions in Article 7 of this LOI, which the parties explicitly agree are made

binding by this LOI, all other terms and conditions of this LOI are non-binding and are intended as a statement of intent only, and do not contain all of the principal terms of the transactions contemplated by this LOI, some of which remain to be negotiated between the parties. No party will be legally bound to proceed with the transactions contemplated hereby unless and until a definitive PSA has been negotiated and signed by such party, and then only upon the terms and conditions set forth in such definitive agreement.

ARTICLE 2 — PROPERTY

1. **Property Description.** The property proposed to be sold and permanently transferred by Seller to the Buyer Assignee (as defined in Article 5) is solely the following (collectively, the "**Property**"):

a. **SWP Contract.** A total of 1,400 AF of SWP contract interests held by Seller consisting of 1,275 AF of SWP Table A water including a corresponding proportional amount of conveyance and treatment capacity, and 125 AF of SWP drought buffer. This total volume of 1,400 AF represents approximately 42.4% of the current total SWP contract interests held by Seller, through water supply agreements with CCWA. Transferred conveyance and treatment capacity is limited to the SWP Table A water volume of 1,275 AF and excludes the SWP drought buffer.

b. **Semitropic Groundwater Banking and Exchange Program.**

i. **Groundwater Storage.** A total of 550 of Seller's shares in the Stored Water Recovery Unit of the Semitropic Groundwater Banking and Exchange Program ("**Semitropic**"). In accordance with the terms of the agreement between the Seller and Semitropic, each share provides a right to recharge, store and recover one (1) acre foot of water per year and accumulate a total of three (3) acre feet of stored water in the program.

ii. **Stored Water.** A total of 1,650 AF of SWP water stored and currently held by Seller in Semitropic.

c. **Excluded Assets.** Any SWP Contract and Semitropic interests held by Seller that are not defined as a component of the Property are expressly excluded from this transaction.

ARTICLE 3 — PURCHASE PRICE AND PAYMENT TERMS

1. **Purchase Price.** The purchase price for the Property is Thirty-Seven Million One Hundred Thousand Dollars (\$37,100,000.00) (the "**Purchase Price**"), which is comprised of a base price of Thirty-Six Million Five Hundred Thousand Dollars (\$36,500,000.00) and transaction cost reimbursement of Six Hundred Thousand Dollars (\$600,000.00). The Purchase Price is payable in cash to Seller at Financial Closing for the entire Property, subject to Article 6, Provision 2.

2. **Price Escalation.** The Purchase Price will escalate monthly using the change in the Consumer Price Index (CPI) for Water and Sewerage Maintenance, based on the U.S. city average, as published by the Bureau of Labor Statistics. This escalation in Purchase Price will be applied to a base price of Thirty-Six Million Five Hundred Thousand Dollars (\$36,500,000.00) beginning at execution of the PSA and continuing through Financial Closing.

3. **Assumption of Obligations.** The Buyer Assignee will assume all rights to and obligations for the Property, on and after the date of the Financial Closing including the SWP Table A water and drought buffer, and all CCWA and DWR fixed and variable costs for the entire Property, with all such annual costs for the year in which Financial Closing occurs to be prorated as of the date of Financial Closing. From execution of this LOI through Financial Closing, the Seller will retain all rights to and obligation for the Property.

ARTICLE 4 — TRANSACTION SCHEDULE AND CLOSING

1. **Execution of PSA and Transfer Documents.** The parties shall use reasonable efforts to execute a PSA and related CCWA transfer documents within one hundred eighty (180) days of the date of this LOI. Such transfer documents may include, but are not limited to, confirmation that there is a defined (i.e., CCWA-approved) mechanism to transfer the Property to the Buyer Assignee. The PSA will include customary terms for a transaction of this proposed type.

2. **Due Diligence Period.** Buyer shall complete its due diligence activities to confirm the suitability of the Property for its intended purpose within forty-five (45) days after the PSA is executed (the "**Due Diligence Period**"). During the Due Diligence Period Seller will use reasonable efforts to assist Buyer in confirming, to Buyer's satisfaction, that there is a defined (i.e., CCWA-approved) mechanism to transfer the Property to the Buyer Assignee. This mechanism shall be developed in consultation and cooperation with CCWA.

3. **Final Approval of Discretionary Entitlements.**

a. **Discretionary Entitlements.** The term "Discretionary Entitlements" as used herein means any permits, approvals, licenses, variances, conditional use permits, site plan approvals, development agreements, tentative subdivision maps, parcel maps, or other land use entitlements or authorizations required from or issued by the County or any other governmental authority necessary to proceed with construction of the Solomon Hills Project and/or the delivery of water thereto.

b. **Final Approval.** The term "Final Approval" as used herein means expiration of all statutes of limitation applicable to challenging any Discretionary Entitlements necessary to proceed with construction of the Solomon Hills Project and, if litigation is filed challenging any Discretionary Entitlements, final adjudication and/or other resolution of such litigation confirming and/or otherwise upholding the Discretionary Entitlements.

c. **Cooperation.** Seller agrees to cooperate with Buyer, at Buyer's sole cost and expense, in obtaining any regulatory or dedication approvals to transfer and use the Property, and Seller will, at Buyer's reasonable request and in Seller's discretion, sign any applications necessary for approvals. In response to any questions or requests for additional information, Seller will reasonably cooperate by providing additional information or documents. Buyer will be responsible for all costs associated with the transaction, including but not limited to environmental review under the California Environmental Quality Act.

d. **Condition Precedent.** Buyer securing Final Approval of all Discretionary Entitlements is a condition precedent to Financial Closing.

4. **Financial Closing.**

a. **Timing.** "Financial Closing" will occur only after all conditions precedent, contingencies, due diligence, deposits, designations, and Discretionary Entitlements have been achieved, completed, obtained, and/or received. Financial Closing shall be scheduled within two hundred and seventy (270) days of "Final Approval".

c. **Extension.** The 270-day timeline may be extended upon mutual consent of Buyer and Seller.

d. **Seller's Termination Right.** Seller may terminate the PSA if Financial Closing has not occurred within 270 days of "Final Approval" as defined above, subject to any extension agreed upon by the parties.

ARTICLE 5 — BUYER ASSIGNEE

1. **Definition.** The "Buyer Assignee" shall be a local water purveyor identified by Buyer to serve the planned Solomon Hills Project. Upon Financial Closing, Buyer shall assign the Property to Buyer Assignee with the Seller's consent for the purpose of providing retail water service to customers at the Solomon Hills Project. Seller's consent to the assignment shall not be unreasonably withheld.

2. **Qualification.** The Buyer Assignee shall be either a "Member" or "Project Participant" of CCWA, as defined and determined by CCWA or as may be approved by CCWA.

3. **Designation Timeline.** Buyer shall, no later than one hundred and eighty (180) days following execution of the PSA, designate in writing to Seller the local water purveyor (the "Buyer Assignee") to assume all rights and obligations for the Property from Buyer under the PSA pursuant to an Assignment and Assumption Agreement. The 180 days that Buyer has to designate may be extended up to an additional 180 days at Buyer's request and with Seller's consent, which consent shall not be unreasonably withheld.

4. **Condition Precedent.** The designation of Buyer Assignee and execution of an Assignment and Assumption Agreement between Buyer and the Buyer Assignee, reasonably acceptable in form and substance to Seller, are conditions precedent to Financial Closing.

ARTICLE 6 — EARNEST MONEY AND TRANSACTION DEPOSITS

1. **Earnest Money.**

a. **Amount and Deposit.** Upon execution of the PSA, Buyer shall deposit into an interest-bearing escrow account earnest money in the amount of Four Hundred Thousand Dollars (\$400,000.00) (the "Earnest Money"). Instructions for the interest bearing escrow account shall be mutually agreed to by Buyer and Seller.

b. **Release to Seller.** The Earnest Money and any earned interest shall be released to Seller at the conclusion of the 45-day Due Diligence Period.

c. **Release to Buyer.** If, prior to the end of the 45-day Due Diligence Period, Buyer confirms in writing that there is no defined mechanism to transfer the Property to a Buyer Assignee, then any PSA entered into by and between Seller and Buyer shall be null and void, and the Earnest Money together with earned interest shall be released back to Buyer.

d. **Application to Purchase Price.** Earnest Money and any earned interest shall be applied to the Purchase Price at Financial Closing.

e. **Non-Refundable.** Following the conclusion of the 45-day Due Diligence Period, if for any reason Financial Closing does not occur, the Earnest Money is non-refundable and will be retained by Seller.

2. **Transaction Costs Deposit.**

a. **Amount and Deposit.** Buyer shall deposit the sum of Six Hundred Thousand Dollars (\$600,000.00) (the "**Deposit**") into an interest-bearing escrow account with a mutually agreed-upon third-party escrow agent. Instructions for the interest bearing escrow account shall be mutually agreed to by Buyer and Seller.

b. **Payment Schedule.** The Deposit shall be paid to the escrow account in two (2) installments

(i) An initial installment of Three Hundred Fifty Thousand Dollars (\$350,000.00) due upon execution of this LOI; and

(ii) A second installment of Two Hundred Fifty Thousand Dollars (\$250,000.00) due upon execution of the PSA.

c. **Application Toward Purchase Price.** In the event Seller and Buyer execute a PSA and Financial Closing occurs, the full Deposit and any interest earned thereon shall be applied toward the Purchase Price at Financial Closing.

d. **Termination and Expense Reimbursement.** If, for any reason, a PSA is not executed by both Seller and Buyer and/or negotiations are terminated by either Seller or Buyer, for any reason or no reason, the initial installment of Three Hundred Fifty Thousand Dollars (\$350,000.00) and any interest earned thereon shall be released to Seller in full within ten (10) days of termination of negotiations. Such reimbursement is made to cover Seller's costs and expenses incurred in connection with exploration and evaluation of the non-consummated transaction. Buyer and Seller shall take all steps necessary to instruct the third-party escrow agent to release the funds to Seller as contemplated in this paragraph.

ARTICLE 7 — BINDING PROVISIONS

The parties expressly agree that the following provisions of this LOI shall become contractually binding upon execution of this LOI:

1. **Exclusivity and Non-Circumvention Regarding Water Supply.** From the date of execution of this LOI through execution of the PSA (the "**Exclusivity Period**"), Buyer and Seller each agree that they will deal exclusively with the other regarding a transaction of the Property.

During the Exclusivity Period, Buyer, its agents, and affiliates shall not directly or indirectly negotiate, solicit, or entertain proposals from any third party regarding alternative water supply options, nor initiate new applications for alternative water sources, with the intent to substitute for or compete with the supply provided by Seller. Similarly, during the Exclusivity Period, Seller, its agents, and affiliates shall not directly or indirectly negotiate, solicit, or entertain proposals from any third party regarding the permanent sale or transfer of the Property. Nothing herein prevents Buyer from engaging with third parties during the Exclusivity Period regarding development of alternative water supply options not intended to substitute for or compete with the supply provided by Seller but instead intended to enhance the reliability of the Property. Nothing herein prevents Seller from engaging with third parties during the Exclusivity Period, to negotiate, undertake and/or effectuate short term sales or transfers of water defined as the Property. Furthermore, nothing herein prevents Seller from operating in its ordinary course of business.

2. **Transaction Costs and Expenses.** The provisions set forth in Article 6.2.b(i) and 6.2.d of this LOI regarding the “Termination and Expense Reimbursement” shall become binding and non-negotiable upon execution of this LOI.

3. **Termination.** Except for the provisions set forth in Article 7 of this LOI, each party hereby reaffirms its intention that this LOI as a whole is not intended to constitute, and shall not constitute, a legal and binding agreement, contract or obligation, between any of the parties, and is not intended to be relied upon by any party as constituting such. Accordingly, the parties mutually agree that any party to this LOI may unilaterally withdraw from negotiations or dealings concerning the proposed transaction at any time, for any or no reason, at the withdrawing party’s sole discretion by notifying the other party of the withdrawal in writing. Notwithstanding the foregoing, it is mutually agreed, however, that the withdrawal terms of any PSA shall control over the right to withdraw from dealings or negotiations contained in this paragraph of the LOI.

4. **LOI Distribution.** The parties agree that this LOI is a public document which Buyer may distribute to the County, other governmental authorities, and local water purveyors, for the purpose of advancing and ultimately securing Discretionary Entitlements for the Solomon Hills Project. Seller does not make any representation, guarantee, or warranty that this LOI is sufficient for the above-stated purpose, or to achieve the above-stated purpose, and any use of this LOI for that purpose is at the sole discretion and risk of Buyer.

ARTICLE 8 — MISCELLANEOUS PROVISIONS

1. **Non-Binding Nature.** Except for the provisions expressly designated as binding in Article 7 of this LOI, all remaining terms and conditions of this LOI are non-binding and subject to the final agreement of the parties as expressed in the PSA. The provisions of Article 8.2 through 8.6 are statements of the intent of the Parties with respect to the administration and interpretation of the LOI.

2. **Governing Law.** This LOI and the rights and obligations of the parties hereunder shall be governed by and construed in accordance with the laws of the State of California, without regard to conflicts of law principles. Venue for any action, claim, demand or dispute concerning this LOI shall be in the Superior Court of the County of Santa Barbara. Nothing in this LOI shall obviate Government Code claim requirements as to any suit for money or damages against Seller related to this LOI.

3. **Counterparts.** This LOI may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument. Execution and delivery of this LOI by electronic transmission of a facsimile or PDF signature page shall be as effective as execution and delivery of a manually signed original.

4. **Entire Agreement.** The Binding Provisions of this LOI constitute the only agreement between the parties with respect to the proposed transaction and supersede all prior negotiations, understandings, and agreements between the parties, whether written or oral, as to the subject matter of those Binding Provisions.

5. **Amendment.** The Binding Provisions of this LOI may be amended or modified only by a written instrument executed by both parties.

6. **Severability.** If any provision of this LOI is held to be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

If the foregoing accurately reflects your understanding of the principal terms of the proposed transaction, please indicate your acceptance by signing below and returning an executed copy of this LOI to the undersigned.

SOLSTRA COMMUNITIES CALIFORNIA, LLC

By: _____

Name: Klaus Hasbo

Title: Chief Executive Officer

Date: September __, 2026

ACKNOWLEDGED AND AGREED:

MONTECITO WATER DISTRICT

By: _____

Name: Brian Goebel

Title: Board President

Date: September __, 2026

By: _____

Name: Nick Turner

Title: Board Secretary

Date: September __, 2026

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