

La Cumbre Mutual Water Company

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May 2024

Dear Stockholders:

We are writing to update you on the status of our water supply from the State of California Department of Water Resources (DWR). You may recall that in our last letter in February, DWR announced our initial State Water Project allocation for the 2024 Water Year is 15%. In mid-April we received an increase to 40% of our allocation. Our yearly allocation at 100% is 1,000 Acre Feet plus a 100 Acre Foot drought buffer. Although the State has seen significant rainfall this year and an increased snowpack, our allocation is lower than anticipated because of regulatory and environmental restrictions.

The La Cumbre Mutual Water Company appreciates what our stockholders have done over the past few years to conserve water, and we will continue to ask for your assistance in the coming months and years. On the reverse side of this letter, you will find the 2024 Master Plan Update. It is the second in a series of information summaries that we are including in our billing, crafted by board members Jane Lodas and Rob Thomson.

Please save the date for the 2024 Annual Stockholder Meeting. This year the meeting will be held in person and there will be no remote participation. Our Bylaws require the Annual Meeting to take place on the second Tuesday in June, which is June 11, 2024. The meeting will begin at 10:00AM and will be held at the La Cumbre Country Club.

We are grateful for your ongoing support and commitment to the La Cumbre Mutual Water Company. By working together, we can ensure that our water resources remain healthy and sustainable for generations to come. As always, if you have any questions or comments, please feel free to reach out to me directly. My telephone number is 805-331-7764, and my email address is alex@dgcgo.com. Until then, I remain,

Sincerely yours,



Alex Rodriguez
Board President

2024 MASTER PLAN UPDATE

The La Cumbre Mutual Water Company's (Water Company) Master Plan identifies the need for additional water supplies and to maintain and improve our potable water distribution and delivery system to meet the needs of our customers. The primary purpose of our system is to provide water for human consumption, sanitation, and fire safety while complying with evolving applicable regulatory requirements. Our delivery infrastructure includes pipes, pumps, reservoirs, and treatment plants. To maintain our water delivery system and improve or replace aging facilities, the Water Company (with assistance from other professionals) developed and approved a system-wide Master Plan. The 2023 version of the Master Plan provided a comprehensive, technical review of our system, as well as staffing and facilities needed to operate and maintain.

The 2023 version of the Master Plan also considered how the Water Company water supply and delivery infrastructure could be maintained, replaced, augmented, or otherwise modified to continue to reliably meet today's water needs and those expected in the future. The Master Plan included a series of recommended projects and actions to maintain the reliability of service including the need to repair/replace aging water delivery infrastructure. The Water Company is preparing a 2024 Update to the Master Plan (Update) that will provide a snapshot of progress made, and revisions to, the recommended projects included in the Master Plan and information on important revisions.

Water delivered to our customers is acquired from several sources. These sources are local groundwater, imported surface water, and reclaimed water. The cost and availability of most of these supplies varies from year-to-year based on the local and Statewide precipitation pattern, boom-and-bust drought patterns brought on by climate change, regulatory requirements, and other constraints. Water allocations from the State Water Project vary from year to year. The Update will also summarize the progress made on increasing the reliability of our water supplies.

The 2024 Update also describes planned pipelines and facilities that may be developed by the Water Company to meet the expected water demands and institutional constraints in the future. Key projects included:

- increased water storage by the construction of a new reservoir and/or expansion of existing reservoirs
- new and replacement wells needed to sustainably pump water from local groundwater resources
- new wells, treatment facilities and pipelines to implement the planned aquifer storage and recovery system
- a new 10" pipeline directly connecting the City of Santa Barbara system to the Water Company
- revitalization of Well #18 and a new raw water pipeline
- new, permanent water treatment facilities adjacent to Well #17

Since these projects require a significant investment, the Water Company is evaluating financing options for the construction of the planned projects. Possible financing options include:

- 1) Stockholder Assessments: a per-acre/per-share assessment to secure needed capital.
- 2) Water Rate Increases.
- 3) Traditional financing – securing traditional debt financing from institutions (banks). This will require a modification to the Water Company Bylaws to account for an increased amount of debt held by the Water Company.

Implementation of either Option 1 or Option 2 can pay for the projects within approximately ten years (the length of the construction period). The assessments, whether one-time or annual for a set period, would likely be a burden on many stockholders but would reduce or eliminate interest charges accrued by the Water Company. Option 1 or Option 2 would likely be the least cost to the Water Company, while Option 3 would have less of a financial impact on stockholders. The benefit of these and other projects would extend for decades. In order to implement Option 3, the shareholders would have to modify the Bylaws of the Corporation to allow the Water Company to seek a loan for the construction of new facilities and be able to spread the cost of that construction over several years to future users of the system improvements.