Limoneira’s Water Strategy

“When the well is dry, we know the worth of water,” Ben Franklin advised. He could have been talking about the 21st Century. Today it should come as no surprise to anyone that, whether land is under active farming or being readied for urban development, the availability and cost of water are crucial to business plans and economic success.

Over the past decade, the availability of and the potential for rising costs of water that is largely supplied by public districts is believed to be a threat both to agriculture and to future urban development. At Limoneira, we have long understood that land with water is worth considerably more than land without it.

Water is often called a public resource, but it is also subject to private ownership, which comes with a responsibility of stewardship. Our land use practices are efficient, and our water use history is long and exemplary. We take our stewardship responsibility seriously and fully understand that our use of an important public natural resource is not only the essence of a public private partnership, but it is also our legacy.

Through our land position, historic water use, sustainable land use practices and by making investments in infrastructure, Limoneira has developed long-term, firm and reliable rights to water sufficient to meet any of our land use objectives. The fair market value of the Company should increase as the investment community begins to appreciate the linkage between Limoneira’s water position and its long-term business objectives.

The value of water has escalated at rates greater than 6.5 percent per annum since at least the mid-1960s. There is no expectation that these historic increases, which are translated into higher costs for many companies, will be curtailed. In the face of forecasted increased water supply scarcity and cost, what distinguishes Limoneira from our competitors is our ability to directly and indirectly monetize the value of our water position through enhanced competitiveness positioning and profitability.

We expect to capitalize on our position with each of the following opportunities:

- Less expensive water supply costs. Imported water for the Bay-Delta and the Colorado River is becoming increasingly expensive. Regardless of whether there is an engineering solution to present infrastructure problems, there are no guarantees that quantities will be restored to earlier delivery levels or that environmental issues will be resolved. In any event, all imported water supply costs are expected to rise dramatically over the next several decades. By way of contrast, Limoneira holds rights

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to local groundwater and surface water for which development costs have largely been previously paid.

- High reliability of water (no shortages). Imported supplies are subject to ongoing environmental and regulatory challenges. There is no scenario where these risks can be eliminated. On the other hand, Limoneira has actively maintained sustainable land use practices that can be amply supplied from the company’s existing sources of supply.

- Long-term water to support transitional land uses (ag to urban). Land development in the West requires the demonstration of a long-term reliable water supply, sufficient to meet the water supply needs of the land for a minimum of twenty years. Land without water rights and water supplies will struggle to satisfy this legal/planning requirement. Limoneira’s historical water position will fulfill even the most stringent of tests for water, thereby ensuring that new development will not be constrained by the absence of water supply.

- Local water transfers. Water transfers and exchanges can create a free market short, interim and long-term return on the redistribution of water. Limoneira has the good fortune of possessing access to a variety of surface water and groundwater supplies that can be traded for compensation in those years where the water is not required for Limoneira’s operations. The company’s opportunity for success in carrying out water transfers will be enhanced by conditions of increased scarcity. Moreover, our ability to transfer water is inherently more feasible than in other parts of California because they would be local and, in many cases, conducted consistent with over-arching regulatory plans.

Water infrastructure agreements. It’s one thing to have access to water rights. It’s another thing to get the water from where it originates to where it is needed. Limoneira enjoys rights to water related infrastructure that will allow it to integrate its water supplies and to move water from its point of origin to its highest value use.
October 1, 2018

Via Email

Derrrik Williams
1232 Park Street, Suite 201B
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Re: Paso Robles Basin GSP

Dear Derrrik:

It was a pleasure to meet you at the groundwater sustainability planning meeting at Windfall Farms on September 19, 2018. As I briefly mentioned at the end of the meeting, Windfall Farms is willing to offer wells on our property for monitoring by the Cooperative Committee. Several of the wells are not in use, and thus, may be well situated to monitor static water levels in the basin. Please contact Lee Nesbitt, our general manager (805-239-0711; lNesbitt@limoneira.com), to coordinate this monitoring.

On a broader note, I appreciated your informative presentation of the options for managing groundwater resources in the basin. You asked for our opinion concerning where water levels should be maintained in the area. We wish to see water levels maintained close to current conditions. We could tolerate slightly lower levels if this is necessary to effectuate a gradual transition to sustainable groundwater management, but appreciate that production will need to be limited to achieve sustainable management consistent with SGMA’s mandates. We do not anticipate that water levels will be materially raised in the near term and expect that the costs of achieving such result would be prohibitive. Additionally, we would certainly support the County looking at ways to import water utilizing available underground storage.

We look forward to further cooperation with you and the rest of the Cooperative Committee in developing an effective GSP for the basin.

Sincerely,

Alex M. Teague
Senior Vice President/COO
Limoneira Company

cc: Lee Nesbitt, Windfall Farms
    Russell Mclothlin, Brownstein Hyatt Farber Schreck, LLP
    Debbie Arnold, 5th District Supervisor