

H E A R S T *corporation*

February 1, 2017

Board of Directors
San Simeon Community Services District
111 Pico Avenue
San Simeon, CA 93452
Attn: Charlie Grace

Martin N. Cepkauskas
Director of Real Estate
Western Properties

Re: Non-Binding Letter of Intent Regarding Proposed Relocation and Expansion of Existing Water Reservoir Easement

Dear Board of Directors:

This letter outlines the preliminary terms by which Hearst Holdings, Inc. (“Hearst”) is willing to negotiate the grant by Hearst to San Simeon Community Services District formerly known as San Simeon Acres Community Services District (the “District”) of a modification of that certain easement in gross for a water reservoir and related purposes (the “Existing Easement”) originally granted to the District by Hearst’s predecessor in interest, The Hearst Corporation, pursuant to that certain Easement Agreement and Deed dated June 9, 1972, and recorded on June 21, 1972 in the Official Records of San Luis Obispo County, California, in Volume 1674, at Page 336, Document No. 19530 (the “Original Easement Deed”).

Following the recordation of the Original Easement Deed, the real property subject to the Existing Easement (the “Existing Easement Area”) was conveyed to Hearst. The Existing Easement Area, and certain other property owned by Hearst, are now encumbered by a conservation easement (the “Conservation Easement”) held by California Rangeland Trust, a California nonprofit public benefit corporation (“CRT”), pursuant to that certain Deed of Conservation Easement and Agreement Concerning Easement Rights recorded on February 18, 2005 in the Official Records of San Luis Obispo County, California, as Instrument No. 2005013388, as assigned pursuant to that certain Assignment and Assumption of Conservation Easement and Related Grant Agreement (East Side Conservation Area) recorded on February 18, 2005 in the Official Records of San Luis Obispo County, California, as Instrument No. 2005013391 (as assigned, the “Conservation Easement Agreement”). A copy of the Conservation Easement Agreement is provided herewith for your reference.

Hearst understands that the District proposes to relocate the exiting Easement area approximately 100 yards toward the east and modify the Existing Easement to expand the Existing Easement Area approximately five (5) acres (the “Proposed Easement Expansion”) to allow for one or more additional water tanks (the “tank(s)”), and additional pipeline(s) and other appurtenances therefor (collectively with the Tank(s), the “Proposed Expansion Facilities”). In addition to relocation and expansion of the Existing Easement Area, such Proposed Easement Relocation and Expansion would also require an increase in the scope of the Existing Easement.

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Conditions to Hearst's final approval and grant of the Proposed Easement Expansion include the following:

1. Design and Siting of Proposed Expansion Facilities. In no event shall the aggregate capacity of all Tank(s) to be included in the Proposed Easement Expansion exceed 1 million gallons. In addition, the Proposed Expansion Facilities shall be designed and sited to ensure protection of the existing viewshed from State Highway 1, the Hearst Ranch facilities and other "Protected Views" (as defined and provided in the Conservation Easement), all as approved by Hearst in its sole and absolute discretion. As a condition to such approval, Hearst may require the District to provide and maintain vegetative screening of the Proposed Expansion Facilities, or portion(s) thereof.

2. CRT Approval. Approval by CRT, as the holder of the Conservation Easement, is required pursuant to the Conservation Easement Deed. Hearst expects that, as conditions to such approval, CRT may engage third party consultant(s) to confirm that the Proposed Easement Expansion will not impact the "Conservation Values" (as defined in the Conservation Easement Agreement) protected under the Conservation Easement, and may engage legal counsel to review and approve document(s) pertaining to the Proposed Easement Expansion including, without limitation, any amendments or other modifications to the Original Easement Deed and/or the Conservation Easement Agreement (collectively, the "Easement Documentation").

3. Approval by Hearst of Report from Hearst Rangeland Ecologists. Hearst, upon mutual agreement with the District may require that its Rangeland Ecologists, Sage Associates (Orrin Sage and Cindy Sage), conduct a study to confirm the impacts of the Proposed Easement Expansion. If Hearst requires such report, then approval by Hearst, in its sole and absolute discretion, of the results of such report will be a condition to Hearst's approval of the Proposed Easement Expansion.

4. Entitlements for Proposed Easement Expansion. The District, at its cost, shall be responsible for all applicable regulatory review and approval processes, and obtaining all requisite entitlements, for the Proposed Easement Expansion including, without limitation, the following (collectively, the "Entitlements"):

- (a) Compliance with applicable County, water board and other permitting requirements;
- (b) California Environmental Quality Act (CEQA) compliance; and
- (c) California Coastal Commission approval.

District shall provide Hearst the opportunity to review and approve (such approval not to be unreasonably conditioned, withheld or delayed) all documentation required to complete the Entitlements prior to finalizing and/or filing such documentation with the applicable agencies. At no material cost, Hearst shall cooperate with the District's efforts to obtain the Entitlements by signing any required applications as the owner of the subject property (to the extent applicable). In no event shall any terms or conditions be imposed by any governmental agency against Hearst, Hearst's water rights, the Hearst properties, or Hearst's operations in connection with the Proposed

Easement Expansion or the Entitlements, or shall Hearst assume any obligation to pay any fee, cost, expense or other monetary obligation in connection therewith, without Hearst's prior written approval (such approval may be granted or withheld in Hearst's sole and absolute discretion).

5. Water Rights. For all water to be used in connection with the Proposed Expansion Easement, the District shall exercise its own water rights including, without limitation, Amended License 12272 (Application 19095) issued by the California State Water Resources Control Board. The District shall not rely or seek to rely upon, or claim any right to exercise, any water rights of Hearst, or negatively impact any of Hearst water rights or use of their water rights. The District, at its cost, shall be responsible for obtaining all requisite modifications to its water rights in connection with the Proposed Expansion Easement.

6. Costs of Proposed Easement Expansion. All costs associated with the District's Proposed Easement Expansion shall be paid by the District including:

(a) Any reasonable, demonstrated and documented, out-of-pocket costs paid or to be paid by CRT to a third party (including a reasonable allocation of internal review and/or internal personnel costs) directly related to the Proposed Easement Expansion, such as reasonable costs of review of the Entitlements and/or the Easement Documentation by any third party consultants retained by CRT including, without limitation, the costs provided for in Section 2 above; and

(b) Any reasonable, demonstrated and documented, out-of-pocket costs paid or to be paid by Hearst to a third party (does not include internal review or internal personnel costs) directly related to the Proposed Easement Expansion, such as reasonable costs of review of the design and siting of the Proposed Expansion Facilities as provided in Section 1 above, the Entitlements and/or the Easement Documentation by any third party consultants retained by Hearst including, without limitation, the costs provided for in Section 3 above and legal counsel fees and costs;

(c) All costs for the preparation and processing of the Entitlements as provided in Section 4 above; and

(d) All costs for obtaining requisite modifications to the District's water rights as provided in Section 5 above.

7. Annual Payment by District.

(a) In addition to the amounts to be paid by the District pursuant to Section 6 above and subject to Section 7(b) below, the District shall pay to Hearst an annual payment in the amount of Two Thousand Five Hundred Dollars (\$2,500) (an "Annual Payment"), which Hearst and the District have agreed is the fair value for the additional rights to be granted by Hearst to the District under the Proposed Easement Expansion.

(b) In addition to, or in lieu of Annual Payments, Hearst and the District may agree in writing to other cooperative terms, conditions, and agreements.

8. Wastewater Treatment Service to Hearst.

(a) The parties acknowledge that the District's facilities existing within the Existing Easement as of the date hereof has the capacity to treat up to 40,000 gallons per day ("gpd"), and that the District currently serves the buildings set forth on the schedule attached hereto as Exhibit A (the "Existing Hearst Usage"). The parties further acknowledge that the Existing Hearst Usage is approximately between 3,000 to 5,000 gpd. The District covenants and agrees to maintain the Existing Hearst Usage.

(b) Hearst shall have the right to cause the District to increase the Existing Hearst Usage up to 15,000 gpd at the applicable District connection fee and service rate (the "Increased Usage Option"). Hearst shall exercise the Increased Usage Option by providing written notice thereof to the District. In no event shall the District be required to allocate any increase in usage to Hearst unless and until Hearst exercises the Increased Usage Option as provided in this Section 8(b), and the District then has remaining available capacity for such increase (or portion thereof). The parties acknowledge and agree that, notwithstanding Section 8(b) above, if Hearst exercises the Increased Usage Option but the District's then remaining available capacity is insufficient to satisfy in full the usage requested by Hearst, then the District shall not be required to expand its facilities to meet such requested usage increase unless Hearst agrees to pay for Hearst's proportionate cost of such expansion on terms and conditions approved by Hearst and the District. If the District expands its facilities in accordance with the preceding sentence, then (i) the District shall provide wastewater service to Hearst up to an aggregate maximum of 15,000 gpd, and (ii) for any service requested by and provided to Hearst over 15,000 gpd, Hearst shall be required to pay its proportionate share of service on terms and conditions not less than current connection fees and service rates and approved by Hearst and the District.

(c) The District represents and warrants to Hearst that it has the legal authority to undertake the service obligations as contemplated in this Section 8.

9. District Election to Proceed; Negotiation and Approval of Easement Documentation.

(a) The parties acknowledge that the District is in the preliminary stages of its review regarding the viability of the Proposed Easement Expansion for the District's intended use thereof, and that the terms and conditions set forth herein will require further review and investigation by the District. Not later than December 31, 2018~~6~~, the District shall notify Hearst in writing of the District's election to proceed or not to proceed with the Proposed Easement Expansion as contemplated herein. If the District fails to provide such notice by such deadline, the District shall be deemed to have elected not to proceed with the Proposed Expansion Easement as contemplated herein. If the District notifies Hearst that it elects not to proceed (or is deemed to have made such election not to proceed in accordance with the preceding sentence) with the Proposed Easement Expansion as contemplated herein, then this letter shall be of no further force or effect. If the District timely notifies Hearst of its election to proceed with the Proposed Easement Expansion (the "District Approval Notice"), then the parties shall proceed as provided in Section 9(b) below.

(b) As soon as practicable after the District's delivery of the District Approval Notice, Hearst and the District shall meet and confer to negotiate and agree upon an outline of the

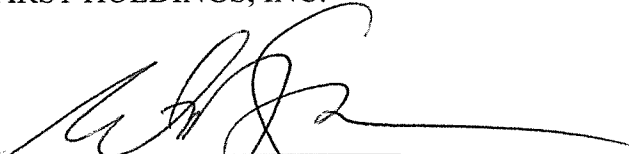
specific terms and conditions to be included in the Easement Documentation (including, without limitation, the terms and conditions set forth herein). Upon agreement by the parties of such outline, Hearst shall provide to the District an initial draft of the Easement Documentation. Promptly upon receipt of such initial draft, the District shall provide to Hearst written comments to such initial draft. Thereafter, the parties shall use commercially reasonable efforts to agree on the final form of the Easement Documentation. Final approval by Hearst of the Easement Documentation shall be in Hearst's sole and absolute discretion.

The proposed terms and conditions regarding the Proposed Easement Expansion as set forth in this letter are not intended by the parties to create any binding rights, obligations or liabilities of either Hearst or the District, but instead represent the present intentions of such parties. This letter is provided solely as a means of negotiating between Hearst and the District. Neither Hearst or the District shall incur any obligation or liability to the other unless and until Hearst and the District execute final Easement Documentation providing for the Proposed Easement Expansion. Neither Hearst or the District are obligated by this letter to negotiate in good faith to reach such final Easement Documentation, and shall not be liable for any expenses incurred or opportunities foregone by any other party in reliance on this letter.

If the terms and conditions set forth above are acceptable, please sign a copy of this letter in the space provided below, and forward such signed letter to my attention. Thank you for your courtesy and cooperation.

Sincerely,

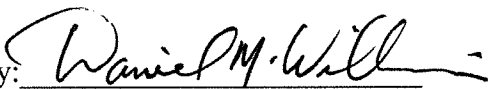
HEARST HOLDINGS, INC.

By: 
 Name: Martin N. Cepkauskas
 Title: Director of Real Estate

cc: Russell J. Austin (via email)

AGREED AND ACCEPTED on 13 FEBRUARY, 2017.

SAN SIMEON COMMUNITY SERVICES DISTRICT

By: 
 Name: DANIEL M. WILLIAMS
 Title: CHAIRMAN SAN SIMEON CSD