

● **Board of Directors**  
**Water Planning, Quality and Resources Committee**

July 10, 2001 Board Meeting

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**9-3**

**Subject**

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Approve Principles of Agreement for a Land Management, Crop Rotation and Water Supply Program with Palo Verde Irrigation District, and appropriate \$500,000 for the preparation of environmental documentation and other preliminary activities for the Program (Appropriation No. 15368)

**Description**

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At the June 2001 Water Planning, Quality and Resources Committee meeting, Metropolitan staff described Principles of Agreement negotiated with Palo Verde Irrigation District (PVID) for a Land Management, Crop Rotation and Water Supply Program (Program). Staff now seeks the Board's approval of these principles and authorization to fund the preparation of the environmental documentation for the Program as required under the provisions of the California Environmental Quality Act (CEQA). **Attachment 1** contains the principles. PVID's Board of Trustees is expected to consider the principles during its early July 2001 meeting.

In 1992, Metropolitan and PVID successfully implemented a two-year program that serves as a basis for the currently proposed Program. Implementation of the new Program would provide Metropolitan with critical water supply insurance as other supply and storage programs are put in place, and significantly add to the diversity and reliability of Metropolitan's short- and long-term water supply. Metropolitan would benefit from a highly reliable water supply at a predictable cost. The Program would also provide a desirable forum to cooperatively work with PVID on a number of issues important to Metropolitan, some of which are conditions precedent to the implementation of the proposed Quantification Settlement Agreement.

The principles call for the development of a flexible water supply of 25,000 up to 111,000 acre-feet per year for 35 years through a land management and crop rotation program to be implemented by participating farmers in the Palo Verde Valley. As requested by Metropolitan, farmers would not farm a portion of their farmland, reducing their need for Colorado River water. The annual amount of water developed by the Program would be verified by a committee composed of Metropolitan, PVID, and the U.S. Bureau of Reclamation. The maximum water supply that could be developed would be about 3.63 million acre-feet during the 35-year term while the minimum water supply required to be developed would be 1.76 million acre-feet. The value of this water can be defined in terms of the expected cost of other proposed supplies.

If implemented, Program costs, excluding Metropolitan's administrative costs, would total \$153 per acre-foot if the maximum amount of water (3.63 million acre-feet) is developed, \$168 per acre-foot if 76 percent of the maximum amount (2.77 million acre-feet) is developed, or \$206 per acre-foot if the minimum amount of water (1.76 million acre-feet) is developed.

The financial arrangement yielding the stated dollar per acre-foot costs of the Program is a designed blend of: (1) up-front payment (one-time sign-up payment), and (2) annual payments based on the amount of water to be developed each year. The identified financial arrangement is intended to:

1. Obligate farms and farming operations for 35 years,
2. Provide enough incentive to ensure valley-wide participation,
3. Provide a flexible water supply,
4. Lock in the agreed upon adjustment of 2.5 percent per year for the annual payments over the 35-year term, and

5. Compensate farmers for the short notice of one year when Metropolitan elects to increase or decrease the annual water supply by any specified amount between 25,000 and 111,000 acre-feet.

Metropolitan would compensate farmers with: (1) a one-time sign-up payment of \$3,170 per acre not to be irrigated in any year for up to 29 percent of their farmland for a total sign-up payment of \$84 million, assuming a maximum of 26,500 acres would not be irrigated in a year, and (2) an annual payment of \$550 per acre in any contract year it is not irrigated under the Program, subject to an annual payment adjustment of 2.5 percent. Farmers would be required to: (1) maintain the non-irrigated acres in accordance with approved soil and water management plans, and (2) rotate the non-irrigated acres once every one to three years.

Metropolitan would compensate PVID \$100,000 per year (subject to an annual adjustment of 2.5 percent) for its incremental administrative costs. In addition, Metropolitan would directly fund compensation for local community improvement programs at a present value equivalent of \$6 million. Funds for community programs would be allocated by a committee composed of representatives of Metropolitan, PVID, and members of the valley community, and could be paid in annual payments or divided between up-front payments and annual payments. Special attention would be given to educational and vocational programs.

Two principal types of agreements are contemplated for the Program: (1) Land agreements between Metropolitan and participating farmers, and (2) a Program agreement between Metropolitan and PVID, including provisions for funding community programs.

## **Policy**

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By Minute Item 43767, dated October 18, 1999, the Board approved the use of the October 15, 1999 "Key Terms for Quantification Settlement Among the State of California, IID, CVWD, and MWD" as the basis for completing a new Quantification Settlement Agreement among the parties. Under the Key Terms, Metropolitan could acquire Colorado River water from PVID during the Quantification Period without objection by Imperial Irrigation District and Coachella Valley Water District.

## **CEQA**

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PVID would be the CEQA Lead Agency for the preparation of the environmental documentation pursuant to the California Environmental Quality Act (CEQA). As part of our agreement with PVID, Metropolitan has agreed to assist PVID with the preparation and costs associated with the required CEQA documentation. It is expected that the environmental documentation for the Program would be completed next year at a cost of less than \$500,000. At that time, the Board would be asked to consider the environmental documentation and whether to authorize the Chief Executive Officer to execute the Program's agreements. Program implementation could begin August 1, 2002.

### **Option #1**

The CEQA determination for Option #1 is: Determine that the approval of the Principles of Agreement and funding of the preparation of the environmental documentation is not defined as a project under CEQA because the proposed action involves continuing administrative policies, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines), and because these actions also deal with government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

### **Option #2**

The CEQA determination for Option #2 is: Determine that directing the Chief Executive Officer to renegotiate the Principles of Agreement is not defined as a project under CEQA because the proposed action involves continuing administrative policies, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines).

**Board Options/Fiscal Impacts**

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**Option #1**

Adopt the CEQA determination, approve the Principles of Agreement for a Land Management, Crop Rotation and Water Supply Program with Palo Verde Irrigation District, and appropriate \$500,000 for the preparation of environmental documentation and other preliminary activities for the Program.

**Fiscal Impact:** Up to \$500,000 under Appropriation No. 15368 for the environmental documentation work and other preliminary activities associated with the Program. This appropriation would be funded from General, Revenue Bond or Pay-As-You-Go sources. Execution of the Program agreement and the land agreements would entail fiscal impacts, which would be reported to the Board at the time authorization to enter into such agreements is presented for the Board’s consideration.

**Option #2**

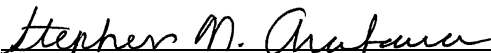

Adopt the CEQA determination and direct the Chief Executive Officer to renegotiate the Principles of Agreement.

**Fiscal Impact:** Additional cost for staff to renegotiate the Principles of Agreement.

**Staff Recommendation**

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Option #1

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| <br>Stephen N. Arakawa<br>Manager, Water Resource Management | 6/22/2001<br>Date |
| <br>Ronald R. Jester<br>Chief Executive Officer             | 6/29/2001<br>Date |

**Attachment 1 – Proposed Principles of Agreement Palo Verde Irrigation District (PVID)/The Metropolitan Water District of Southern California (Metropolitan) Land Management, Crop Rotation and Water Supply Program (Program) (August 1, 2002 – July 31, 2037, 35-year term)**

**Proposed Principles of Agreement**  
**Palo Verde Irrigation District (PVID)/The Metropolitan Water District**  
**of Southern California (Metropolitan)**  
**Land Management, Crop Rotation and Water Supply Program (Program)**  
**(August 1, 2002 – July 31, 2037, 35-year term)**

1. Objectives:

The objectives are to develop a flexible water supply of approximately 100,000 acre-feet per year on average for 35 years, and assist in stabilizing the farm economy within the Palo Verde Valley through sign-up payments and annual payments for water supply. Two types of agreements would be executed: (1) a Program Agreement between Metropolitan and PVID, including provisions for funding local community improvement programs; and (2) Land Agreements between Metropolitan and participating landowners/lessees in the Palo Verde Valley, estimated to total 60 to 70 agreements.

2. Water Supply Development:

- a. Program lands would not be irrigated beginning August 1 of each year through July 31 of the following year (contract year), with the same land not being irrigated for a minimum of a one-year term and a maximum of a three-year term at the landowner/lessee's option.
- b. The maximum area of Program lands that would not be irrigated during each contract year would not exceed 24,000 acres in any 25 years and 26,500 acres in any 10 years during the 35-year Program.
- c. The baseload area of Program lands not to be irrigated for each of the 35 years would be 6,000 acres (approximately 7 percent of irrigated Valley lands – developing approximately 25,000 acre-feet per year).
- d. Metropolitan, upon a minimum of one-year notice, would have the option to increase the non-irrigated area from 6,000 acres up to a maximum of 26,500 acres (approximately 29 percent of irrigated Valley lands – developing approximately 111,300 acre-feet per year). Once increased, the increased area would not be irrigated for a minimum of 2 years, and could only be decreased on a minimum one-year notice by Metropolitan. Metropolitan would exercise the increases such that the average non-irrigated area over the 35 years would equal at least 12,000 acres per year (approximately 13 percent of irrigated Valley lands).
- e. Water conserved each year would be determined by a verification committee composed of Metropolitan, PVID, and the U.S. Bureau of Reclamation (Reclamation).
- f. Subject to a separate agreement between Metropolitan and Reclamation, Metropolitan could provide/sell/exchange the Program water supply to Reclamation. Other than Metropolitan providing such water to Reclamation, no terms of such agreement would be binding on PVID.

3. Water Supply Payments and Costs:

- a. Metropolitan would fund payments to landowners/lessees. The landowner/lessee would be responsible for payment of taxes, PVID water toll payments, vegetation abatement, dust control, and all other costs related to the lands. It would be the responsibility of the landowner/lessee to decide the division of Metropolitan's payments. Metropolitan payments to landowners/lessees would be as follows:
  - (i) A one-time sign-up payment of \$3,170 per acre times the maximum number of acres not to be irrigated in a year (assuming a maximum of 26,500 acres are not to be irrigated in a year, the sign-up payment would total \$84 million). At Metropolitan's option, Metropolitan may either pay the entire amount of \$3,170 per acre on August 1 of the first year of the agreement, or make two payments of \$1,585 and \$1,630 per acre on August 1 of the first and second year of the agreement, respectively. At the landowner/lessee's option (following Metropolitan's initial option), such payment(s) could be spread equally over a period not to exceed five years without interest.
  - (ii) An annual payment of \$550 per acre multiplied by the acreage not irrigated in that year under the agreement, in two equal installments of \$275 per acre on January 31 and July 31. The annual payment would be adjusted by 2.5 percent per year annual compounded escalation following the initial agreement year.
- b. Metropolitan would directly fund compensation for community programs at a present value equivalent of \$6 million. At Metropolitan's option, such amount could be paid in annual payments or could be divided between up-front payments and annual payments. The expenditure of such funds would be determined by a committee composed of representatives of Metropolitan, PVID, and members of the Palo Verde Valley community selected by PVID. Special attention would be given to educational and vocational programs.
- c. Metropolitan would reimburse PVID for administrative costs at \$100,000 per year which would be payable at the end of each contract year (July 31). Said payment would be adjusted by 2.5 percent per year annual compounded escalation following the initial payment.
- d. Metropolitan would fund its contracting costs as well as the maintenance and administration of the agreements with landowners/lessees.

4. Land Management:

- a. A history of farming would be required on the land to the satisfaction of Metropolitan (i.e., land would have been farmed absent the Program). Land that is not irrigated in a year under the Program would not be eligible for payment from State or Federal programs in that year (e.g., a set aside program).
- b. The landowner/lessee would not farm lands that would not have been farmed absent the Program.

- c. The landowner/lessee would be responsible for elimination of vegetation and control of dust, and all other tasks related to the lands.
  - d. The minimum size of a field that would not be irrigated would be 18 water toll acres. Landowners/lessees of smaller farms would be permitted to participate through joint programs they would collectively develop, provided that the specific land that would not be irrigated in each year would be at least 18 water toll acres. Further adjustment could be necessary to recognize individual field sizes, connections to headgates, etc.
  - e. A maximum of 29 percent of any one landowner/lessee's irrigated land in the Palo Verde Valley would not be irrigated in any one year under the Program, unless there is insufficient interest in the Program, in which case the area could be increased up to a maximum of 35 percent. The 29 and 35 percent values would be a guide. Further adjustment could be necessary to recognize individual field sizes, connections to headgates, etc.
  - f. Metropolitan, with the concurrence of PVID, would retain a party for monitoring and administering Program lands under the agreements.
5. PVID Lower Mesa: Over the ensuing months, PVID would work with Metropolitan and Reclamation in resolving and defining the service area of the PVID Lower Mesa.
  6. Colorado River Diversion Accounting: Over the ensuing months, PVID would work with Metropolitan and Reclamation in resolving U.S. Supreme Court *Arizona v. California* decree accounting issues to facilitate verification of saved water from the Program.
  7. Termination of Agreement: Either Metropolitan or PVID could terminate the agreement on a minimum 5-year notice given on or after July 31, 2032.
  8. First-Right-of-Refusal: Metropolitan would have the first-right-of-refusal to any additional water supply programs developed in the PVID service area during the period of the agreements.
  9. Necessary Approvals: These principles are conditioned on obtaining all necessary permits and approvals required to implement the Program.