

- **Board of Directors**

September 13, 2005 Board Meeting

8-1

Subject

Authorize Farm Lease No. R.L. 2364 of 2,280 gross acres of real property designated as portions of MWD Parcel No. PVID-1-100 in Imperial County, California, with River Valley Ranches, a California farming partnership

Description

This action authorizes the Chief Executive Officer to enter into a lease of approximately 2,280 acres of agricultural farmland owned by Metropolitan and located in the Palo Verde Valley (see [Attachment 1](#)). Metropolitan would enter into Farm Lease No. R.L. 2364 with River Valley Ranches (RVR) and accept receipt of projected revenues totaling approximately \$316,540 per year for up to ten years.

RVR, owned and operated by Craig Elmore (Metropolitan's current tenant), has requested to continue leasing the 2,280 gross acres (2,261 Palo Verde Irrigation District (PVID) irrigated acres) for farming purposes (see [Attachment 2](#)). The current lease will terminate on December 31, 2005, and RVR has requested a new lease. The term of the lease would be for ten years, including an initial 5-year term commencing January 1, 2006 and one 5-year extension. Metropolitan would have the right to terminate the lease with a one-year notice consistent with current leasing policies approved by the Board, with an agreed-upon compensation table for tenant's loss of perennial crops. In addition, Metropolitan could immediately terminate the lease for cause or breach of contract.

The proposed rental rate would be \$140 per irrigated acre, consistent with market value as determined by Metropolitan's appraiser, Schenberger, Taylor, McCormick and Jecker, Inc. There are no new Metropolitan or tenant improvements required as part of the lease. However, optional improvements requested by the tenant, at the tenant's expense, would be subject to review and prior written consent by Metropolitan. The annual rent per irrigated acre would be subject to a market adjustment at the end of the initial 5-year term. The lease would also be subject to Metropolitan's use of the property in connection with the PVID/Metropolitan Forbearance and Fallowing Program. The acreage to be fallowed would be set at annual intervals at Metropolitan's discretion, but limited to a maximum of 35 percent of the lease's irrigated acres under the terms of the fallowing program. While the tenant will not receive any of Metropolitan's fallowing payments, Metropolitan will reimburse the tenant for rent and water tolls paid by the tenant, as well as tenant's overhead and maintenance costs, associated with the fallowed acreage. All reimbursements to the tenant resulting from tenant's fallowing would be drawn from Metropolitan's Water Transfer Fund.

The proposed lease is consistent with the Board's objectives to maximize Metropolitan's investments by leasing real property at fair market rates to defray ownership costs and to facilitate the PVID/Metropolitan Forbearance and Fallowing Program. The land is subject to annual property taxes (\$73,774) and PVID assessments (\$11,788), both paid by Metropolitan; therefore, no possessory interest tax will be levied on the tenant. See [Attachment 3](#) for the financial impacts of fallowing the leased land. As shown on [Attachment 3](#), Metropolitan would receive \$60,290 in lease revenues, along with about 2,625 acre-feet of water if 625 acres are fallowed as part of the PVID program. If it is not necessary to fallow this land, Metropolitan would receive \$316,540 in revenues. Finally, as shown in the final column of [Attachment 3](#), Metropolitan would pay the tenant \$7,789 if it was found to be necessary to fallow the maximum of 35 percent of the irrigated land.

Policy

Metropolitan Water District Administrative Code Section 8230: Grants of Real Property Interests

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

Pursuant to the provisions of CEQA and the State CEQA Guidelines, a Final Environmental Impact Report (Final EIR) for the Proposed Palo Verde Irrigation District Land Management, Crop Rotation, and Water Supply Program (Program) has been prepared and certified, along with an adopted Findings of Fact (findings). The present board actions are based on minor administrative and fiscal changes, i.e., authorizing Metropolitan to enter into a farm lease and pay related real estate fees and not on any substantial changes to the approved Program itself. Accordingly, no further CEQA documentation is necessary for the Board to act with regard to the proposed actions.

The CEQA determination is: Determine that the proposed actions have been previously addressed in the certified Final EIR and adopted findings and that no further environmental analysis or documentation is required.

CEQA determination for Option #2:

None required

CEQA determination for Option #3:

For aspects of the management plan involving the PVID/MWD Forbearance and Fallowing Program: The CEQA determination is the same as in Option #1.

For aspects of the management plan for continued agricultural purposes and seeking tenants through the Request for Proposal process and advertising: The proposed action is categorically exempt under the provisions of CEQA and the State CEQA Guidelines. In particular, the proposed action consists of the leasing, licensing, maintenance, and operating of existing equipment and facilities with negligible or no expansion of use beyond that existing at the time of the lead agency's determination. In addition, it will not have a significant effect on the environment. Accordingly, this proposed action qualifies as a Class 1 Categorical Exemption (Section 15301 of the State CEQA Guidelines).

The CEQA determination is: Determine that pursuant to CEQA, the proposed action qualifies under a Categorical Exemption (Class 1, Section 15301 of the State CEQA Guidelines).

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and authorize the Chief Executive Officer to

- a. Enter into Farm Lease No. R.L. 2364 over MWD Parcel No. PVID-1-100; and
- b. Execute a lease in a form approved by the General Counsel.

Fiscal Impact: Up to \$316,540 annual revenue over the ten-year term of the lease

Option #2

Do not authorize a farm lease with River Valley Ranches, and consider potential other tenants.

Fiscal Impact: Loss of revenue and increased maintenance costs to Metropolitan

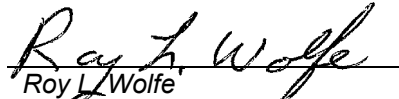
Option #3

Direct staff to prepare a management plan for the property including seeking tenants through advertisements and issuance of Request for Proposals.

Fiscal Impact: Lost opportunity for revenue and increased maintenance costs to Metropolitan

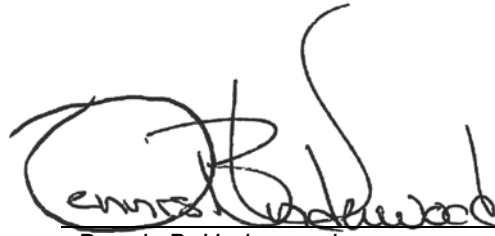
Staff Recommendation

Option #1



Roy L. Wolfe
Manager, Corporate Resources

8/15/2005
Date



Dennis B. Underwood
CEO/General Manager

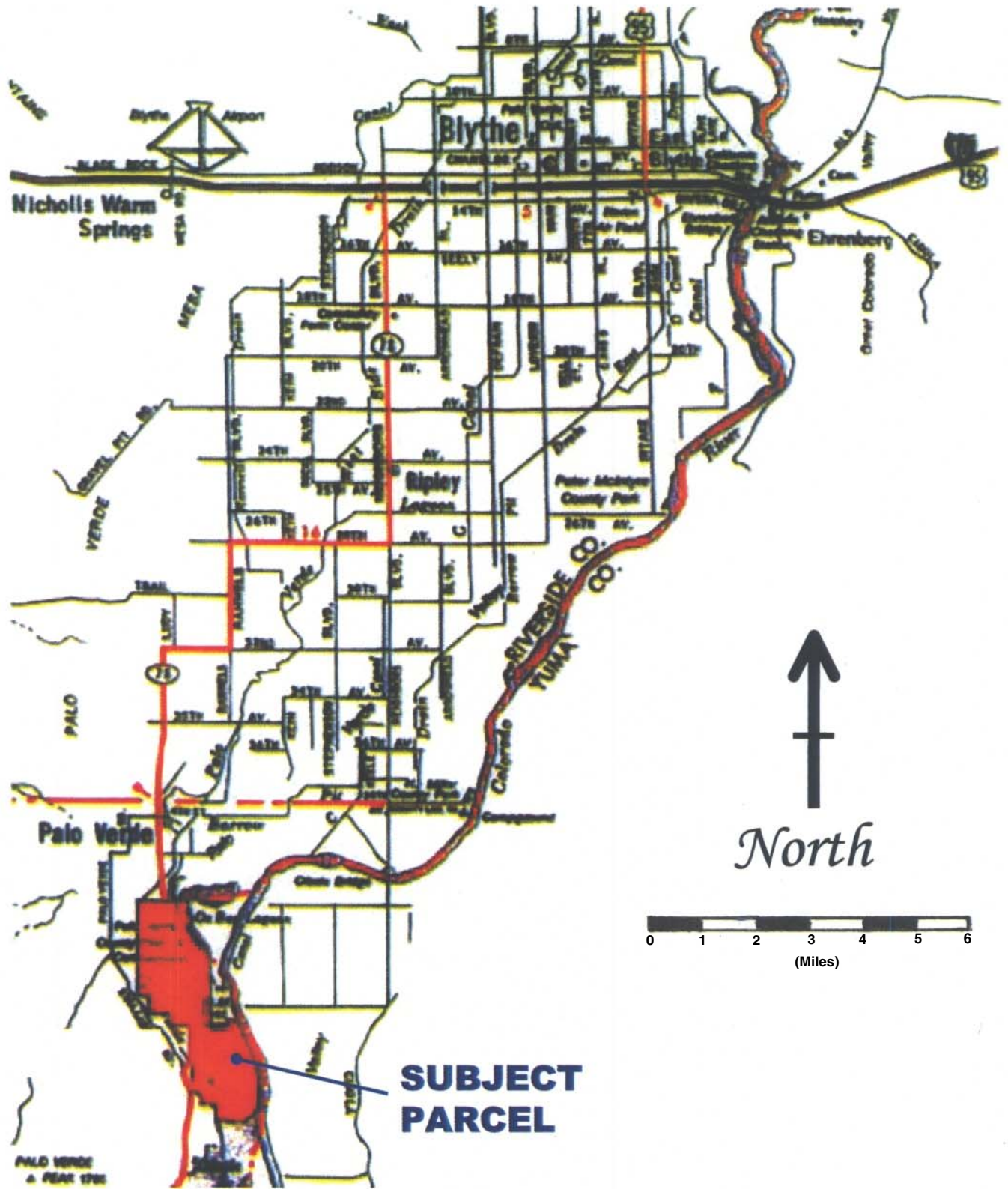
8/26/2005
Date

Attachment 1 – Location Map

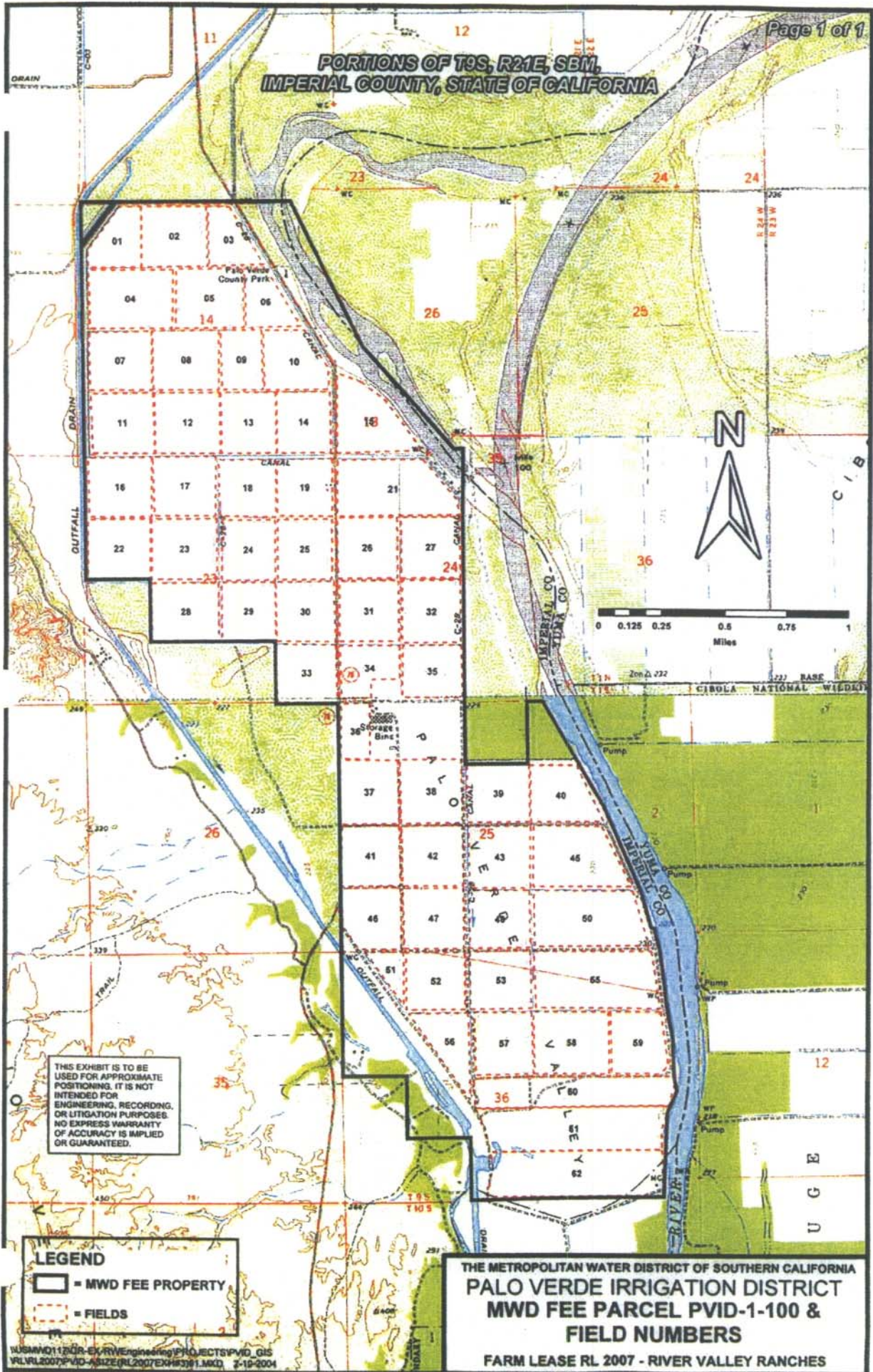
Attachment 2 – Exhibit Map of MWD Fee Parcel No. PVID-1-100

Attachment 3 – Impact on Recovered Water Cost When Fallowing Leased Land

BLA #3618



**Location Map
Palo Verde Valley and Vicinity**



Financial Impacts of Fallowing Leased Property

	Unit Cost (\$/acre)	No Fallowing (0 acres)	Current Fallowed Land (625 acres)	Maximum (35%) Fallowed Land (791 acres)
Metropolitan Revenues				
Tenant's Rent	\$140	\$316,540	\$316,540	\$316,540
Rent Reimbursement (1)			(\$87,500)	(\$110,740)
Net Rent		\$316,540	\$229,040	\$205,800
Fallowing Costs				
PVID water toll	\$55		(\$34,375)	(\$43,524)
Overhead & Profit	\$140		(\$87,500)	(\$110,740)
Field Maintenance	\$75		(\$46,875)	(\$59,325)
Sub-Total			(\$168,750)	(\$213,589)
Total		\$316,540	\$60,290	(\$7,789)
Water Saved (4.2 AF/acre) (2)		0.0 AF	2,625.0 AF	3,322.2 AF

(1) Tenant is reimbursed for rent paid to Metropolitan on fallowed acres.

(2) This analysis is based on a conservative estimate of 4.2 AF per acre consumed annually by the farm. During dry or hot cycles, it could increase to 4.6 AF per acre or more.

Note: Metropolitan pays annual Imperial County Property Taxes (\$73,744) and PVID Tax Assessments (\$11,788) for the 2,280-acre property due to its location outside of Metropolitan’s service area.

PVID - Palo Verde Irrigation District

AF - Acre-Feet