- **Board of Directors**
  Water Planning and Stewardship Committee

4/12/2016 Board Meeting

8-9

Subject

Authorize process for management of Metropolitan's lands in the Palo Verde Irrigation District

Executive Summary

Staff has developed a proposed process for entering into new leases on Metropolitan's land in the Palo Verde Irrigation District (PVID). Leasing the lands can provide an opportunity for Metropolitan to receive revenue, augment its Colorado River supply by reducing consumptive water use on the land, and maintain local agricultural production. This action would direct staff to pursue new leases on the lands through a generalized request for proposals and bring such leases back to the Board for final approval at the conclusion of the process.

Details

In 2001, Metropolitan acquired 15,920 gross acres of land from San Diego Gas & Electric Company (SDG&E). In 2015, Metropolitan acquired an additional 12,782 gross acres from Verbena LLC, making Metropolitan the largest landowner in the Palo Verde region with approximately 28,702 gross acres, 20,995 acres of which is irrigated farmland available for lease.

Current Leases

There are currently three tenants on Metropolitan's properties in PVID. Each tenant has a lease that expires at the end of 2016. Because a portion of each property is not irrigable, lessees pay rent for the irrigated farmland or "water toll acreage" that is eligible to receive water from PVID's Colorado River allocation. Each lease also includes provisions allowing Metropolitan to call for fallowing of a portion of the land, consistent with the PVID-MWD fallowing program.

Since 2001, Metropolitan has leased 6,685 water toll acres (7,000 gross acres) of the former SDG&E property to HayDay Farms (HayDay), which grows alfalfa and other forage crops. The annual rent paid for this farmland is $250 per water toll acre. The current lease allows Metropolitan to call for fallowing of up to 35 percent of the land under the fallowing program. During a fallowing call, Metropolitan reimburses the prorated rent and the PVID water tolls ($75 per irrigated acre). The lease also allows Metropolitan to require the tenant to implement a broad range of conservation and specified farming measures, such as irrigation efficiency, crop selection, crop stressing, and use of biosolids.

Another 2,261 water toll acres (2,280 gross acres) of the former SDG&E property have been leased since 2001 to River Valley Ranches (River Valley), which grows alfalfa, cotton, potatoes, corn, and other crops. The annual rent paid for this farmland is $250 per water toll acre. The current lease allows Metropolitan to call for fallowing of up to 35 percent of the land under the PVID–MWD fallowing program. Metropolitan reimburses the prorated rent and the PVID water tolls ($75 per irrigated acre) for each fallowed acre.

Since 2015, an additional 12,049 water toll acres (12,782 gross acres) of land that Metropolitan recently purchased have been leased to Wegis & Young, which grows alfalfa and other forage crops. The lease requires Wegis & Young to fallow 4,215 acres (35 percent of water toll acres) through the end of the lease in

December 2016. Metropolitan receives an annual rent of $240 per farmed acre, less a credit paid to the lessee of $144 for each fallowed acre.

Under the current terms, these three leases together yield a projected annual revenue of $2.9 million to $4.6 million depending on the fallowing call in a given year.

Objectives for New Leases

Staff has identified a list of potential management objectives to guide the selection of new lessees:

- **Reduce consumptive water use on the land** by growing less water-intensive crops, using more efficient irrigation systems, engaging in deficit irrigation, or other means. This objective would help increase Colorado River supplies available to Metropolitan.
- **Provide a positive revenue stream for Metropolitan** by ensuring that rents are net positive and reflect the value of the agricultural land.
- **Maintain a vibrant agricultural economy in the Palo Verde valley** by maintaining the lands as productive farmland.
- **Promote community acceptance and participation** by creating a fair and transparent process for lease selection and soliciting input from the community.
- **Keep administrative overhead low** by effectively managing the total number of leases to be administered.
- **Advance state-of-the-art farming techniques** by adopting innovative irrigation methods, crop selection, and data collection that can serve as a model.

Recommended Selection Process

Staff proposes leasing the lands through a generalized request for proposals. Under this process, staff would establish general criteria based on the objectives identified above, with Metropolitan asking interested entities to submit proposals and qualifications for satisfying the objectives. This type of approach would allow Metropolitan to obtain broad input on how the identified objectives could be satisfied. Respondents would have flexibility in identifying parcels to be leased and in developing proposals for meeting the identified objectives, including the reduction in consumptive water use and the maintenance of a vibrant agricultural economy in the Palo Verde valley, in creative or alternative ways. Based on the input received as part of this process, Metropolitan could then move forward with developing specific leases on identified parcels.

All leases would carry mutually agreed upon limitations on water use and provisions for Metropolitan to verify the water use. These limitations may impact the negotiated lease rates for the land. Additionally, all lands will remain enrolled in the Metropolitan-PVID fallowing program. Consistent with the provisions of the fallowing program, Metropolitan will not consider permanent crops in leasing the land. Final leases will be brought back to the Board for approval.

This process would allow Metropolitan to consider the widest range of proposals for the land, including innovative crop types, irrigation systems, and water use monitoring technologies. Such a process would also help Metropolitan diversify its land management strategy to ensure that water use and revenue goals are met regardless of market conditions.

Alternative Selection Processes

Alternatively, Metropolitan could negotiate new leases with some or all of the current lessees, and pursue leasing any remaining Metropolitan-owned lands through a generalized request for proposals process.

Extending some of the current leases would lower administrative costs and allow Metropolitan to continue its working relationships with longstanding and proven lessees. Two of the lessees, HayDay and River Valley, have each successfully farmed the land leased to them by Metropolitan for 14 years, and have shown a willingness to collaborate with Metropolitan to meet the above stated objectives for new leases. Moreover, HayDay and River Valley have each farmed in the Palo Verde valley for over forty years. Metropolitan could therefore negotiate new leases with updated provisions to ensure that the new lessees meet Metropolitan’s objectives.

Finally, Metropolitan could extend all of the current leases with HayDay, River Valley, and Wegis & Young in lieu of a request for proposals. Wegis & Young have been tenants on Metropolitan-owned lands for eight months and have farmed in the Palo Verde valley for six years.

In either process, the parcels to be leased by the existing lessees would be limited to a similar amount of acreage as is currently being leased by each party. Renegotiating with current lessees would limit Metropolitan's ability to consider proposals from other interested parties, some of whom may be able to more effectively meet all of Metropolitan's objectives.

Lower Colorado River Multi-Species Conservation Program

Metropolitan is a party to the Lower Colorado River Multi-Species Conservation Program (LCRMSCP) and this innovative program provides environmental coverage for Metropolitan's Colorado River facilities and transfer programs. This program includes the development of habitat near the river to protect native species and riparian ecosystems. Up to 700 acres are needed along the Colorado River in California to meet the needs of the LCRMSCP, and certain lands have been identified in the Palo Verde valley that could meet California's commitments. Staff is working with the Bureau of Reclamation to understand if any of Metropolitan's current lands are vital to the program and if so this could affect the total amount of acreage and specific parcels available for lease. Any LCRMSCP use of Metropolitan lands would be subject to Metropolitan's water use objectives and appropriate cost reimbursement. If any of Metropolitan's lands are identified as valuable to the program, a proposal for such use will be brought to the Board for consideration.

Policy

By Minute Item 42820, dated February 10, 1998, the Board approved the policy principle on Colorado River Resources Strategy supporting Metropolitan's interests and increasing its dependable entitlements to Colorado River water, while collaborating with other California Colorado River agencies.

California Environmental Quality Act (CEQA)

CEQA determinations for Option #1, #2 and #3:

The proposed action is not defined as a project under CEQA because the proposed action involves continuing administrative activities such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not defined as a project pursuant to Section 15378(b)(2) of the State CEQA Guidelines.

Board Options

Option #1

Adopt the CEQA determination that the proposed action is not defined as a project, and

Authorize staff to pursue new leases on all Metropolitan-owned lands in the Palo Verde valley through a generalized request for proposals process, with lease terms to meet Metropolitan's objectives for consumptive water use and positive revenues, and bring such leases back to the Board for final approval.

Fiscal Impact: Lease revenue to be determined based on rents and other conditions negotiated with the selected lessees.

Business Analysis: This option would allow Metropolitan to consider the widest range of proposals for the land, including innovative crop types, irrigation systems, and water use monitoring technologies. Such a process would also help Metropolitan diversify its land management strategy to ensure that water use and revenue goals are met regardless of market conditions.

Option #2

Adopt the CEQA determination that the proposed action is not defined as a project, and

Authorize staff to negotiate new leases with HayDay Farms and River Valley Ranches, with lease terms to meet the above objectives for consumptive water use and positive revenue, and pursue leasing the remaining Metropolitan-owned lands through a generalized request for proposals process. If Metropolitan and the existing lessees cannot agree on new lease terms within 30 days of this action, the unleased parcels will be included in the request for proposals process. All leases will be brought back to the Board for final approval.

Fiscal Impact: Lease revenue to be determined based on rents and other provisions negotiated with the current and other selected lessees.

Business Analysis: Metropolitan would continue its 14-year relationship with the two long-term lessees while also supporting growers with strong historical ties to the Valley. Both growers have presented proposals for keeping the lands under production while reducing consumptive water use and maintaining rent payments. Leasing the remaining lands through a request for proposals process would allow Metropolitan to consider a range of innovative proposals for new crops and monitoring technologies.

Option #3

Adopt the CEQA determination that the proposed action is not defined as a project, and

Authorize staff to negotiate new leases with all three of the existing lessees (HayDay Farms, River Valley Ranches, and Wegis & Young), with lease terms to meet Metropolitan's objectives for consumptive water use and positive revenue. All leases will be brought back to the Board for final approval.

Fiscal Impact: Lease revenue to be determined based on rents and other provisions negotiated with the current lessees.

Business Analysis: Extending all of the current leases would minimize administrative costs and allow Metropolitan to continue its working relationships with existing lessees; however, it would limit Metropolitan's ability to consider proposals from other interested parties, some of whom may be able to more effectively meet all of Metropolitan's objectives.

Staff Recommendation

Option #1

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