



- **Board of Directors**
Finance and Asset Management Committee

7/9/2024 Board Meeting

8-4

Subject

Authorize the execution of an amendment to an existing lease with Nish Noroian Farms to increase the size of the leased premises from 759 acres to 1,760 acres of Metropolitan's fee-owned land in the Palo Verde Valley in Riverside County, California, and to make necessary associated changes. The additional proposed leasehold parcels are commonly known as Riverside County Assessor Parcels Numbers 833-060-004; 833-060-008; 833-060-018; 833-100-005; 833-100-007; 833-100-011; 833-100-012; 833-100-016; 833-100-017; 833-060-001; 833-060-024; 833-060-025; 827-190-003; 827-190-004; 827-190-005; 827-190-006; 827-190-007; 827-190-009; 827-190-010; 827-190-012; 833-060-026; 006-090-008; 006-090-009; 006-090-010; 006-090-011; 006-090-012; 006-090-013; 006-090-029; 006-120-082; 006-120-089; 006-150-065; 006-220-057. The General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA [Conference with real property negotiators; agency negotiators: Kevin Webb and Kieran Callanan; negotiating parties: Linda D. Noroian dba Nish Noroian Farms; under negotiation: price and terms; to be heard in closed session pursuant to Government Code Section 54956.8]

Executive Summary

This action authorizes the General Manager to execute a lease amendment with Nish Noroian Farms, an existing lessee, to expand the size of its long-term leased premises by 1,001 acres. A ten-year lease with Nish Noroian Farms on 759 acres was previously authorized by this Board on September 12, 2023 after the issuance of a competitive solicitation and all existing terms and conditions of the existing lease will remain unchanged, except for the expansion of the size of the leasehold premises and associated necessary changes, such as increases in collected rent.

Authorizing this lease amendment provides an opportunity for Metropolitan to maintain local agricultural production with a proven, qualified tenant, as determined by a competitive solicitation, on its lands in the Palo Verde Valley and the continuation of leased farming operations that incentivize water conservation.

Board authorization to grant this lease amendment is required as the real property interest to be conveyed exceeds five years.

Proposed Action(s)/Recommendation(s) and Options

Staff Recommendation: Option #1

Option #1

- Authorize the execution of an amendment to an existing lease with Nish Noroian Farms to increase the size of the leased premises from 759 acres to 1,760 acres of Metropolitan's fee-owned land in the Palo Verde Valley in Riverside County, California, and to make necessary associated changes.

Fiscal Impact: Annual revenue from Noroian Farms to increase by approximately \$19,000 as the Board-authorized September 2023 rent terms are applied to the expansion premises.

Business Analysis: Expansion of the premises on a long-term basis with a proven lessee would continue to generate positive revenue, balance market-based rents with water management flexibility, and provide greater incentives for lessees to improve land and irrigation infrastructure over time.

Option #2

Do not authorize the General Manager to execute the lease amendmen.

Fiscal Impact: Depending on crop selection up to \$19,000 in additional revenue would be forgone.

Business Analysis: Allowing the holdover tenancy to continue would prevent the land from becoming vacant and prevent Metropolitan from incurring land management expenses including PVID water tolls and coalition fees.

Policy

Metropolitan Water District Administrative Code Section 8201: Authorization to General Manager

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

Metropolitan Water District Administrative Code Section 8231: Appraisal of Real Property Interests

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Informational Item 6A, dated September 14, 2021, staff report outlining considerations for purchasing land assigned senior priority Colorado River water supplies and for leasing Metropolitan-owned lands in the Palo Verde Valley.

Related Board Action(s)/Future Action(s)

Board Action dated September 12, 2023

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is exempt from CEQA because it involved an amendment to an existing leasing of existing public lands or topographical features, involving negligible or no expansion of existing or former use and no possibility of significantly impacting the physical environment (State CEQA Guidelines Section 15301.)

CEQA determination for Option #2:

None Required

Details and Background

Background

Metropolitan owns approximately 29,958 gross acres of fee property in the Palo Verde Valley (PVV) area, of which 98 percent is zoned for agricultural use. Metropolitan began acquiring land in PVV in 2001 with a subsequent acquisition in 2015 and 2022. Land acquired in 2015 was later awarded to bidders Coxco LLC, DeConinck Farms, Desert Milling, Inc., and HayDay Farms with new leases executed in 2017. Desert Milling's lease, located in the northern portion of the Palo Verde Valley, was terminated in 2018 due to non-performance, and a land maintenance contract was put in place until the vacant acreage could be leased. In 2019, through a similar bidding process, four short-term leases were awarded for the vacant acreage to DeConinck Farms (400 acres), Nish Noroian Farms (759 acres), Quail Mesa Ranch (1,001 acres), and Red River Farms (1,656 acres) (henceforth referred to as the "northern leases").

On September 12, 2023, the Board approved long-term leases totaling 2,815 gross acres with existing lessees Joey DeConinck Farms (400 acres), Nish Noroian Farms (759 acres), and Red River Farms (1,656 acres). The leases had a base term of 10 years with an extension option at Metropolitan's discretion for a total possible term of 16 years.

The leases include tiered rental rates based on crop water use, incentives for participating in soil carbon accrual and healthy soil studies, and for fallowing a portion of the subject lands in accordance with the Palo Verde Irrigation

District (PVID) following program. The Board-authorized September 2023 rental rates for the lease with Nish Noroian Farms are reflected in the table below. Rental rates will escalate two percent each year and will be reappraised every five years, resulting in possible rent increases or decreases.

Percentage of Irrigable Acres Allocated to High-Water Use Crops (≥ 4.5 Acre Feet / Year)	Noroian
Irrigable Acres (Farmable Land)	727 Acres
Tier 3: 75% to 100%	\$375
Tier 2: 50% to 74%	\$239
Tier 1: 35% to 49%	\$164
Tier 0: 0% to 34%	\$144

Note: Palo Verde agricultural lease rents are based on irrigable acres rather than gross acres.

Authorizing these lease agreements provides an opportunity for Metropolitan to continue augmenting its Colorado River water supply while generating positive revenue and maintaining local agricultural production with proven lessees on its lands in the Palo Verde Valley.

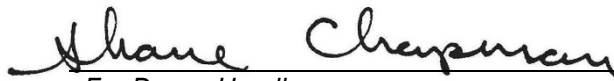
In 2023, Quail Mesa Ranch gave notice to Metropolitan of its intent to reduce its farming operations in the Palo Verde Valley immediately and requested a contractual release or sublease or assignments of its tenant obligations. Metropolitan contract provisions allowed for the assignment of tenant contractual obligations only to financially qualified and fit tenants that would be able to fulfill lease agreement obligations. After exploring different options, in November 2023, Quail Mesa Ranch agreed to assign and transfer its remaining, short term leasehold interests in 1,001 acres of Metropolitan-owned land to Nish Noroian Farms. The assignment and transfer of the Quail Mesa lease was for the duration of the remaining term of the lease through June 30, 2024. Nish Noroian Farms has integrated the subject 1,001 acres into its farming portfolio of Metropolitan-owned land on a short term basis and desires to continue farming the Metropolitan-owned land for the long term. Nish Noroian Farms is paying market rent with tiered water incentive rates and is an established tenant with a good track record and has already received long term contract extensions until 2033, plus possible extensions, under the previous Board action of September 12, 2023, for its other leased Metropolitan farmland. The additional 1,001 acres at issue today could not be included in the September 2023 Board action because of the attempted release and assignment actions of now former tenant, Quail Mesa Ranch.

Staff recommends allowing Nish Noroian Farms to expand its premises from 759 acres to 1,760 acres, on a long-term basis through the execution of the proposed lease amendment, which would also extinguish the holdover tenancy and apply the Board-authorized September 2023 rent terms to the expansion premises.



Elizabeth Crosson
Chief Sustainability, Resilience and
Innovation Officer

7/3/2024
Date



For Deven Upadhyay
Interim General Manager

7/3/2024
Date

Attachment 1 – Site Map

Ref# sri12699051

ATTACHMENT 1 – SITE MAP

