



# City Council Report

**Date:** May 7, 2012  
**To:** City Council  
**Through:** Christopher J. Brady, City Manager  
**From:** Natalie N. Lewis, Asst. to City Manager  
**Subject:** Proposed Sale Mesa-Owned Pinal County Lands  
Citywide

## Strategic Initiatives



## Purpose

Consider approving a resolution authorizing the sale of City-owned farm lands in Pinal County and authorizing the City Manager to execute a purchase agreement and master lease during the phased sale of the property.

## Background

The property consists of approximately 11,447 +/- acres and is generally located just east and west of State Route 287/87 and between the cities of Coolidge and Eloy in Pinal County, AZ.

In 1985, the City of Mesa's Enterprise Fund purchased approximately 11,500 acres as a supplemental supply of water for Mesa residents. Since the land purchase, however, Mesa has used a combination of water management practices to meet our water demands and no longer needs the Pinal County water as a resource. The City paid approximately \$29M. The enterprise bonds to purchase these lands were paid in full in 2007.

The City currently leases the land for farming. There are 14 leases; each with two-year terms with a 90-day termination clauses with crop damage payment. The lease payments are negotiated every two years and are influenced by several factors, such as federal crop subsidy programs, history crop yields, historic base acres, and cost of irrigation water. The leases are managed and renegotiated every two years for the City by Scythe and Spade, a farm management organization. The City pays approximately \$102k per year for the Scythe and Spade farm management services. Lease revenues in 2011 were approximately \$965k. Expenses to manage the farms (taxes, well repair, staff and farm consultants) last year totaled approximately \$726k. In addition, the City has retained the real estate brokerage firm of Nathan & Associates, Inc. Past sales (easements, property sales in mid to late 2000's) have totaled approximately \$12.7M. Nathan and Associates, Inc. was approached several

months ago by Farm Sources International (FSI) with interest in purchasing all remaining city-owned farm lands in Pinal County. As such, City staff has been negotiating a market-driven sale/lease transaction with FSI.

## **Discussion**

Here is a general overview for how the transaction between the City and FSI is proposed to be structured and timed. The process includes two feasibility periods, and three purchase phases with a master lease on remaining lands.

### **Due Diligence/Feasibility Periods:**

- A. First, a 120-day “Water Feasibility Period” would be completed whereby FSI would conduct much of their water rights due diligence.
- B. Following the conclusion of the Water Feasibility period, a 150-day “General Feasibility Period” would be provided to enable FSI to conduct land surveys and environmental analysis.

### **Purchase Phase and Master Lease:**

If after the conclusion of the Water and General Feasibility Periods and FSI and the City agree to continue with the transaction, the purchase/lease would be completed in three phases:

1. **At initial close**—FSI purchases approximately 1,626 acres (see map) at \$15,000 per acre. Approximate net revenue to City would be \$23.5M. A Master Lease on approximately 9,821 remaining acres would be opened and the approximate annual lease net revenues to City would be \$4.9M/yr.
2. **42 months/3.5 years after initial close**—FSI purchases Option 1 lands (see map). This is approximately 2,367 acres and would be priced at \$10,000 per acre. Approximate net revenue to City would be \$22.8M. A Master lease on the remaining 7,454 acres would be continued and the annual net revenues to the City would average approximately \$4M/yr.
3. **66 months/5.5 years after initial close**—FSI purchases Option 2 lands (see map). These are the remaining 7,454ac of lands. Total net revenues to City estimated to be \$66.2M with a cost per acre “at par” of \$8,909/ac to achieve an overall average of \$10k per acre purchase price.

In addition, FSI would be responsible for farming the land and paying all taxes and well repairs during the time they own and lease the City’s property.

## **Financial Analysis**

The original Enterprise Fund investment in these lands was approximately \$30M. These bonds have been paid in full. City has sold some lands (in mid to late 2000’s), which have totaled approximately \$12.7M. Annual lease incomes are approximately \$965k per year with taxes and management expenses equaling anywhere from \$800k to \$940k per year. If this deal is completed, it is estimated that between purchase revenues and annual master lease revenues, Mesa would net

approximately \$135M. Not only would all revenues be invested, but they would also be available to the City's Economic Development Enterprise fund to be used in projects that create opportunities for long-term revenue and/or jobs in Mesa.

### **Alternatives**

- Council may approve a resolution authorizing the sale of City-owned farm lands in Pinal County and authorizing the City Manager to execute a purchase agreement and master lease during the phased sale of the property. If there are substantial modifications to be made to the purchase agreement during or following the due diligence feasibility periods, the City Manager will seek additional Council direction on those changes.
- Council may take no action and/or recommend changes to the structured agreement described and recommended.

### **Coordinated With**

City Manager's Office, City Attorney's Office, Budget Office, Real Estate Office, Water Resources Department.

### **Attachments**

Map  
Resolution