STOCKTON EAST WATER DISTRICT
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MEETING NOTICE

The Agriculture Operations Committee
Of the Stockton East Water District
Board of Directors will meet at
10:00 a.m. on Wednesday, September 16, 2026
At the District Office, 6767 East Main Street, Stockton, CA

Assistance for the Disabled: If you are disabled in any way and need accommodation to participate in the meeting, please contact Administrative Staff at (209) 948-0333 for assistance so the necessary arrangements can be made.

Agendas and minutes are located on our website at www.sewd.net.

AGENDA

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1.	Roll Call - Chairperson Atkins, Director Nakaue, Director Hansen, Director Sanguinetti (Alternate)	
2.	Public Comment	
3.	Stockton East Water District – Staff Report – Consideration of Cancellation of the Agricultural Lease Agreement with Carna Farming, Inc. and Recommendation to the Board of Directors to Enter a New Agricultural Lease with Lagorio Brothers for the North Site Property	01
4.	Stockton East Water District – Memorandum – Analysis of New Hogan Reservoir Releases and Reported System Losses 2016-2025	37
5.	Adjournment	

Certification of Posting

I hereby certify that on September 10, 2026, I posted a copy of the foregoing agenda in the outside display case at the District Office, 6767 East Main Street, Stockton, California, and said time being at least 72 hours in advance of the Agriculture Operations Committee Meeting (Government Code Section 54954.2). Executed at Stockton, California on September 10, 2026.

Priya Ram, Director of Finance & Administration
Stockton East Water District

Any materials related to items on this agenda distributed to the Agriculture Operations Committee of the Stockton East Water District less than 72 hours before the public meeting are available for public inspection at the District's office located at the following address: 6767 East Main Street, Stockton, CA 95215. Upon request, these materials may be available in an alternative format to persons with disabilities.

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DATE: **September 16, 2026** **AGENDA ITEM NO.3**

TITLE: **Cancellation of Agricultural Lease with Carna Farming, Inc. and New Agricultural Lease with Lagorio Brothers – North Site Property**

SUBJECT: **Consideration of Cancellation of the Agricultural Lease Agreement with Carna Farming, Inc. and Recommendation to the Board of Directors to Enter a New Agricultural Lease with Lagorio Brothers for the North Site Property**

Executive Summary

Carna Farming, Inc. has leased the Stockton East Water District's (District) ±113-acre North Site Property on a year-to-year agricultural lease since January 2024. Carna Farming has requested that farming operations continue instead under a related entity, Lagorio Brothers, which requires cancelling the existing lease and approval of a new one. Staff has also identified an ongoing security concern involving uncontrolled access to secured areas of the water treatment plant campus, which is tied to agricultural operations on the parcel generally and is not resolved by a change in lessee alone. Staff recommends the Committee recommend that the Board of Directors authorize cancellation of the Carna Farming lease and provide staff direction for a new lease with Lagorio.

Background

The District has leased the ±113-acre North Site Property (6833 E. Main Street and 6700 E. Copperopolis Road, Stockton) to Carna Farming, Inc. under a 2024 Agricultural Lease since January 1, 2024. The lease renews automatically on a year-to-year basis unless either party gives 90 days' written notice of non-renewal and requires cash rent of $400 per acre for cash crops or $200 per acre for cereal grains. Carna Farming has asked that farming operations continue instead under Lagorio Brothers, a related entity whose principal, Brett Lagorio, is also Carna Farming's President. Because Lagorio Brothers is a separate legal entity, this change cannot be accomplished as a renewal; it requires cancelling the existing lease and entering into a new lease directly with Lagorio Brothers.

Summary

In accordance with the terms of the existing lease agreement between the District and Carna Farming, the District should provide written notice of non-renewal by October 2, 2026. A new lease agreement may then be executed with Lagorio Brothers, using the same terms and conditions as the 2024 agreement. Alternatively, the existing lease agreement can remain in effect, and the District may authorize annually the assignment of the lease from Carna Farming to Lagorio Brothers, as has been the practice for the past two years. Although improper compared to executing a new lease between the appropriate parties, the existing lease does allow for assignment with the District's approval.

Concurrent with consideration of the new lease agreement, staff requests the committee consider continued uncontrolled access to the water treatment plant campus. Staff identified an ongoing security concern relevant to this item: unknown parties have access to secured areas of the water treatment plant campus in connection with farming activity on the North Site Property. This exposure is tied to the presence of agricultural operations on the site, not to the identity of the lessee.

Financial Impact

At current lease rates, the North Site Property generates estimated annual cash rent of approximately $22,600 to $45,200 depending on crop mix, with the lessee bearing all farming, maintenance, insurance, and water/utility costs. A mutual termination timed to the end of the current term is not expected to require crop-compensation payments to Carna Farming.

Recommendation

Staff recommends the Committee recommend that the Board of Directors authorize cancellation of the existing Agricultural Lease with Carna Farming, Inc., consider the security concerns with continued uncontrolled access to the water treatment plant, and provide direction to staff for Board authorization of a new agricultural lease for the North Site Property with Lagorio Brothers.

Staff Responsible for Report

______________________________ Date: 09/16/26

Justin M. Hopkins, General Manager

Attachments

1. 2024 Agricultural Lease Agreement between Stockton East Water District and Carna Farming, Inc. (executed January 31, 2024)
2. Draft new agricultural lease with Lagorio Brothers
3. Draft Lease Termination Letter

2024 AGRICULTURAL LEASE

1. **Parties**. This 2024 Agricultural Lease ("**Lease**") is entered into this 31st day of January, 2024 by and between STOCKTON EAST WATER DISTRICT ("**Lessor**" or "**Owner**"), and CARNA FARMING, INC., A CALIFORNIA CORPORATION, ("**Lessee**").

2. **Property**. Lessor owns that real property, and upon and subject to the terms and conditions of this Lease, Lessor hereby leases to Lessee and Lessee hereby leases from Lessor that certain real property located at 6833 E. Main Street, Stockton, and 6700 East Copperopolis Road, Stockton, in the County of San Joaquin, State of California, together with all improvements located thereon excepting the building structures, as more particularly described in **EXHIBIT A** attached hereto and made a part hereof consisting of 113 acres of farmland (the "**Farm**").

3. **Term and Effective Date**.

3.1 The term of this Lease shall be effective beginning on January 1, 2024 and ending on December 31, 2024 ("**Term**"), unless sooner terminated as provided in the Lease. On the first day of the Term, Lessee shall be entitled to possession of the Farm, subject to compliance with the terms and conditions of this Lease and payment of the rent set forth in Section 4 hereof. The Term ends at midnight on the last day of the Term of the Lease unless sooner terminated as provided in this Lease.

3.2 At the expiration of the initial Term, this Agreement shall continue from year to year under its then existing conditions unless and until a party hereto gives the other no less than ninety (90) days written notice of termination prior to expiration of the initial Term or of the one year extension then in effect. Upon such 90 days notice, this Agreement shall terminate on December 31 of the year such notice is provided.

4. **Rent**. In consideration of the leasing, occupancy and use of the Farm, Lessee hereby promises and agrees to pay, yield and deliver, in addition to all other sums agreed to be paid by it under this Lease, pay all farm costs, repairs and maintenance costs, insurance costs, all irrigation assessments, irrigation water costs, utilities, and any and all other expenses to maintain the operations of the Property during the Term, cash rent in the amount of Four Hundred Dollars ($400.00) per acre cash rent for cash crops, and Two Hundred Dollars ($200.00) per acre cash rent for cereal grains, which shall be paid in two equal annual installments by January 31 and November 30. Lessee shall advise Owner of annual crop type with first installment and provide confirmation of crop type with second installment. All amounts above constituting "**Rent**." Lessee shall pay all Rent without setoff, deduction, counterclaim, or prior notice or demand. At the expiration of the Term, property taxes, utilities and assessments shall be prorated between Lessor and Lessee.

5. **Maintenance**. Lessee shall maintain and repair, the Farm and all improvements and structures on, approaches to, and appurtenances of the Farm and maintain them in as good order and condition as reasonable use for agricultural purposes and wear permit, damage by the elements and other causes and events beyond the control of Lessee excepted. No substitution, alteration of, or addition to the Farm or to the improvements located thereon may be made without the express,

prior written consent of Lessor, except as provided in Section 5 hereof concerning irrigation equipment.Lessee shall preserve and protect all irrigation, drainage, or pumping items and equipment and any and all appurtenances thereto situated on the Farm and shall properly lubricate, service and care for same so as to prevent undue wear and tear on the items or equipment. Lessee shall also be responsible, unless otherwise provided in this Lease, for all services, maintenance, repairs to and replacement, if necessary, of the irrigation, drainage and pumping items and equipment or appurtenances thereto, only up to the first Two Thousand and five hundred Dollars ($2,500.00) per repair, provided the necessary repairs are not caused by Lessee's or Lessee's agents', employees' or contractors' negligence, in which case the entire cost of the repair shall be the responsibility of Lessee. Lessee shall furnish, at its sole expense, any irrigation, drainage or pumping items or equipment not included in the Farm as are necessary to the proper irrigation, drainage and operation of the Farm. All those items or equipment shall become a part of the Farm, with the exception of those items brought onto the Farm to temporarily replace a piece of equipment which has been removed for repair. Lessee shall not remove any irrigation, drainage or pumping items, equipment or appurtenances thereto from the Farm and shall return same to Lessor in good working condition. When the Farm is used for dry land farming and where no irrigation is in use or required, all irrigation requirements contained in this Lease shall be automatically eliminated.

6. **Water**.

6.1 Source. Water necessary for the irrigation of crops to be grown on the Farm during the Term shall be made available by Lessor. Water for irrigation of the Farm shall be supplied by a surface water pump located on a pond owned by Lessor on Lessor's adjacent property ("**Surface Water Pump**"). Lessor hereby grants to Lessee a license to operate the Surface Water Pump on Lessor's property upon twenty-four (24) hours prior notice to Lessor.

6.2 Groundwater. Should Lessor determine that insufficient surface water is available for Lessee's demands under this Lease, it may substitute at any time groundwater supplies upon prior notice to Lessee. Lessor and its Agents shall have the right, at its cost, to drill and install groundwater wells on the Farm.

6.3 No Warranty. Lessor makes no warranty or agreement of any kind concerning the quality of the water available to the Farm or whether drainage or irrigation of the Farm is feasible or necessary, and Lessee shall in no way hold Lessor responsible for the quality of or excess of water for any intended purposes. Lessee agrees that water or water rights related to the Farm shall be preserved and used solely in connection with the operation of the Farm. Lessee shall not remove any water from the Farm or otherwise dispose of any water, except in connection with the proper drainage of the Farm, without the express prior written consent of Lessor.

6.4 Water Supply Reductions. Although Lessor shall use all reasonable efforts to make water available to Lessee for the purposes of irrigation under this Lease, the water supply available to the Farm under this Lease may be reduced by Lessor for any of the following reasons: (i) applicable federal and state laws now in existence and as modified from time to time, affecting Lessor's rights or obligations; (ii) failure of facilities; intervening acts, including litigation and stream adjudication brought by third parties, or actions of any state or federal agency exercising jurisdiction or claiming an interest and/or right to reduce and/or modify operations and/or quantities of water otherwise available to Lessor; and (iii) any action, legislation, ruling or determination adverse to the Lessor affecting the Lease and beyond the reasonable control of the Lessor. Lessor shall make a good faith effort to oppose such reductions, but Lessee agrees that Lessor shall not be liable for reductions of water supply available under this Lease due to such causes.

7. **Condition of Farm**. Lessee has inspected the Farm and is fully familiar with the physical condition thereof, has received the same in good order and condition, and agrees that the Farm complies in all respects with the requirements of this Lease. Lessor makes no representation or warranty with respect to the condition of the Farm or its fitness or availability for any particular use, and Lessor shall not be liable for any latent or patent defect therein. Lessee shall not do or permit any act or thing which is contrary to any legal or insurance requirement, which might impair the value or usefulness of the Farm or any part thereof, or which constitutes a public or private nuisance or waste. This Lease shall be subject to any existing rights of others, including but not limited to easements, rights of way, water rights, mineral rights, oil and gas leases and restrictions on use of the Farm.

8. **Payment of Taxes and Utilities**. Property taxes on the Farm shall be paid by Lessor. Utilities, including but not limited to gas, telephone, electricity and water, rendered to and used in connection with the Farm shall be paid by Lessee. Said utilities to be paid by Lessee shall include the electricity for the Surface Water Pump, and Lessee shall provide meter readings to Lessor for the purpose of allocating such costs. Should Lessor be required to pump groundwater to meet its obligation to Lessee under Section 6 above, Lessee shall pay all electricity charges for such pumping. All costs, charges, and assessments for irrigation water at the applicable rate established by Lessor shall be paid by Lessee. Lessee shall maintain the Farm in the San Joaquin County and Delta Water Quality Coalition, and all required fees shall be paid by Lessee. All payments by Lessee required under this Section 8 shall be paid by Lessee directly, or reimbursed to Lessor within thirty (30) days of invoice by Lessor.

9. **Assignment or Sublease**. Lessee shall not sublet the Farm or any part thereof, assign this Lease in whole or in part, or in any way encumber this Lease or the Farm without Lessor's prior written consent. Lessor may assign this Lease, in whole or in part, and shall thereupon be released of all duties and obligations under this Lease. Upon a termination of Lessor's leasehold interest in the Farm for any reason, Lessee shall agree to and accept Owner or its assignee as the lessor for the balance of the Term remaining under this Lease, subject to all the terms and conditions of this Lease, on condition that Owner shall perform all of Lessor's obligations under this Lease from and after the date of termination of Lessor's leasehold interest in the Farm.

10. **Operations and Good Farming and Husbandry Practices**.

10.1. Use of the Farm. Lessee shall use due diligence and farming practices, consistent with the highest-quality farming practices in the county where the Farm is located, in all aspects pertaining to the growing, storing and marketing of the crops and in the general conduct of operations and use of the Farm. Lessee shall operate and use the Farm for the sole purpose of conducting an agricultural operation under the terms and conditions provided in this Lease. Lessee shall, in due and proper season, perform all work required and essential in a good and workmanlike manner as will be conducive to the very best results to be had and obtained by a high-quality system of husbandry and farming. If this Lease covers permanent crops, Lessee shall care for, protect and maintain the crops in a good and workmanlike manner consistent with the highest-quality farming practices in the county where the Farm is located.

10.2. Equipment, Tools, Seeds, and Labor. Lessee shall use and furnish, at its sole expense, high-quality equipment, tools, seeds and labor proper or necessary to a top-quality husbandry and farming operation on the Farm.

10.3. Pests, Diseases, Weeds and Erosion. Lessee shall use all diligence by the best means known for the controlling and curing of pests and diseases which hinder and menace growing crops, supply and use all required means to rid the Farm of same, and keep the Farm and crops thereon free from all types of weeds. Lessee agrees to adopt low-input sustainable agricultural practices with respect to the Farm when said practices can be implemented without any adverse impact on the investment returns from the Farm. Lessee shall take reasonable care to prevent soil erosion by strip-cropping and contouring, as well as by filling in or otherwise controlling small washes or ditches that may form on the Farm. Lessee shall keep in good repair all terraces, open ditches and inlets and outlets of tile drains and shall preserve all established watercourses or ditches, including grass waterways, situated or lying on the Farm. Before performing any drainage work, Lessee agrees to check with the county F.M.S. office in regard to the wetland status of the area affected and obtain prior approval for the drainage work to be performed. Lessee shall cut and remove or spray and destroy all noxious weeds before they revert to seed and shall cut and spray all other weeds and grasses growing on the Farm, in the fields, farmstead, roadsides, irrigation ditches and fence rows; and in all other respects, shall attend to the care and maintenance of the Farm in a good and prudent manner. Lessee shall obtain any burning permits necessary in compliance herewith. If the Farm contains any Highly Erodible Land (HEL) as determined by the local F.M.S. office, Lessee agrees to farm the Farm in a manner as to comply with the stated conservation plan.

10.4. Removal of Crop Residue. Lessee shall not, without the prior written consent of Lessor, burn or otherwise remove cornstalks or other crop residue resulting from the conduct of its farming and agricultural operations on the Farm; but shall, as soon as practicable, attend to the spreading of all crop residue, manure, straw and the like upon those fields which have been specified and agreed upon by Lessor.

11. **Inspection**. Lessor or Owner, or their authorized representatives or assignees, may enter the Farm at any time for the purpose of inspecting same or for the purpose of doing any work and taking any action thereon as may be necessary or appropriate for the purpose (but nothing contained in this Lease shall create or imply any duty on the part of Lessor or Owner or their assignees to make any inspection or do any work) and for the purpose of showing the Farm to prospective purchasers. Entry for the purposes specified herein shall not constitute an eviction of Lessee nor termination of this Lease. At all times, Lessor shall have access to the Farm and to all reports, records, and information of the Lessee in respect thereto, for the purposes of inspecting, determining, and ascertaining that all of the requirements of the Lease and the Exhibits hereto have

been fulfilled; including, without limitation, the operation and maintenance procedures, and the public liability insurance requirements. Lessee shall maintain accurate and complete records of its operations on the Farm and make them available at any time for inspection and examination by Lessor. Lessee agrees to provide information as requested by Lessor with regard to fertilizer used, tillage practices, acreage reports, chemical usage, and crop yields in a timely manner.

12. **Legal Requirements**. Lessee, at its expense, shall promptly and diligently comply with all legal requirements pertaining to the operation of the Farm and the farming thereof.

12.1. Permits, Licenses, Franchises, and Other Authorizations. Lessee, at its expense, shall promptly and diligently procure, maintain and comply with all permits, licenses, franchises and other authorizations which are now or at any time hereafter may be required for the use and operation of the Farm contemplated hereby.

12.2. Compliance with Laws. Lessee, at its expense, shall promptly and diligently comply strictly and in all respects with any and all current and future federal, state, and local laws, statutes, rules, regulations and ordinances, orders, judgments, decrees, injunctions, authorizations, directions, and requirements of all governments, departments, commissions, boards, courts, authorities, agencies, officials and officers as amended and modified from time to time which are now, or at any time hereafter, may be applicable to the operation of the Farm and the farming thereof, including but not limited to full compliance with government F.S.A. programs and with federal, state, and local common law.

12.3. Lessee agrees to pay, at Lessee's sole costs and expense, all claims, fines, penalties and damages that may in any manner arise out of, or be imposed upon, the Farm because of the failure of Lessee to comply with the provisions of this Section 12, and Lessee hereby agrees to indemnify, save and hold Lessor harmless for any damage, injury, or claim, imposed or recovered by reason of any breach of this Section 12 by Lessee. The obligations of Lessee under this Section 12 shall survive any termination of this Lease.

13. **Indemnification and Insurance**. Lessee shall protect, indemnify and hold harmless Lessor and Owner from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, attorneys' fees and expenses) imposed upon, incurred by, or asserted against Lessor, Owner, or the Farm by reason of the operations conducted by Lessee on the Farm or as a result of any failure on the part of Lessee to perform or comply with any of the terms of this Lease. The obligations of Lessee under this section shall survive any termination of this Lease. During the Term of this Lease, Lessee, at its sole cost, shall maintain comprehensive liability and property damage insurance on the premises in the amount of One Million dollars ($1,000,000.00) combined single limit per occurrence. This insurance shall include hired and non-owned auto coverage and shall name Lessor and Owner as additional insured. This insurance will operate as primary insurance. The insurance policies shall name Owner and Lessor (or their assignees) as additional insureds as their respective interests appear and shall include an effective waiver by the carrier of all rights of subrogation against any named insured of the insured's interest in the Farm or any income derived from the Farm and shall provide that insurance proceeds shall be payable for the benefit of Owner and Lessor (or their assignees),

and Lessee as their respective interests may appear. The insurance policies shall also provide that any losses shall be payable, notwithstanding any act or failure to act or negligence of Owner, Lessor, Lessee, or any other person, corporation or other business entity and that no cancellation, reduction in amount or material change in coverage shall be made effective until at least thirty (30) days after receipt by Lessor and Lessee of written notice thereof. All policies shall be executed with carriers with A.M. Best rating of B+ or higher. Documentation of all coverages, including additional insured certificates and endorsements, shall be provided to Lessor by Lessee. Lessee also agrees to carry Workers Compensation Insurance and Employers Liability to the extent required by law at all times during the Term of this Lease.

14. **Waste and Protection of the Farm**. Lessee shall not commit or permit waste or strip, shall supervise the Farm at all times, and shall exercise every best effort to prevent theft, vandalism and other damage to the Farm.

15. **No Claims Against Lessor, Etc**. Nothing contained in this Lease shall constitute any consent or request by Lessor, express or implied, for the performance of any labor or services; the furnishing of any materials or other property in respect of the Farm or any part thereof; nor as giving Lessee any right, power or authority to contract for or permit the performance of any labor or services or the furnishing of any materials or other property in a fashion as would permit the making of any claim against Lessor, it being understood and agreed that the relationship between the parties hereunder shall consist solely as that of landlord and tenant (Lessor and Lessee); and in no event and under no circumstances shall the relationship be considered or construed as an agency, partnership, joint venture, or any similar relationship.

16. **Defaults, Termination, Repossession and Reletting**. If any Event of Default, as defined below, shall have occurred and be continuing, Lessor, whether or not the Term shall have terminated pursuant to this Section 16, may enter upon and repossess the Farm or any part thereof by summary proceeding, ejection or otherwise, and may remove Lessee and all other persons and any and all property therefrom. Lessor shall be under no liability for or by reason of any entry, repossession or removal. At any time or from time to time after the repossession of the Farm or any part thereof, whether or not the Term shall have been terminated pursuant to this Section 16, Lessor may (but shall be under no obligation to) relet the Farm or any part thereof for the account of Lessee, in the name of Lessee or Lessor or otherwise, without notice to Lessee, for the Term and on the conditions and for the uses as Lessor in its uncontrolled discretion, may determine and may collect and receive the rents therefor. Lessor shall not be responsible or liable for any failure to relet the Farm or any part thereof or for any failure to collect any rent due upon any reletting. Lessee shall reimburse Lessor for all costs and expenses incurred by or on behalf of Lessor (including, without limitation, attorneys' fees and expenses) occasioned by any default by Lessee under this Lease. The following events ("**Events of Default**") constitute a default under this Lease:

16.1. Failure to Pay Rent. Lessee fails to pay any rent when and as same becomes due and payable;

16.2. Failure to Comply with Other Terms of this Lease. Lessee fails to perform or comply with any of the other terms hereof, and the failure continues for more than ten (10) days after notice thereof from Lessor and Lessee has not within that period commenced with due diligence and dispatch the curing of the default;

16.3. Insolvency. Lessee either:

16.3A. makes a general assignment for the benefit of creditors;

16.3B. admits in writing the inability to pay debts as they become due;

16.3C. files a petition in bankruptcy;

16.3D. is adjudicated a bankrupt or insolvent;

16.3E. files a petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation.

16.3F. files an answer admitting, or fails seasonably to contest, the material allegations of a petition filed against Lessee in any bankruptcy or insolvency proceedings;

16.3G.seeks, consents to, or acquiesces in the appointment of any trustee, receiver or liquidator of Lessee or any material part of its properties;

16.4. Commencement of Proceeding Against Lessee. Within ten (10) days after the commencement of any proceeding against Lessee seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, the proceeding has not been dismissed; or within ten (10) days after the appointment, without the consent or acquiescence of Lessee, or any trustee, receiver or liquidator of Lessee or of any material part of its properties, the appointment has not been vacated;

16.5. Entry of Final Judgment Against Lessee. Within ten (10) days after the entry of a final judgment for the payment of money is rendered against Lessee, the judgment has not been discharged or execution thereof stayed pending appeal; or within ten (10) days after the expiration of any stay, the judgment has not been discharged then, and in any event, Lessor at any time thereafter may give a written termination notice to Lessee; and on the date specified in the notice, this Lease shall terminate and, subject to the provisions of Section 17, the Term shall expire and terminate by limitation; and all rights of Lessee under this Lease shall cease, unless, before the specified date:

16.5A. all arrears of rent and all other sums payable by Lessee under this Lease together with interest thereon at the rate specified in Section 33 and all costs and expenses, including, without limitation, attorneys' fees and expenses, incurred by or on behalf of Lessor hereunder have been paid by Lessee; and

16.5B. all other defaults at the time existing under this Lease shall have been fully remedied to the satisfaction of Lessor.

17. **Survival of Lessee's Obligations; Damages**. No expiration or termination of this Lease or the Term pursuant to Section 16 or by operation of law, or otherwise, and no repossession of the Farm or any part thereof pursuant to Section 16, or otherwise, shall relieve Lessee of its liabilities and obligations hereunder, all of which shall survive the expiration, termination or repossession. In the event of any expiration, termination or repossession, Lessee shall pay to Lessor all rents and other sums required to be paid by Lessee up to the time of the expiration, termination or repossession; and thereafter Lessee (until the end of what would have been the Term in the absence of the expiration, termination or repossession and whether or not the Farm or any part thereof shall have been relet) shall be liable to Lessor for and shall pay to Lessor as liquidated and agreed current damages for Lessee's default all rent and other sums which would be payable under this Lease by Lessee in the absence of the expiration, termination or repossession LESS all net rents collected by Lessor from any reletting effected for the account of the Lessee pursuant to Section 16, after deducting from the proceeds all of Lessor's expenses in connection with the reletting (including, without limitation, all repossession costs, brokerage commissions, legal and accounting expenses, attorney's fees and expenses, employees' expenses, promotional expenses, and expenses of preparation for the reletting). Lessee shall pay current damages annually on the rent payment dates applicable in the absence of the expiration, termination or repossession; and Lessor shall be entitled to recover the same from Lessee on each applicable date.

18. **Performance on Behalf of Lessee**. In the event that Lessee shall fail to make any payment or perform any act required hereunder to be made or performed by Lessee, then Lessor may, but shall be under no obligation to, after notice to Lessee as may be reasonable under the circumstances, make a payment or perform an act with the same effect as if made or performed by Lessee. Entry by Lessor upon the Farm for the above purpose shall not waive or release Lessee from any obligation or default hereunder. Lessee shall reimburse, with interest at the rate specified in Section 33, Lessor for all sums so paid by Lessor and all costs and expenses incurred by Lessor in connection with the performance of any act which Lessee fails to perform as required by this Lease.

19. **Quiet Enjoyment**. Lessor covenants with Lessee that upon Lessee's entry onto the Farm and Lessee's performance of each of the terms and conditions of this Lease, Lessee shall have full freedom and use of the Farm in accordance with the terms hereof.

20. **Remedies**. Each right, power and remedy of Lessor provided in this Lease, or now or hereafter existing at law or in equity or by statute or otherwise, shall be cumulative and concurrent and shall be in addition to every other right, power or remedy provided for in this Lease, or now or hereafter existing at law or in equity or by statute; and the exercise or beginning of the exercise by Lessor of any one or more of the rights, powers, or remedies provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise shall not preclude the simultaneous or later exercise by Lessor of any or all other rights, powers or remedies.

21. **Waiver**. No failure by Lessor or Lessee to insist upon the strict performance of any term hereof or to exercise any right, power or remedy consequent upon a default thereof, and no

submission by Lessee or acceptance by Lessor of full or partial rent during the continuance of any default, shall constitute a waiver of any default or any term. No waiver of any default shall affect or alter this Lease which shall continue in full force and effect or affect the respective rights of Lessor or Lessee with respect to any other then-existing or subsequent default.

22. **Notices**. All notices, demands, consents, approvals and requests given by either party to the other under this Agreement shall be in writing and shall be sent to the parties at the address set forth below, or to the address as shall be supplied in writing by either party to the other. Notices shall be either (I) personally delivered (including delivery by Federal Express or other courier service) to the offices set forth herein, in which case they shall be deemed delivered on the date of first attempted delivery to said offices; (ii) sent by facsimile or electronic mail, in which case they shall be deemed delivered on the date sent, if sent during normal business hours, or on the next business day, if sent outside normal business hours, if such notices sent by facsimile or electronic mail are also sent by overnight courier within one (1) business day after transmission; (iii) sent by certified mail, return receipt requested, in which case they shall be deemed delivered on the date shown on the receipt unless delivery is refused or delayed by the addressee, in which event they shall be deemed delivered on the date of deposit in the United States mail, or (iv) sent in any manner other than as set forth in subsections (i) through (iii) above, in which case they shall be effective when actually received by the party to whom such notices are given. The addresses and addressees may be changed by giving notice of such change in the manner provided for above:

To Lessor: Stockton East Water District
Attention: General Manager
PO Box 5157
Stockton, CA 95205
Phone: 209.948.0333
Email: jhopkins@sewd.net

To Lessee: Carna Farming, Inc.
Attention: Brett Lagorio, President
18600 Tobacco Road
Linden, CA 95236
Phone: 209.887.2141
Email: lagoriobros@verizon.net

23. **Provisions Subject to Applicable Law/Severability**. All rights, powers and remedies provided herein may be exercised only to the extent that the exercise thereof does not violate any applicable law and are intended to be limited to the extent necessary so that they will not render this Lease invalid or unenforceable. If any term of this Lease shall be held to be invalid, illegal or unenforceable, the validity of the other terms of this Lease shall in no way be affected thereby. This Lease shall be governed by and construed according to the laws of the state where the Farm is located.

24. **Conveyance by Lessor**. In case the original or any successor Lessor shall convey or otherwise dispose of its interest in the Farm, it shall thereupon be released from all liabilities and

obligations of Lessor under this Lease; and the liabilities and obligations shall be binding solely on the then Lessor of the Farm.

25. **Lessor's Liens**. A crop lien is hereby established for the benefit of Lessor for any unpaid rentals. In connection therewith, Lessee agrees to execute a security agreement and financing statement if same is required by Lessor. Lessor shall be entitled to and shall have a valid claim and lien against Lessee to recover for all money advanced for employment of labor or otherwise advanced to protect Lessor against any loss due to Lessee's failure to fulfill and perform or carry out the conditions and agreements. No lien created by Lessee shall ever be or become prior to Lessor's claim and lien. Lessor shall have a valid first lien on the share of crops of Lessee, for the rent and for damages due Lessor under the terms and conditions of this Lease.

26. **Minerals**. All coal, oil, gas, minerals and mineral rights in, on or underneath the surface of the Farm or any part thereof have been reserved to Owner or its assignee and are not covered by this Lease. Owner or its assignee has the right to enter in and upon the surface of the Farm to have, use and enjoy so much of the Farm as shall be required to prospect and explore for, develop and produce from the Farm or any part thereof. In addition, Owner or its assignee may use as much of the Farm as shall be required for roads, buildings, tanks, pipe lines, fixtures and equipment in connection therewith and desired to be placed on the Farm, all of which shall be done as a reserved right and without opposition or hindrance from the Lessee, as fully and completely as if this Lease had not been made. At the time of the possession for the above purposes, if the land has been prepared for crops, or if a crop is growing thereon, then Lessee shall be reimbursed for any damages resulting to it from the loss of use of the Farm; and the rent shall be proportionately reduced for any subsequent years remaining under the Term. If the Farm has not been prepared for a crop, then it shall be subject to occupancy as reserved land under the direction of Owner or its assignee for its use and occupancy and, in that event, Lessee shall make no claim for damages against Lessor or Owner or their assignees, provided that the rent shall be proportionately reduced.

27. **Conservation Damage or Destruction**. Lessee, in the operation and use of the Farm for the purposes set forth herein, shall not cause, consent to, or in any way or manner, allow any act or practice to be perpetrated upon the Farm which would ultimately result in damage to or destruction of a conservation practice.

28. **Hazardous Materials**.

28.1. Use of Hazardous Materials and Indemnification.

28.1A. Lessee covenants that it shall not cause or permit any Hazardous Material to be generated, stored, used, treated, handled, processed, transferred, transported or disposed of or otherwise released on the Farm by Lessee, its agents, employees, or contractors without the prior written consent of Lessor. In no event shall Lessee allow or otherwise authorize discharge or release of any Hazardous Materials to any sewer, storm water system, stream, or other unauthorized point, on the Farm.

28.1B. If Lessee breaches the obligations stated in Section 28.1.A, or if contamination of the Farm by Hazardous Material occurs as a result of the action or inaction of Lessee, its agents, employees, or contractors, then Lessee shall indemnify, defend, and hold Lessor and Owner and their assignees harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, damages and expenses suffered or incurred by Lessor or Owner, as the owner of the Farm, by virtue of any assertion of Federal or State lien or claim brought or filed against Lessor and/or Owner or their assignees or the Farm, diminution in value of the Farm, damage arising from any adverse impact on marketing of the Farm, and sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees) which arise during or after the Term as a result of the contamination.

28.1C. The indemnification of Owner and Lessor and their assignees by Lessee, includes, without limitation, costs incurred in connection with any investigation of site conditions or any clean-up or remediation work required by any federal, state or local governmental agency because of Hazardous Material(s) present in the soil or groundwater on or under the Farm. In the event of any contamination of the Farm or release or disposal of any quantity of hazardous material(s) on the Farm, Lessee shall promptly notify Owner and Lessor, shall comply with all applicable laws, and shall promptly take all actions, in accordance with the provisions of all applicable environmental laws, at its sole expense, as are necessary to return the Farm to the condition existing prior to the presence of any Hazardous Material(s) on the Farm. Lessee shall receive certification from the appropriate state environmental agency that the Farm, and any other affected property, has been cleaned up to the satisfaction of the agency. The foregoing indemnity shall survive the expiration or earlier termination of this Lease.

28.1D. Lessee shall be unconditionally and absolutely liable for all losses and damages sustained by Owner and Lessor and their assignees as a result of any breach of, or the failure by Lessee to perform under, any environmental representation, warranty, covenant, obligation and indemnification provided in this Lease. Lessee shall pay any costs, expenses, claims, damages and attorney's fees due under this Section regardless of whether the amounts occur pre-petition or post-petition after the filing for any bankruptcy or reorganization relief under state or federal laws.

28.2. Hazardous Materials Definition. As used herein, "Hazardous Materials" means:

28.2A. any hazardous or toxic substance, material or waste, including, but not limited to, any substance, product, or other material of any nature whatsoever which is or becomes listed, regulated or addressed pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601, et seq. ("CERCLA"); the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq. ("RCRA"); the Toxic Substances Control Act, 15 U.S.C. Sections 2601 et seq.; the Clean Water Act, 33 U.S.C. Section 1251 et seq., all as amended; or any other federal, state or local statute, law, ordinance, resolution, code, rule, regulation, order or decree regulating, relating to, or imposing liability or standards of conduct concerning, any hazardous, toxic or dangerous waste, substance or material, as now or at any time hereafter in effect;

28.2B. any substance, product, waste or other material of any nature whatsoever which may give rise to liability under any of the above statutes or under any statutory or common law theory based on negligence, trespass, intentional tort, nuisance, equitable indemnity, or strict liability or under any reported decisions of a state or federal court.

28.3. Disclosure. At the commencement of this Lease and annually thereafter, Lessee covenants to disclose to Lessor the names and amounts of all Hazardous Materials, or any combination thereof, which are or will be generated, stored, used or disposed of on the Farm. Lessee shall promptly provide Owner and Lessor with all notices and other communications received from any federal, state, and local department and/or agency which enforces and administers environmental laws.

28.4. Inspection. Owner, Lessor and their agents and assignees shall have the right, but not the duty, to inspect the Farm at any time to determine whether Lessee is complying with the terms of this Section 28. If Owner or Lessor or their agents or assignees determine that Lessee is not in compliance with this Section 28, Owner and Lessor and their agents and assignees may immediately enter the Farm to remedy, at Lessee's sole expense, any contamination of Hazardous Material(s) caused by Lessee's failure to comply with applicable laws and to take any and all other actions Owner or Lessor deems necessary to cure the failure of compliance, notwithstanding any other provision of this Lease. Lessee shall immediately reimburse Lessor or Owner or their assignees for any amounts paid by them together with interest thereon at the maximum rate allowed by applicable state law from the date of the payment. Entry by Owner or Lessor or their assignees upon the Farm for the above purpose shall not waive or release Lessee from any obligations or default hereunder.

28.5. Default. Any default under this Section 29 shall be an Event of Default enabling Lessor to exercise any of the remedies set forth in this Lease. The terms of this Section 29 shall survive the termination of this Lease.

29. **Lessor's Right of Termination**. Notwithstanding the foregoing, Lessor may terminate this Lease at any time, and from time to time, as to all or any part of the leased Farm by sending or giving to Lessee thirty (30) days prior written notice of its election to do so; provided that Lessor shall pay Lessee for fertilizing, soil preparation, planting, weed-spraying, and cultivation at the average custom rate as published by the nearest State University or the county extension office of the county where the Farm is located, whichever is the most recent. In addition, Lessee shall be reimbursed for Lessee's direct costs, such as seed, fertilizer, and chemicals, but not for gasoline or lubricants. Lessee shall be paid a fair and reasonable compensation for growing crops. In the event of a sale by Owner of the Farm during the Term and the desire by the purchaser thereof for immediate possession of the Farm, Lessee hereby agrees to surrender possession and terminate the Lease within thirty (30) days of notice from Lessor to Lessee of the sale, upon payment to Lessee of the amounts specified above. If Lessee and Lessor (or Owner's purchaser in the event of a sale of the Farm) cannot agree as to the amount of compensation, then the compensation for growing crops shall be determined by three (3) disinterested appraisers experienced in agricultural and husbandry operations and properties, one of whom shall be appointed by Lessee, one appointed by Lessor (or the Purchaser of the Farm if a sale is involved), and one selected by both Lessee and

Lessor (or by both Lessee and the Purchaser if a sale is involved). In the event the appraisers cannot agree upon compensation to Lessee, Owner shall determine the compensation; and same shall be binding upon Lessee. Lessor reserves to itself, its agents, employees, or assigns the right, after the end of the thirty (30) day notice period, to sow (after severance of crops), to seed, or to apply fertilizers and to do other field work.

30. **Next Year's Crop**. Before Lessee prepares seedbed, fertilizes or plants crops to be harvested in the next year, Lessee and Lessor must sign a new lease for the next crop year. Any default, as defined in Section 16 of this Lease, for the remaining Term shall, in Lessor's sole discretion, render the new lease signed for the next year null and void.

31. **End of Lease Term**. Upon expiration or other termination of this Lease, Lessee shall immediately quit and surrender to Lessor the Farm in good order and condition, ordinary wear and tear excepted, and shall remove all of Lessee's equipment. Lessee shall restore any damage to the Farm caused by the removal of Lessee's equipment. No holding over shall be permitted without Lessor's prior written consent.

32. **Interest**. All past due rent and all other sums payable by Lessee under this Lease shall accrue interest of ten percent (10%) per annum from the date due or the date incurred by Lessor, as applicable.

33. **Miscellaneous**.

33.1 Entire Agreement. This Lease supersedes any prior agreement and contains the entire agreement of the Parties on the matters covered. No other agreement, statement or promise made by any party that is not in writing and signed by all of the Parties to this Lease shall be binding upon them.

33.2 Time is of the Essence. Time is of the essence in the performance by Lessee of the agreements and obligations as provided by this Lease.

33.3 Severability. If any term, covenant or provision of this Lease is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the provisions shall remain in full force and effect and shall in no way be affected, impaired, or invalidated.

33.4 Governing Law. The laws of the State of California shall govern the validity, performance, and enforcement of this Lease.

33.5 Attorney's Fees. In the event any action is filed to interpret, enforce or recover damages f or the breach of this Lease, the prevailing party shall be entitled to recover, as an element of its cost of suit and not as damages, reasonable attorney's fees and costs from the party not prevailing.

33.6 Binding on Heirs. This Lease, and its terms, is expressly intended to and shall inure to the benefit of and be binding upon the Parties, their respective heirs, personal representatives, permitted assigns, subsequent purchasers of the Property and other successors-in-interest.

33.7 Time is of the Essence. Time is of the essence of this Lease and each and every provision hereof.

33.8 No Partnership. The Parties agree that nothing contained in this Lease shall be deemed or construed as creating a partnership or joint venture between the Parties or between the Parties and any other party.

33.9 Recording. Neither this lease nor a memorandum of this Lease shall be recorded.

IN WITNESS WHEREOF, the parties hereto, on the date first-above written, have caused this Lease to be executed in duplicate.

STOCKTON EAST WATER DISTRICT

By: ______________________________
Justin Hopkins, General Manager

CARNA FARMING, INC., a California Corporation

By: ______________________________
Brett Lagorio, President

EXHIBIT A

Legal Description

That certain real property situated in the County of San Joaquin, State of California, described as follows:

PARCEL ONE:

The Southeast ¼ of Section 65 and the Southwest ¼ of Section 75, of C. M. WEBER GRANT, lying West of Security Tract.

EXCEPT: (a) portion conveyed to Raymond S. Miller and Ardelle Wright Miller, his wife, by Deed recorded October 18, 1935, in Vol. 511 of Official Records, Page 270 and (b) portion conveyed to the Stockton-East Water District, by Corporation Grant Deed dated September 25, 1978, recorded September 29, 1978, in Book 4455, Page 199, Document No. 69170, Official Records.

PARCEL TWO:

Lots 6 to 9 inclusive as shown upon Map entitled SECURITY TRACT filed for record March 3, 1914 in Vol. 8 of Maps and Plats, Page 15, San Joaquin County Records.

2027 AGRICULTURAL LEASE

1. **Parties**. This 2026 Agricultural Lease ("**Lease**") is entered into this _____ day of ____________, 2026 by and between STOCKTON EAST WATER DISTRICT ("**Lessor**" or "**Owner**"), and LAGORIO BROTHERS, ("**Lessee**").

2. **Property**. Lessor owns that real property, and upon and subject to the terms and conditions of this Lease, Lessor hereby leases to Lessee and Lessee hereby leases from Lessor that certain real property located at 6833 E. Main Street, Stockton, and 6700 East Copperopolis Road, Stockton, in the County of San Joaquin, State of California, together with all improvements located thereon excepting the building structures, as more particularly described in **EXHIBIT A** attached hereto and made a part hereof consisting of 113 acres of farmland (the "**Farm**").

3. **Term and Effective Date**.

3.1 The term of this Lease shall be effective beginning on January 1, 2027 and ending on December 31, 2027 ("**Term**"), unless sooner terminated as provided in the Lease. On the first day of the Term, Lessee shall be entitled to possession of the Farm, subject to compliance with the terms and conditions of this Lease and payment of the rent set forth in Section 4 hereof. The Term ends at midnight on the last day of the Term of the Lease unless sooner terminated as provided in this Lease.

3.2 At the expiration of the initial Term, this Agreement shall continue from year to year under its then existing conditions unless and until a party hereto gives the other no less than ninety (90) days written notice of termination prior to expiration of the initial Term or of the one year extension then in effect. Upon such 90 days notice, this Agreement shall terminate on December 31 of the year such notice is provided.

4. **Rent**. In consideration of the leasing, occupancy and use of the Farm, Lessee hereby promises and agrees to pay, yield and deliver, in addition to all other sums agreed to be paid by it under this Lease, pay all farm costs, repairs and maintenance costs, insurance costs, all irrigation assessments, irrigation water costs, utilities, and any and all other expenses to maintain the operations of the Property during the Term, cash rent in the amount of Four Hundred Dollars ($400.00) per acre cash rent for beans and other irrigated crops, and Three Hundred Fifty Dollars ($350.00) per acre cash rent for corn, hay or wheat, which shall be paid in two equal annual installments on April 30, 2027 and October 31, 2027. All amounts above constituting "**Rent**." Lessee shall pay all Rent without setoff, deduction, counterclaim, or prior notice or demand. At the expiration of the Term, property taxes, utilities and assessments shall be prorated between Lessor and Lessee.

5. **Maintenance**. Lessee shall maintain and repair, the Farm and all improvements and structures on, approaches to, and appurtenances of the Farm and maintain them in as good order and condition as reasonable use for agricultural purposes and wear permit, damage by the elements and other causes and events beyond the control of Lessee excepted. No substitution, alteration of, or addition to the Farm or to the improvements located thereon may be made without the express, prior written consent of Lessor, except as provided in Section 5 hereof concerning irrigation

equipment. Lessee shall preserve and protect all irrigation, drainage, or pumping items and equipment and any and all appurtenances thereto situated on the Farm and shall properly lubricate, service and care for same so as to prevent undue wear and tear on the items or equipment. Lessee shall also be responsible, unless otherwise provided in this Lease, for all services, maintenance, repairs to and replacement, if necessary, of the irrigation, drainage and pumping items and equipment or appurtenances thereto, only up to the first Two Thousand and five hundred Dollars ($2,500.00) per repair, provided the necessary repairs are not caused by Lessee's or Lessee's agents', employees' or contractors' negligence, in which case the entire cost of the repair shall be the responsibility of Lessee. Lessee shall furnish, at its sole expense, any irrigation, drainage or pumping items or equipment not included in the Farm as are necessary to the proper irrigation, drainage and operation of the Farm. All those items or equipment shall become a part of the Farm, with the exception of those items brought onto the Farm to temporarily replace a piece of equipment which has been removed for repair. Lessee shall not remove any irrigation, drainage or pumping items, equipment or appurtenances thereto from the Farm and shall return same to Lessor in good working condition. When the Farm is used for dry land farming and where no irrigation is in use or required, all irrigation requirements contained in this Lease shall be automatically eliminated.

6. **Water**.

6.1 Source. Water necessary for the irrigation of crops to be grown on the Farm during the Term shall be made available by Lessor. Water for irrigation of the Farm shall be supplied by a surface water pump located on a pond owned by Lessor on Lessor’s adjacent property (“**Surface Water Pump**”). Lessor hereby grants to Lessee a license to operate the Surface Water Pump on Lessor’s property upon twenty-four (24) hours prior notice to Lessor.

6.2 Groundwater. Should Lessor determine that insufficient surface water is available for Lessee’s demands under this Lease, it may substitute at any time groundwater supplies upon prior notice to Lessee. Lessor and its Agents shall have the right, at its cost, to drill and install groundwater wells on the Farm.

6.3 No Warranty. Lessor makes no warranty or agreement of any kind concerning the quality of the water available to the Farm or whether drainage or irrigation of the Farm is feasible or necessary, and Lessee shall in no way hold Lessor responsible for the quality of or excess of water for any intended purposes. Lessee agrees that water or water rights related to the Farm shall be preserved and used solely in connection with the operation of the Farm. Lessee shall not remove any water from the Farm or otherwise dispose of any water, except in connection with the proper drainage of the Farm, without the express prior written consent of Lessor.

6.4 Water Supply Reductions. Although Lessor shall use all reasonable efforts to make water available to Lessee for the purposes of irrigation under this Lease, the water supply available to the Farm under this Lease may be reduced by Lessor for any of the following reasons: (i) applicable federal and state laws now in existence and as modified from time to time, affecting Lessor’s rights or obligations; (ii) failure of facilities; intervening acts, including litigation and stream adjudication brought by third parties, or actions of any state or federal agency exercising jurisdiction or claiming an interest and/or right to reduce and/or modify operations and/or quantities of water otherwise available to Lessor; and (iii) any action, legislation, ruling or determination adverse to the Lessor affecting the Lease and beyond the reasonable control of the Lessor. Lessor shall make a good faith effort to oppose such reductions, but Lessee agrees that Lessor shall not be liable for reductions of water supply available under this Lease due to such causes.

7. **Condition of Farm**. Lessee has inspected the Farm and is fully familiar with the physical condition thereof, has received the same in good order and condition, and agrees that the Farm complies in all respects with the requirements of this Lease. Lessor makes no representation or warranty with respect to the condition of the Farm or its fitness or availability for any particular use, and Lessor shall not be liable for any latent or patent defect therein. Lessee shall not do or permit any act or thing which is contrary to any legal or insurance requirement, which might impair the value or usefulness of the Farm or any part thereof, or which constitutes a public or private nuisance or waste. This Lease shall be subject to any existing rights of others, including but not limited to easements, rights of way, water rights, mineral rights, oil and gas leases and restrictions on use of the Farm.

8. **Payment of Taxes and Utilities**. Property taxes on the Farm shall be paid by Lessor. Utilities, including but not limited to gas, telephone, electricity and water, rendered to and used in connection with the Farm shall be paid by Lessee. Said utilities to be paid by Lessee shall include the electricity for the Surface Water Pump, and Lessee shall provide meter readings to Lessor for the purpose of allocating such costs. Should Lessor be required to pump groundwater to meet its obligation to Lessee under Section 6 above, Lessee shall pay all electricity charges for such pumping. All costs, charges, and assessments for irrigation water at the applicable rate established by Lessor shall be paid by Lessee. Lessee shall maintain the Farm in the San Joaquin County and Delta Water Quality Coalition, and all required fees shall be paid by Lessee. All payments by Lessee required under this Section 8 shall be paid by Lessee directly, or reimbursed to Lessor within thirty (30) days of invoice by Lessor.

9. **Assignment or Sublease**. Lessee shall not sublet the Farm or any part thereof, assign this Lease in whole or in part, or in any way encumber this Lease or the Farm without Lessor's prior written consent. Lessor may assign this Lease, in whole or in part, and shall thereupon be released of all duties and obligations under this Lease. Upon a termination of Lessor's leasehold interest in the Farm for any reason, Lessee shall agree to and accept Owner or its assignee as the lessor for the balance of the Term remaining under this Lease, subject to all the terms and conditions of this Lease, on condition that Owner shall perform all of Lessor's obligations under this Lease from and after the date of termination of Lessor's leasehold interest in the Farm.

10. **Operations and Good Farming and Husbandry Practices**.

10.1. Use of the Farm. Lessee shall use due diligence and farming practices, consistent with the highest-quality farming practices in the county where the Farm is located, in all aspects pertaining to the growing, storing and marketing of the crops and in the general conduct of operations and use of the Farm. Lessee shall operate and use the Farm for the sole purpose of conducting an agricultural operation under the terms and conditions provided in this Lease. Lessee shall, in due and proper season, perform all work required and essential in a good and workmanlike manner as will be conducive to the very best results to be had and obtained by a high-quality system of husbandry and farming. If this Lease covers permanent crops, Lessee shall care for, protect and maintain the crops in a good and workmanlike manner consistent with the highest-quality farming practices in the county where the Farm is located.

10.2. Equipment, Tools, Seeds, and Labor. Lessee shall use and furnish, at its sole expense, high-quality equipment, tools, seeds and labor proper or necessary to a top-quality husbandry and farming operation on the Farm.

10.3. Pests, Diseases, Weeds and Erosion. Lessee shall use all diligence by the best means known for the controlling and curing of pests and diseases which hinder and menace growing crops, supply and use all required means to rid the Farm of same, and keep the Farm and crops thereon free from all types of weeds. Lessee agrees to adopt low-input sustainable agricultural practices with respect to the Farm when said practices can be implemented without any adverse impact on the investment returns from the Farm. Lessee shall take reasonable care to prevent soil erosion by strip-cropping and contouring, as well as by filling in or otherwise controlling small washes or ditches that may form on the Farm. Lessee shall keep in good repair all terraces, open ditches and inlets and outlets of tile drains and shall preserve all established watercourses or ditches, including grass waterways, situated or lying on the Farm. Before performing any drainage work, Lessee agrees to check with the county F.M.S. office in regard to the wetland status of the area affected and obtain prior approval for the drainage work to be performed. Lessee shall cut and remove or spray and destroy all noxious weeds before they revert to seed and shall cut and spray all other weeds and grasses growing on the Farm, in the fields, farmstead, roadsides, irrigation ditches and fence rows; and in all other respects, shall attend to the care and maintenance of the Farm in a good and prudent manner. Lessee shall obtain any burning permits necessary in compliance herewith. If the Farm contains any Highly Erodible Land (HEL) as determined by the local F.M.S. office, Lessee agrees to farm the Farm in a manner as to comply with the stated conservation plan.

10.4. Removal of Crop Residue. Lessee shall not, without the prior written consent of Lessor, burn or otherwise remove cornstalks or other crop residue resulting from the conduct of its farming and agricultural operations on the Farm; but shall, as soon as practicable, attend to the spreading of all crop residue, manure, straw and the like upon those fields which have been specified and agreed upon by Lessor.

11. **Inspection**. Lessor or Owner, or their authorized representatives or assignees, may enter the Farm at any time for the purpose of inspecting same or for the purpose of doing any work and taking any action thereon as may be necessary or appropriate for the purpose (but nothing contained in this Lease shall create or imply any duty on the part of Lessor or Owner or their assignees to make any inspection or do any work) and for the purpose of showing the Farm to prospective purchasers. Entry for the purposes specified herein shall not constitute an eviction of Lessee nor termination of this Lease. At all times, Lessor shall have access to the Farm and to all reports, records, and information of the Lessee in respect thereto, for the purposes of inspecting, determining, and ascertaining that all of the requirements of the Lease and the Exhibits hereto have been fulfilled; including, without limitation, the operation and maintenance procedures, and the public liability insurance requirements. Lessee shall maintain accurate and complete records of its

operations on the Farm and make them available at any time for inspection and examination by Lessor. Lessee agrees to provide information as requested by Lessor with regard to fertilizer used, tillage practices, acreage reports, chemical usage, and crop yields in a timely manner.

12. **Legal Requirements**. Lessee, at its expense, shall promptly and diligently comply with all legal requirements pertaining to the operation of the Farm and the farming thereof.

12.1. Permits, Licenses, Franchises, and Other Authorizations. Lessee, at its expense, shall promptly and diligently procure, maintain and comply with all permits, licenses, franchises and other authorizations which are now or at any time hereafter may be required for the use and operation of the Farm contemplated hereby.

12.2. Compliance with Laws. Lessee, at its expense, shall promptly and diligently comply strictly and in all respects with any and all current and future federal, state, and local laws, statutes, rules, regulations and ordinances, orders, judgments, decrees, injunctions, authorizations, directions, and requirements of all governments, departments, commissions, boards, courts, authorities, agencies, officials and officers as amended and modified from time to time which are now, or at any time hereafter, may be applicable to the operation of the Farm and the farming thereof, including but not limited to full compliance with government F.S.A. programs and with federal, state, and local common law.

12.3. Lessee agrees to pay, at Lessee's sole costs and expense, all claims, fines, penalties and damages that may in any manner arise out of, or be imposed upon, the Farm because of the failure of Lessee to comply with the provisions of this Section 12, and Lessee hereby agrees to indemnify, save and hold Lessor harmless for any damage, injury, or claim, imposed or recovered by reason of any breach of this Section 12 by Lessee. The obligations of Lessee under this Section 12 shall survive any termination of this Lease.

13. **Indemnification and Insurance**. Lessee shall protect, indemnify and hold harmless Lessor and Owner from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, attorneys' fees and expenses) imposed upon, incurred by, or asserted against Lessor, Owner, or the Farm by reason of the operations conducted by Lessee on the Farm or as a result of any failure on the part of Lessee to perform or comply with any of the terms of this Lease. The obligations of Lessee under this section shall survive any termination of this Lease. During the Term of this Lease, Lessee, at its sole cost, shall maintain comprehensive liability and property damage insurance on the premises in the amount of One Million dollars ($1,000,000.00) combined single limit per occurrence. This insurance shall include hired and non-owned auto coverage and shall name Lessor and Owner as additional insured. This insurance will operate as primary insurance. The insurance policies shall name Owner and Lessor (or their assignees) as additional insureds as their respective interests appear and shall include an effective waiver by the carrier of all rights of subrogation against any named insured of the insured's interest in the Farm or any income derived from the Farm and shall provide that insurance proceeds shall be payable for the benefit of Owner and Lessor (or their assignees), and Lessee as their respective interests may appear. The insurance policies shall also provide that any losses shall be payable, notwithstanding any act or failure to act or negligence of Owner, Lessor, Lessee, or any other person, corporation or other business entity and that no cancellation,

reduction in amount or material change in coverage shall be made effective until at least thirty (30) days after receipt by Lessor and Lessee of written notice thereof. All policies shall be executed with carriers with A.M. Best rating of B+ or higher. Documentation of all coverages, including additional insured certificates and endorsements, shall be provided to Lessor by Lessee. Lessee also agrees to carry Workers Compensation Insurance and Employers Liability to the extent required by law at all times during the Term of this Lease.

14. **Waste and Protection of the Farm**. Lessee shall not commit or permit waste or strip, shall supervise the Farm at all times, and shall exercise every best effort to prevent theft, vandalism and other damage to the Farm.

15. **No Claims Against Lessor, Etc**. Nothing contained in this Lease shall constitute any consent or request by Lessor, express or implied, for the performance of any labor or services; the furnishing of any materials or other property in respect of the Farm or any part thereof; nor as giving Lessee any right, power or authority to contract for or permit the performance of any labor or services or the furnishing of any materials or other property in a fashion as would permit the making of any claim against Lessor, it being understood and agreed that the relationship between the parties hereunder shall consist solely as that of landlord and tenant (Lessor and Lessee); and in no event and under no circumstances shall the relationship be considered or construed as an agency, partnership, joint venture, or any similar relationship.

16. **Defaults, Termination, Repossession and Reletting**. If any Event of Default, as defined below, shall have occurred and be continuing, Lessor, whether or not the Term shall have terminated pursuant to this Section 16, may enter upon and repossess the Farm or any part thereof by summary proceeding, ejection or otherwise, and may remove Lessee and all other persons and any and all property therefrom. Lessor shall be under no liability for or by reason of any entry, repossession or removal. At any time or from time to time after the repossession of the Farm or any part thereof, whether or not the Term shall have been terminated pursuant to this Section 16, Lessor may (but shall be under no obligation to) relet the Farm or any part thereof for the account of Lessee, in the name of Lessee or Lessor or otherwise, without notice to Lessee, for the Term and on the conditions and for the uses as Lessor in its uncontrolled discretion, may determine and may collect and receive the rents therefor. Lessor shall not be responsible or liable for any failure to relet the Farm or any part thereof or for any failure to collect any rent due upon any reletting. Lessee shall reimburse Lessor for all costs and expenses incurred by or on behalf of Lessor (including, without limitation, attorneys' fees and expenses) occasioned by any default by Lessee under this Lease. The following events ("**Events of Default**") constitute a default under this Lease:

16.1. Failure to Pay Rent. Lessee fails to pay any rent when and as same becomes due and payable;

16.2. Failure to Comply with Other Terms of this Lease**.** Lessee fails to perform or comply with any of the other terms hereof, and the failure continues for more than ten (10) days after notice thereof from Lessor and Lessee has not within that period commenced with due diligence and dispatch the curing of the default;

16.3. Insolvency. Lessee either:

16.3A. makes a general assignment for the benefit of creditors;

16.3B. admits in writing the inability to pay debts as they become due;

16.3C. files a petition in bankruptcy;

16.3D. is adjudicated a bankrupt or insolvent;

16.3E. files a petition seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation.

16.3F. files an answer admitting, or fails seasonably to contest, the material allegations of a petition filed against Lessee in any bankruptcy or insolvency proceedings;

16.3G.seeks, consents to, or acquiesces in the appointment of any trustee, receiver or liquidator of Lessee or any material part of its properties;

16.4. Commencement of Proceeding Against Lessee. Within ten (10) days after the commencement of any proceeding against Lessee seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future statute, law or regulation, the proceeding has not been dismissed; or within ten (10) days after the appointment, without the consent or acquiescence of Lessee, or any trustee, receiver or liquidator of Lessee or of any material part of its properties, the appointment has not been vacated;

16.5. Entry of Final Judgment Against Lessee. Within ten (10) days after the entry of a final judgment for the payment of money is rendered against Lessee, the judgment has not been discharged or execution thereof stayed pending appeal; or within ten (10) days after the expiration of any stay, the judgment has not been discharged then, and in any event, Lessor at any time thereafter may give a written termination notice to Lessee; and on the date specified in the notice, this Lease shall terminate and, subject to the provisions of Section 17, the Term shall expire and terminate by limitation; and all rights of Lessee under this Lease shall cease, unless, before the specified date:

16.5A. all arrears of rent and all other sums payable by Lessee under this Lease together with interest thereon at the rate specified in Section 33 and all costs and expenses, including, without limitation, attorneys' fees and expenses, incurred by or on behalf of Lessor hereunder have been paid by Lessee; and

16.5B. all other defaults at the time existing under this Lease shall have been fully remedied to the satisfaction of Lessor.

17. **Survival of Lessee's Obligations; Damages**. No expiration or termination of this Lease or the Term pursuant to Section 16 or by operation of law, or otherwise, and no repossession of the Farm or any part thereof pursuant to Section 16, or otherwise, shall relieve Lessee of its

liabilities and obligations hereunder, all of which shall survive the expiration, termination or repossession. In the event of any expiration, termination or repossession, Lessee shall pay to Lessor all rents and other sums required to be paid by Lessee up to the time of the expiration, termination or repossession; and thereafter Lessee (until the end of what would have been the Term in the absence of the expiration, termination or repossession and whether or not the Farm or any part thereof shall have been relet) shall be liable to Lessor for and shall pay to Lessor as liquidated and agreed current damages for Lessee's default all rent and other sums which would be payable under this Lease by Lessee in the absence of the expiration, termination or repossession LESS all net rents collected by Lessor from any reletting effected for the account of the Lessee pursuant to Section 16, after deducting from the proceeds all of Lessor's expenses in connection with the reletting (including, without limitation, all repossession costs, brokerage commissions, legal and accounting expenses, attorney's fees and expenses, employees' expenses, promotional expenses, and expenses of preparation for the reletting). Lessee shall pay current damages annually on the rent payment dates applicable in the absence of the expiration, termination or repossession; and Lessor shall be entitled to recover the same from Lessee on each applicable date.

18. **Performance on Behalf of Lessee**. In the event that Lessee shall fail to make any payment or perform any act required hereunder to be made or performed by Lessee, then Lessor may, but shall be under no obligation to, after notice to Lessee as may be reasonable under the circumstances, make a payment or perform an act with the same effect as if made or performed by Lessee. Entry by Lessor upon the Farm for the above purpose shall not waive or release Lessee from any obligation or default hereunder. Lessee shall reimburse, with interest at the rate specified in Section 33, Lessor for all sums so paid by Lessor and all costs and expenses incurred by Lessor in connection with the performance of any act which Lessee fails to perform as required by this Lease.

19. **Quiet Enjoyment**. Lessor covenants with Lessee that upon Lessee's entry onto the Farm and Lessee's performance of each of the terms and conditions of this Lease, Lessee shall have full freedom and use of the Farm in accordance with the terms hereof.

20. **Remedies**. Each right, power and remedy of Lessor provided in this Lease, or now or hereafter existing at law or in equity or by statute or otherwise, shall be cumulative and concurrent and shall be in addition to every other right, power or remedy provided for in this Lease, or now or hereafter existing at law or in equity or by statute; and the exercise or beginning of the exercise by Lessor of any one or more of the rights, powers, or remedies provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise shall not preclude the simultaneous or later exercise by Lessor of any or all other rights, powers or remedies.

21. **Waiver**. No failure by Lessor or Lessee to insist upon the strict performance of any term hereof or to exercise any right, power or remedy consequent upon a default thereof, and no submission by Lessee or acceptance by Lessor of full or partial rent during the continuance of any default, shall constitute a waiver of any default or any term. No waiver of any default shall affect or alter this Lease which shall continue in full force and effect or affect the respective rights of Lessor or Lessee with respect to any other then-existing or subsequent default.

22. **Notices**. All notices, demands, consents, approvals and requests given by either party to the other under this Agreement shall be in writing and shall be sent to the parties at the address set forth below, or to the address as shall be supplied in writing by either party to the other. Notices shall be either (I) personally delivered (including delivery by Federal Express or other courier service) to the offices set forth herein, in which case they shall be deemed delivered on the date of first attempted delivery to said offices; (ii) sent by facsimile or electronic mail, in which case they shall be deemed delivered on the date sent, if sent during normal business hours, or on the next business day, if sent outside normal business hours, if such notices sent by facsimile or electronic mail are also sent by overnight courier within one (1) business day after transmission; (iii) sent by certified mail, return receipt requested, in which case they shall be deemed delivered on the date shown on the receipt unless delivery is refused or delayed by the addressee, in which event they shall be deemed delivered on the date of deposit in the United States mail, or (iv) sent in any manner other than as set forth in subsections (i) through (iii) above, in which case they shall be effective when actually received by the party to whom such notices are given. The addresses and addressees may be changed by giving notice of such change in the manner provided for above:

To Lessor: Stockton East Water District
Attention: General Manager
PO Box 5157
Stockton, CA 95205
Phone: 209.948.0333
Email: jhopkins@sewd.net

To Lessee: Lagorio Brothers
Attention: Brett Lagorio, President
18600 Tobacco Road
Linden, CA 95236
Phone: 209.887.2141
Email: lagoriobros@verizon.net

23. **Provisions Subject to Applicable Law/Severability**. All rights, powers and remedies provided herein may be exercised only to the extent that the exercise thereof does not violate any applicable law and are intended to be limited to the extent necessary so that they will not render this Lease invalid or unenforceable. If any term of this Lease shall be held to be invalid, illegal or unenforceable, the validity of the other terms of this Lease shall in no way be affected thereby. This Lease shall be governed by and construed according to the laws of the state where the Farm is located.

24. **Conveyance by Lessor**. In case the original or any successor Lessor shall convey or otherwise dispose of its interest in the Farm, it shall thereupon be released from all liabilities and obligations of Lessor under this Lease; and the liabilities and obligations shall be binding solely on the then Lessor of the Farm.

25. **Lessor's Liens**. A crop lien is hereby established for the benefit of Lessor for any unpaid rentals. In connection therewith, Lessee agrees to execute a security agreement and financing statement if same is required by Lessor. Lessor shall be entitled to and shall have a valid

claim and lien against Lessee to recover for all money advanced for employment of labor or otherwise advanced to protect Lessor against any loss due to Lessee's failure to fulfill and perform or carry out the conditions and agreements. No lien created by Lessee shall ever be or become prior to Lessor's claim and lien. Lessor shall have a valid first lien on the share of crops of Lessee, for the rent and for damages due Lessor under the terms and conditions of this Lease.

26. **Minerals**. All coal, oil, gas, minerals and mineral rights in, on or underneath the surface of the Farm or any part thereof have been reserved to Owner or its assignee and are not covered by this Lease. Owner or its assignee has the right to enter in and upon the surface of the Farm to have, use and enjoy so much of the Farm as shall be required to prospect and explore for, develop and produce from the Farm or any part thereof. In addition, Owner or its assignee may use as much of the Farm as shall be required for roads, buildings, tanks, pipe lines, fixtures and equipment in connection therewith and desired to be placed on the Farm, all of which shall be done as a reserved right and without opposition or hindrance from the Lessee, as fully and completely as if this Lease had not been made. At the time of the possession for the above purposes, if the land has been prepared for crops, or if a crop is growing thereon, then Lessee shall be reimbursed for any damages resulting to it from the loss of use of the Farm; and the rent shall be proportionately reduced for any subsequent years remaining under the Term. If the Farm has not been prepared for a crop, then it shall be subject to occupancy as reserved land under the direction of Owner or its assignee for its use and occupancy and, in that event, Lessee shall make no claim for damages against Lessor or Owner or their assignees, provided that the rent shall be proportionately reduced.

27. **Conservation Damage or Destruction**. Lessee, in the operation and use of the Farm for the purposes set forth herein, shall not cause, consent to, or in any way or manner, allow any act or practice to be perpetrated upon the Farm which would ultimately result in damage to or destruction of a conservation practice.

28. **Hazardous Materials**.

28.1. Use of Hazardous Materials and Indemnification.

28.1A. Lessee covenants that it shall not cause or permit any Hazardous Material to be generated, stored, used, treated, handled, processed, transferred, transported or disposed of or otherwise released on the Farm by Lessee, its agents, employees, or contractors without the prior written consent of Lessor. In no event shall Lessee allow or otherwise authorize discharge or release of any Hazardous Materials to any sewer, storm water system, stream, or other unauthorized point, on the Farm.

28.1B. If Lessee breaches the obligations stated in Section 28.1.A, or if contamination of the Farm by Hazardous Material occurs as a result of the action or inaction of Lessee, its agents, employees, or contractors, then Lessee shall indemnify, defend, and hold Lessor and Owner and their assignees harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, damages and expenses suffered or incurred by Lessor or Owner, as the owner of the Farm, by virtue of any assertion of Federal or State lien or claim brought or filed against Lessor and/or Owner or their assignees or the Farm, diminution in value of the Farm, damage arising from any adverse impact on marketing of the Farm, and sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees) which arise during or after the Term as a result of the contamination.

28.1C. The indemnification of Owner and Lessor and their assignees by Lessee, includes, without limitation, costs incurred in connection with any investigation of site conditions or any clean-up or remediation work required by any federal, state or local governmental agency because of Hazardous Material(s) present in the soil or groundwater on or under the Farm. In the event of any contamination of the Farm or release or disposal of any quantity of hazardous material(s) on the Farm, Lessee shall promptly notify Owner and Lessor, shall comply with all applicable laws, and shall promptly take all actions, in accordance with the provisions of all applicable environmental laws, at its sole expense, as are necessary to return the Farm to the condition existing prior to the presence of any Hazardous Material(s) on the Farm. Lessee shall receive certification from the appropriate state environmental agency that the Farm, and any other affected property, has been cleaned up to the satisfaction of the agency. The foregoing indemnity shall survive the expiration or earlier termination of this Lease.

28.1D. Lessee shall be unconditionally and absolutely liable for all losses and damages sustained by Owner and Lessor and their assignees as a result of any breach of, or the failure by Lessee to perform under, any environmental representation, warranty, covenant, obligation and indemnification provided in this Lease. Lessee shall pay any costs, expenses, claims, damages and attorney's fees due under this Section regardless of whether the amounts occur pre-petition or post-petition after the filing for any bankruptcy or reorganization relief under state or federal laws.

28.2. Hazardous Materials Definition. As used herein, "Hazardous Materials" means:

28.2A. any hazardous or toxic substance, material or waste, including, but not limited to, any substance, product, or other material of any nature whatsoever which is or becomes listed, regulated or addressed pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601, et seq. ("CERCLA"); the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq. ("RCRA"); the Toxic Substances Control Act, 15 U.S.C. Sections 2601 et seq.; the Clean Water Act, 33 U.S.C. Section 1251 et seq., all as amended; or any other federal, state or local statute, law, ordinance, resolution, code, rule, regulation, order or decree regulating, relating to, or imposing liability or standards of conduct concerning, any hazardous, toxic or dangerous waste, substance or material, as now or at any time hereafter in effect;

28.2B. any substance, product, waste or other material of any nature whatsoever which may give rise to liability under any of the above statutes or under any statutory or common law theory based on negligence, trespass, intentional tort, nuisance, equitable indemnity, or strict liability or under any reported decisions of a state or federal court.

28.3. Disclosure. At the commencement of this Lease and annually thereafter, Lessee covenants to disclose to Lessor the names and amounts of all Hazardous Materials, or any combination thereof, which are or will be generated, stored, used or disposed of on the Farm. Lessee shall promptly provide Owner and Lessor with all notices and other communications received from any federal, state, and local department and/or agency which enforces and administers environmental laws.

28.4. Inspection. Owner, Lessor and their agents and assignees shall have the right, but not the duty, to inspect the Farm at any time to determine whether Lessee is complying with the terms of this Section 28. If Owner or Lessor or their agents or assignees determine that Lessee is not in compliance with this Section 28, Owner and Lessor and their agents and assignees may immediately enter the Farm to remedy, at Lessee's sole expense, any contamination of Hazardous Material(s) caused by Lessee's failure to comply with applicable laws and to take any and all other actions Owner or Lessor deems necessary to cure the failure of compliance, notwithstanding any other provision of this Lease. Lessee shall immediately reimburse Lessor or Owner or their assignees for any amounts paid by them together with interest thereon at the maximum rate allowed by applicable state law from the date of the payment. Entry by Owner or Lessor or their assignees upon the Farm for the above purpose shall not waive or release Lessee from any obligations or default hereunder.

28.5. Default. Any default under this Section 29 shall be an Event of Default enabling Lessor to exercise any of the remedies set forth in this Lease. The terms of this Section 29 shall survive the termination of this Lease.

29. **Lessor's Right of Termination**. Notwithstanding the foregoing, Lessor may terminate this Lease at any time, and from time to time, as to all or any part of the leased Farm by sending or giving to Lessee thirty (30) days prior written notice of its election to do so; provided that Lessor shall pay Lessee for fertilizing, soil preparation, planting, weed-spraying, and cultivation at the average custom rate as published by the nearest State University or the county extension office of the county where the Farm is located, whichever is the most recent. In addition, Lessee shall be reimbursed for Lessee's direct costs, such as seed, fertilizer, and chemicals, but not for gasoline or lubricants. Lessee shall be paid a fair and reasonable compensation for growing crops. In the event of a sale by Owner of the Farm during the Term and the desire by the purchaser thereof for immediate possession of the Farm, Lessee hereby agrees to surrender possession and terminate the Lease within thirty (30) days of notice from Lessor to Lessee of the sale, upon payment to Lessee of the amounts specified above. If Lessee and Lessor (or Owner's purchaser in the event of a sale of the Farm) cannot agree as to the amount of compensation, then the compensation for growing crops shall be determined by three (3) disinterested appraisers experienced in agricultural and husbandry operations and properties, one of whom shall be appointed by Lessee, one appointed by Lessor (or the Purchaser of the Farm if a sale is involved), and one selected by both Lessee and Lessor (or by both Lessee and the Purchaser if a sale is involved). In the event the appraisers cannot agree upon compensation to Lessee, Owner shall determine the compensation; and same shall be binding upon Lessee. Lessor reserves to itself, its agents, employees, or assigns the right, after the end of the thirty (30) day notice period, to sow (after severance of crops), to seed, or to apply fertilizers and to do other field work.

30. **Next Year's Crop**. Before Lessee prepares seedbed, fertilizes or plants crops to be harvested in the next year, Lessee and Lessor must sign a new lease for the next crop year. Any

default, as defined in Section 16 of this Lease, for the remaining Term shall, in Lessor's sole discretion, render the new lease signed for the next year null and void.

31. **End of Lease Term**. Upon expiration or other termination of this Lease, Lessee shall immediately quit and surrender to Lessor the Farm in good order and condition, ordinary wear and tear excepted, and shall remove all of Lessee's equipment. Lessee shall restore any damage to the Farm caused by the removal of Lessee's equipment. No holding over shall be permitted without Lessor's prior written consent.

32. **Interest**. All past due rent and all other sums payable by Lessee under this Lease shall accrue interest of ten percent (10%) per annum from the date due or the date incurred by Lessor, as applicable.

33. **Miscellaneous**.

33.1 Entire Agreement. This Lease supersedes any prior agreement and contains the entire agreement of the Parties on the matters covered. No other agreement, statement or promise made by any party that is not in writing and signed by all of the Parties to this Lease shall be binding upon them.

33.2 Time is of the Essence**.** Time is of the essence in the performance by Lessee of the agreements and obligations as provided by this Lease.

33.3 Severability. If any term, covenant or provision of this Lease is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the provisions shall remain in full force and effect and shall in no way be affected, impaired, or invalidated.

33.4 Governing Law. The laws of the State of California shall govern the validity, performance, and enforcement of this Lease.

33.5 Attorney's Fees. In the event any action is filed to interpret, enforce or recover damages f or the breach of this Lease, the prevailing party shall be entitled to recover, as an element of its cost of suit and not as damages, reasonable attorney's fees and costs from the party not prevailing.

33.6 Binding on Heirs. This Lease, and its terms, is expressly intended to and shall inure to the benefit of and be binding upon the Parties, their respective heirs, personal representatives, permitted assigns, subsequent purchasers of the Property and other successors-in-interest.

33.7 Time is of the Essence. Time is of the essence of this Lease and each and every provision hereof.

33.8 No Partnership. The Parties agree that nothing contained in this Lease shall be deemed or construed as creating a partnership or joint venture between the Parties or between the Parties and any other party.

33.9 Recording. Neither this lease nor a memorandum of this Lease shall be recorded.

IN WITNESS WHEREOF, the parties hereto, on the date first-above written, have caused this Lease to be executed in duplicate.

STOCKTON EAST WATER DISTRICT

By: ________________________________
Justin Hopkins, General Manager

LAGORIO BROTHERS

By: _________________________________
Brett Lagorio, President

EXHIBIT A

Legal Description

That certain real property situated in the County of San Joaquin, State of California, described as follows:

PARCEL ONE:

The Southeast ¼ of Section 65 and the Southwest ¼ of Section 75, of C. M. WEBER GRANT, lying West of Security Tract.

EXCEPT: (a) portion conveyed to Raymond S. Miller and Ardelle Wright Miller, his wife, by Deed recorded October 18, 1935, in Vol. 511 of Official Records, Page 270 and (b) portion conveyed to the Stockton-East Water District, by Corporation Grant Deed dated September 25, 1978, recorded September 29, 1978, in Book 4455, Page 199, Document No. 69170, Official Records.

PARCEL TWO:

Lots 6 to 9 inclusive as shown upon Map entitled SECURITY TRACT filed for record March 3, 1914 in Vol. 8 of Maps and Plats, Page 15, San Joaquin County Records.

September 16, 2026

Carna Farming, Inc.
Attn: Brett Lagorio, President
18600 Tobacco Road
Linden, CA 95236

Re: Notice of Termination of 2024 Agricultural Lease – North Site Property

Dear Mr. Lagorio:

This letter constitutes the written notice of Stockton East Water District (the "District") terminating that certain 2024 Agricultural Lease dated January 31, 2024 (the "Lease"), by and between the District, as Lessor, and Carna Farming, Inc. ("Carna Farming"), as Lessee, covering the District's North Site Property located at 6833 E. Main Street and 6700 East Copperopolis Road, Stockton, California, consisting of approximately 113 acres of farmland, as more particularly described in Exhibit A to the Lease (the "Farm").

Pursuant to Section 3.2 of the Lease, this notice is given not less than ninety (90) days prior to expiration of the one-year extension term currently in effect. Accordingly, the Lease and Carna Farming's tenancy of the Farm shall terminate effective December 31, 2026.

All of Carna Farming's obligations under the Lease remain in full force and effect through the termination date, including without limitation those relating to rent, farm maintenance, insurance, and water and utility costs. Upon expiration of the Lease, Carna Farming shall immediately quit and surrender the Farm to the District in good order and condition, ordinary 'wear and tear' excepted, and shall remove all of Carna Farming's equipment and restore any damage caused by such removal, in accordance with Section 31 of the Lease.

As we have discussed, the District is open to negotiating a new agricultural lease for the Farm with Lagorio Brothers to commence upon expiration of the Lease. District staff will follow up separately to continue that discussion. This notice is being sent to preserve the District's rights and to comply with the notice requirements of Section 3.2 of the Lease and does not waive or foreclose those ongoing discussions.

Please feel free to contact me at (209) 948-0333 or jhopkins@sewd.net with any questions regarding this notice. The District appreciates Carna Farming's tenancy of the Farm and looks forward to a smooth transition.

Sincerely,

DRAFT

Justin M. Hopkins, P.E.

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Memorandum

To: Justin M. Hopkins – General Manager
From: Juan M. Vega – Assistant General Manager
Date: September 16, 2026
Re: Analysis of New Hogan Reservoir Releases and Reported System Losses, 2016–2025

Executive Summary

Reported losses on the New Hogan system have **appeared** to rise sharply in recent years. Staff reviewed ten years of release, delivery, and production records and found that the Stockton East Water District (District) is releasing substantially more water, not losing a larger share of it. Operational releases (total releases less flood control and top-of-conservation releases) rose from an average of **65,832 acre-feet** per year in **2016–2020** to **88,907** acre-feet per year **in 2021–2025**. Of that **23,075**-acre-foot annual increase, roughly **69 percent was delivered to municipal and agricultural and groundwater recharge use** and the remainder was additional conveyance loss. Measured as a share of water released, **losses fell from 43.8 percent to 40.7 percent**.

The driver is a shift in source. Raw water taken from New Melones has been essentially flat across the ten-year period while raw water taken from New Hogan has grown **roughly 78 percent**, meaning New Hogan has taken a bigger share of the municipal water supply. The shift is sharpest from October through December, when New Melones supply has been nearly zero as the District has chosen to not take water in those months due to the potentially high cost.

Staff also noted an issue in loss accounting. The issue is structural: losses are calculated as a residual, so the accounting always balances by design and while it can be an indicator of anomalies, it will not be very clear what the anomaly is. Every unmeasured use, including approximately 4,500 acre-feet per year of Calaveras County Water District diversions upstream of Bellota, is reported as District loss.

Staff recommends

1. Continued review of the measurement of percolation. Although the overall accounting of this figure nets out all water use, there are inherent issues with that approach as it is a catch all that may lead to missed issues.
2. Since the main finding is increased use the only other pertinent recommendation is continued investment in efficiency and additional water supplies.

Background

The District draws surface water from two sources. New Hogan Reservoir on the Calaveras River is operated under the District's water rights, and the New Melones Unit of the Central Valley Project is operated by the U.S. Bureau of Reclamation under contract. Water from

either source can serve the Dr. Joe Waidhofer Water Treatment Plant, and when supply is not taken from New Hogan it is generally taken from New Melones.
Water released from New Hogan serves three purposes. Municipal and industrial supply is diverted at the Bellota weir and conveyed to the treatment plant, with a portion directed to percolation ponds for groundwater recharge. Agricultural supply flows down Mosher Creek, the Old Calaveras River, and the Calaveras River to grower points of diversion. The balance is lost to evaporation from the channel and to percolation into the streambed before it reaches any point of diversion.

Calaveras County Water District diverts from the New Hogan system upstream of the District's point of diversion, at Jenny Lind and other locations, in an amount of approximately 4,500 acre-feet per year.

For the purposes of this report, "operational release" means total release from New Hogan, less flood control and top-of-conservation releases. Flood releases are excluded because that water passes through the system without being available for delivery, and including it distorts any comparison between years. In 2023, for example, flood releases accounted for 299,880 acre-feet of a 388,259-acre-foot total release.

Summary

How Losses Are Calculated, and Why That Matters

The District's loss figure is not measured. It is calculated by subtraction: operational release, less municipal water taken at Bellota, less agricultural deliveries, less an assumed evaporation figure. Whatever is left over is reported as loss.

This method has an important limitation. Because loss is defined as the leftover amount, the accounting always balances exactly. It can never fail, and therefore it can never signal that something could potentially be wrong. If a meter drifts, if a diversion goes unrecorded, or if the evaporation assumption is too low, the error does not appear as a discrepancy. It appears as loss and covers up the discrepancy.

The practical consequence is that the reported loss figure is a combination of true streambed percolation, channel evaporation, Calaveras County Water District's upstream diversions, true losses, and any measurement error in the system.

Releases and Their Disposition, 2016–2025

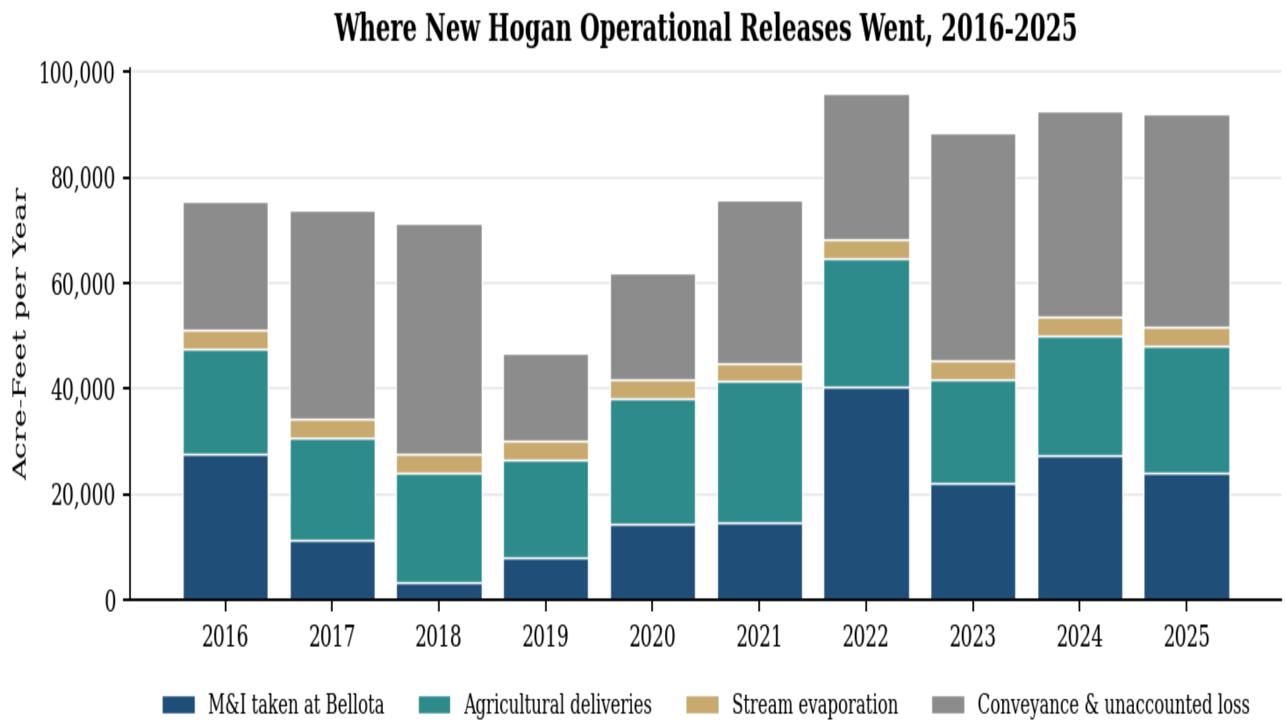
Table 1 summarizes ten years of New Hogan releases and how that water was used. All figures are in acre-feet.

Table 1. New Hogan Releases and Disposition, 2016–2025 (Acre-Feet)

Year	Total Release	Flood / TOC Release	Operational Release	M&I at Bellota	Ag Deliveries	Conveyance & Unaccounted Loss
2016	75,435	0	75,435	27,693	19,933	24,221
2017	461,087	387,194	73,893	11,444	19,333	39,527
2018	85,353	14,151	71,202	3,216	20,798	43,599
2019	305,561	258,716	46,845	7,960	18,461	16,835
2020	75,459	13,673	61,786	14,371	23,694	20,132
2021	76,794	1,183	75,611	14,778	26,628	30,907
2022	95,943	0	95,943	40,232	24,420	27,702
2023	388,259	299,880	88,379	22,071	19,685	43,033
2024	115,736	23,090	92,646	27,242	22,755	39,060
2025	97,928	5,970	91,958	24,106	23,903	40,360

***Note**: Municipal water taken at Bellota is raw water diverted for treatment plus water directed to percolation ponds. Conveyance and unaccounted loss is calculated as operational release less all metered deliveries and assumed evaporation.*

Figure 1. Disposition of New Hogan Operational Releases by Year



What Accounts for the Increase

Comparing the two five-year periods isolates where the previously presumed loss went. **Table 2** presents that analysis.

Table 2. Change in Operational Release and Its Disposition, 2016–2020 Compared to 2021–2025 (Acre-Feet per Year)

Where the Water Went	2016–2020 Avg.	2021–2025 Avg.	Change	Share of Increase
M&I water taken at Bellota (plant and recharge ponds)	12,937	25,686	+12,749	55%
Agricultural deliveries	20,444	23,478	+3,034	13%
Stream evaporation (assumed constant)	3,589	3,531	–58	0%
Conveyance and unaccounted loss	28,863	36,213	+7,350	32%
Total Operational Release	**65,832**	**88,907**	**+23,075**	**100%**

Note: *Percentages are shares of the 23,075-acre-foot annual increase in operational release and may not sum to 100 percent due to rounding. Municipal use, including groundwater recharge accounts for roughly 55 percent of the increase, agricultural deliveries for 13 percent, and additional loss for 32 percent. Municipal and agricultural deliveries together account for approximately 69 percent.*

The Loss Rate Has Not Increased

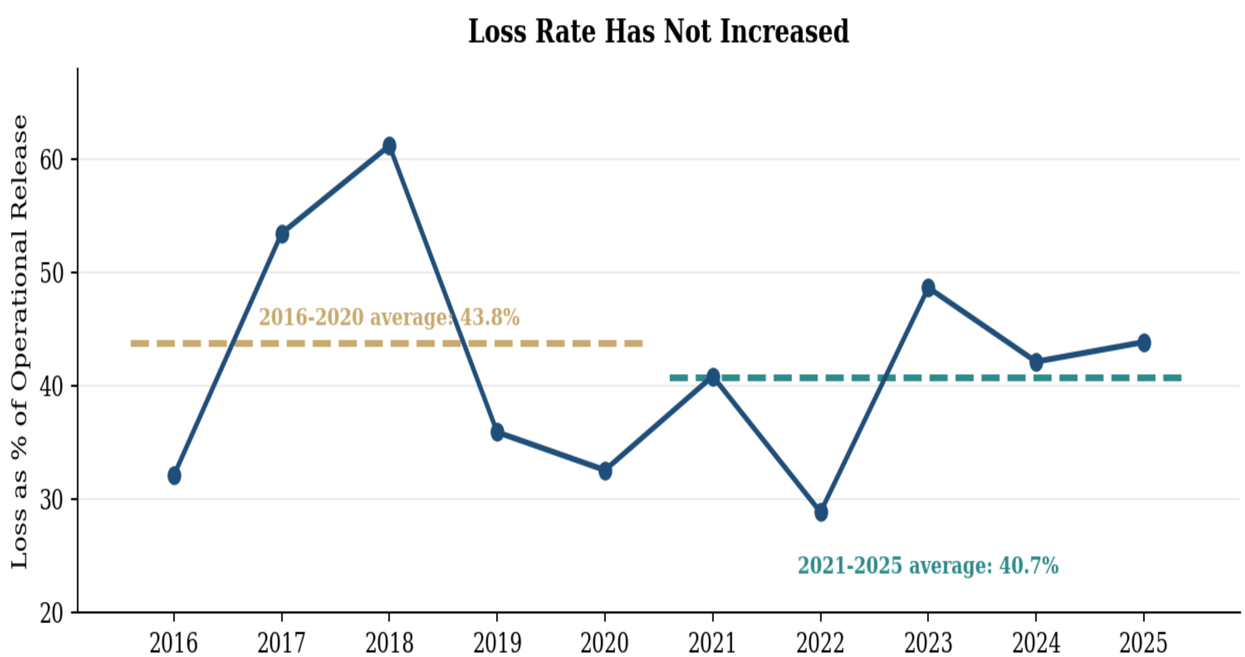
Total losses are higher than they were five years ago, but the District is releasing considerably more water. **Table 3** presents the share of each released acre-foot that fails to reach a point of delivery.

Table 3. Conveyance and Unaccounted Loss as a Percentage of Operational Release

2016	2017	2018	2019	2020	**2016–2020 Average**
32.1%	53.5%	61.2%	35.9%	32.6%	**43.8%**
2021	2022	2023	2024	2025	**2021–2025 Average**
40.9%	28.9%	48.7%	42.2%	43.9%	**40.7%**

Year-to-year variation reflects how heavily/long the channel is run. Wet years with sustained releases show higher rates; drought years with short delivery seasons show lower rates.

Figure 2. Loss as a Percentage of Operational Release, 2016–2025



The loss rate averaged **43.8** percent in the earlier period and **40.7** percent in the later period. The two highest rates in the ten-year record, **61.2 percent in 2018 and 53.5 percent in 2017**, both occurred in the earlier period.

The Driver: A Shift from New Melones to New Hogan

Total raw water delivered to the treatment plant, taken from the M&I Influent column of the District's records, grew from an average of 29,571 acre-feet per year in 2016–2020 to 38,890 acre-feet per year in 2021–2025. **Table 4** shows where that water came from.

Table 4. Sources of Raw Water Delivered to the Treatment Plant (Acre-Feet per Year)

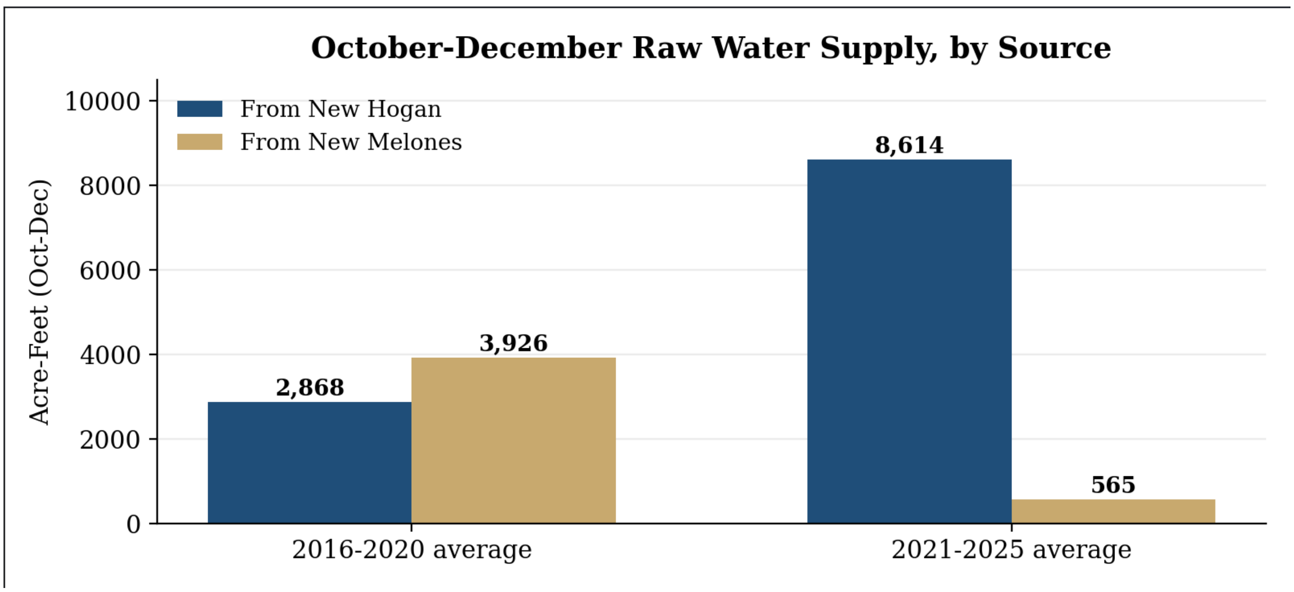
Source of Raw Water	2016–2020 Avg.	2021–2025 Avg.	Change
New Hogan (metered at Bellota)	10,938	19,490	+8,551
New Melones	18,083	17,907	–176
Groundwater	549	1,493	+944
Total raw water to TP	**29,571**	**38,890**	**+9,319**

New Hogan supplied approximately 92 percent of the growth in plant supply. New Melones was essentially unchanged, declining by 176 acre-feet per year, and groundwater supplied the small remainder.

The 12,749-acre-foot increase shown in **Table 2** is New Hogan water only and covers both the treatment plant and the percolation ponds. The 9,319-acre-foot increase shown in **Table 4** is treatment plant water only and covers all three sources. The two overlap in one element: the **8,551** acre-feet of additional New Hogan water sent to the plant. Adding the **4,198** acre-foot increase in recharge, which never enters the plant, reconciles that figure to the 12,749 acre-feet in **Table 2**.

The shift is most pronounced in the fall. During October through December, New Melones supply is nearly zero due to Board decision based on the potential high cost of New Melones water, while New Hogan supply has nearly quadrupled, as shown in **Figure 3**.

Figure 3. October–December Raw Water Supply by Source, Period Averages



Groundwater Recharge Is the Fastest-Growing Use

Within the municipal increase, water directed to the percolation ponds for groundwater recharge has grown faster than any other use of New Hogan water. Recharge averaged **1,998** acre-feet per year in 2016–2020 and **6,196** acre-feet per year in 2021–2025, an increase of 210 percent. The annual figures range from 426 acre-feet in 2018 to 8,293 acre-feet in 2024, a nearly twentyfold difference between the low and high years of record.

Table 5. Water Directed to Percolation Ponds for Groundwater Recharge

	2016	2017	2018	2019	2020	2016–2020 Average
Acre-feet	3,069	2,133	426	1,276	3,087	1,998
Share of Bellota M&I	11%	19%	13%	16%	21%	15%
	2021	**2022**	**2023**	**2024**	**2025**	**2021–2025 Average**
Acre-feet	4,762	6,207	5,771	8,293	5,947	6,196
Share of Bellota M&I	32%	15%	26%	30%	25%	24%

Note: Share of Bellota M&I is recharge as a percentage of all New Hogan water taken at Bellota for municipal purposes, including water sent to the treatment plant.

Recharge now represents roughly one quarter of all New Hogan water taken at Bellota, compared with roughly one sixth in the earlier period. Considered on its own, the 4,198 acre-foot per year increase in recharge accounts for approximately 18 percent of the entire 23,075 acre-foot increase in operational releases — more than agricultural deliveries contributed. Recharge is a beneficial use of District water and is properly excluded from the loss figure.

Financial Impact
This memorandum is informational and carries no direct financial impact.

Recommendation
Staff recommends

1. Continued review of the measurement of percolation. Although the overall accounting of this figure nets out all water use, there are inherent issues with that approach as it is a catch all that may lead to missed issues.
2. Since the main finding is increased use the only other pertinent recommendation is continued investment in efficiency and additional water supplies.