

Attached is a copy of the Cattle Grazing LEASE AGREEMENT that has been signed between our Flying-O Ranch Community Association (as Landlord) and the Circle W Ranch (as Tenant).

For those of you who have not been down this particular cow path, having a grazing lease with a reputable, acknowledged ranching operation provides two major benefits: 1) Yearly income (in our case, \$4,760 which we don't have to pay in dues) and 2) verification that we are engaged in a legitimate agricultural enterprise and are hence eligible for inclusion in the Williamson Act which drastically reduces the amount we pay in property taxes. And although this is the first year that we have had a written, signed lease, it is not the first year of our grazing relationship with the Circle W (Wyle) Ranch. The Wyles (along with Tom Wheeler) created and marketed the Flying-O and for the last ten years or so have run their cattle on the property and paid the rent to our Association; they've had a handshake lease with themselves as the Flying-O's majority property owners until this last year.

In order to facilitate our transition to a written agreement, Tom Wheeler, foreman of the Circle W, provided a grazing lease form they've used with other land holders as a model that we could modify and shape and then use to negotiate a final, mutually-agreed upon lease with the Circle W or any other cattle operation.

In a mid-October meeting sponsored by the Grazing Committee but open to all owners, Larry Myers, Head Herdsman for the Circle W, gave an excellent presentation on the Circle W's grazing philosophy and the practicalities of running cattle on the Flying-O (see the attached minutes of the _____). It became apparent that: 1) they know the Flying-O intimately—how many cows it can accommodate without damaging the environment and 2) they have been good stewards of our lands—cycling the cattle in and out over the year, allowing the grass to recover and retain its grazing value.

It also became apparent in mid-October that we needed to make a move on outlining a lease, negotiating with a tenant and signing papers before we became vulnerable to losing our Williamson Act status (and being fined—heavily) in January. Although there were rumors of other cattlemen being interested in leasing the land, no one had offered to share their grazing “philosophy” with us nor had anyone proposed leases with actual dollar amounts attached.

The procedure we adopted was to encourage the Grazing Committee to study the Circle W's sample lease, suggest changes, strive to achieve consensus and then submit their best efforts to the Board as a basis for negotiating a final lease with the Circle W (at this point, there was complete consensus among the Board, Grazing Committee and attendees at the October meeting that we should initially strike a deal with the Circle W). To put it mildly, there was an explosion of creativity applied to reshaping the language and terms of the lease. Most of the effort seemed to be applied to communication issues: the tenant needed to notify

the landlord about the movement of cattle on and off the ranch; the tenant, except in emergencies, needed to notify the landlord if they planned on brushing or cutting trees around the fence line (the tenant is responsible for maintaining the exterior border fence), etc.; and asking the tenant to be responsible for cleaning up after repairs and cattle moving operations.

After several intense weeks of often emotional exchanges, consensus was reached on most aspects of the lease except (please turn to page 4, item 14 in your attachment) an OPTION that was to be offered after the expiration of the first year term. The majority of the Grazing Committee (3 to 2) wanted to extend an option to the Circle W to painlessly extend their lease for 2 additional years (if they were not in violation of the other terms of the lease) with the proviso that the dollar amount of the lease could be renegotiated. The opposed wanted to leave the lease open for negotiation with other tenants including a possible consortium of Flying-O owners who might run their own cattle and pay rent to the Association. The majority favoring the option felt that it was an incentive to maintain the relationship with the Circle W: a proven quantity that had demonstrated its knowledge of and good stewardship of the land; an economically viable operation that would pay its bills and not leave the Flying-O vulnerable to expulsion from the Williamson Act.

There was one other factor that also had a major impact on the Board's concurring decision to retain the 2-year lease option: the USDA EQUIP grant. Some 2 and a half years after being applied for, the Circle W finally received a grant from the Department of Agriculture to

I would like to thank all the members of the Grazing Committee for their efforts and the time they committed to try and sculpt a fair, comprehensive, viable lease that would serve both the Flying-O community and its tenants well. I encourage the Committee to continue to seek out other lease forms for study, invite other cattlemen and experts to speak to the community, collect written materials and websites that might offer further knowledge about successful environmental stewardship, and, most importantly, seek ways to obtain current information on leasing rates so we can renegotiate intelligently. For those owners who want to consider creating a consortium to run cattle on the Flying-O, I encourage you to continue to educate yourselves and the rest of us about the pros and cons of such a venture: creating a business plan, learning about animal husbandry, marketing, etc. I also want to thank the Board, especially our 3 legal practitioners who were involved in the complete evolutionary development of the lease.

Don't forget that most of us are here for the long haul and, although we may be tied to the Circle W for the near term, there are years ahead to explore other possibilities.