

AGENDA
IRVINE RANCH WATER DISTRICT
ASSET MANAGEMENT COMMITTEE
TUESDAY, JULY 28, 2015

CALL TO ORDER 12:00 p.m., Committee Room, Second Floor District Office
15600 Sand Canyon Avenue, Irvine, California

ATTENDANCE Committee Chair: John Withers ____ Committee Member: Peer Swan ____

<u>ALSO PRESENT</u>	Paul Cook	_____	Tanja Fournier	_____
	Rob Jacobson	_____	_____	_____
	Cheryl Clary	_____	_____	_____
	_____	_____	_____	_____

COMMUNICATIONS

1. Notes: Jacobson
2. Public Comments.
3. Determine the need to discuss and/or take action on item(s) introduced that came to the attention of the District subsequent to the agenda being posted.
4. Determine which items may be approved without discussion.

INFORMATION

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| 5. <u>ASSET OPTIMIZATION – LAKE FOREST / SERRANO SUMMIT</u>
<u>PROPERTY ENVIRONMENTAL PERMITTING AND DEVELOPMENT</u>
<u>UPDATE – JACOBSON/CLARY</u> | |
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Recommendation: Receive and file.

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| 6. <u>REAL ESTATE QUARTERLY PERFORMANCE – JUNE 2015 –</u>
<u>DAVIS/FOURNIER/JACOBSON/CLARY</u> | |
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Recommendation: Receive and file.

OTHER BUSINESS

7. Directors' Comments
8. Adjourn

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Availability of agenda materials: Agenda exhibits and other writings that are disclosable public records distributed to all or a majority of the members of the Irvine Ranch Water District Board of Directors in connection with a matter subject to discussion or consideration at an open meeting of the Board of Directors are available for public inspection in the District's office, 15600 Sand Canyon Avenue, Irvine, California ("District Office"). If such writings are distributed to members of the Board less than 72 hours prior to the meeting, they will be available from the District Secretary of the District Office at the same time as they are distributed to Board Members, except that if such writings are distributed one hour prior to, or during, the meeting, they will be available at the entrance of the Committee Room of the District Office. The Irvine Ranch Water District Committee Room is wheelchair accessible. If you require any special disability-related accommodations (e.g., access to an amplified sound system, etc.) please contact the District Secretary at (949) 453-5300 during business hours at least seventy-two (72) hours prior to the scheduled meeting. This agenda can be obtained in alternative format upon written request to the District Secretary at least seventy-two (72) hours prior to the scheduled meeting.

July 28, 2015

Prepared by: Rob Jacobson 

Submitted by: Cheryl Clary 

Approved by: Paul Cook 

ASSET MANAGEMENT COMMITTEE

ASSET OPTIMIZATION – LAKE FOREST / SERRANO SUMMIT PROPERTY ENVIRONMENTAL PERMITTING AND DEVELOPMENT UPDATE

SUMMARY:

Staff and representatives from the District's entitlement consultant, Lewis Operating Group, will provide an update on the environmental permitting status for wetlands and habitat located on the City of Lake Forest's (City) planned civic center site. Staff and Lewis will also provide a revised project schedule including estimated permitting approval dates, completion of the planned Development Agreement (DA) amendment (to modify the civic center property boundaries), as well as estimated submittal and approval dates for the revised tentative tract map and subsequent final map. A revised timeline for the marketing and sale of the residential project will also be discussed.

BACKGROUND:

In July 2008, the Board approved a DA between the District and the City providing terms under which development could occur on the Serrano Summit project. The DA was subsequently approved by the City Council in August 2008. In February 2012, the City Council approved the Serrano Summit tentative tract map (TTM) depicting the future planning areas and corresponding Area Plan for the property, and included certification of a project-specific Environmental Impact Report (EIR). The Serrano Summit project will include up to 608 residential units, neighborhood and passive parks, a city hall and civic center complex, and IRWD operating facilities.

On April 23, 2012, the District retained Lewis to manage the process to obtain a recordable final map for the Serrano Summit project. Obtaining a recordable final map is an important entitlement milestone and is expected to add significant value to the property.

Environmental Permitting Status:

Early in the final map process, the District's environmental consultant, VCS Consultants, identified certain jurisdictional wetlands issues on the Civic Center property that would likely require additional Army Corp of Engineers (ACOE) permitting authorization not addressed in the City-managed EIR. Following numerous meetings with the City, VCS and ACOE and the subsequent submittal of the required permit application, the City received notification from the ACOE in July 2013 that permitting would be completed under its Letter of Permission (LOP) process. While the LOP process is more intensive than the nationwide permit referenced in the EIR, it is a less intensive, costly and time-consuming process than the ACOE's Standard Individual Permit (SIP) process.

The ACOE permit application included proposed site plan modifications to the City's Civic Center site in order to mitigate impacts. The planned onsite mitigation would result in a

reduction of about 1.50 useable acres from the City's planned "nine net acre" pad as defined in the DA.

In October 2014, the ACOE notified VCS that it had determined the project no longer qualified for permitting under its LOP process and would instead require an SIP. The ACOE explained that it had re-evaluated project qualifications for LOP permitting and had determined that the Serrano Summit project no longer meets the criteria to qualify. Following significant discussions with the ACOE regarding the change from the LOP process, the City and VCS submitted a revised application for an SIP in early December 2014.

Staff and Lewis will provide an update on required biological studies currently being conducted at the property, as well as recent feedback regarding permitting status from the ACOE, US Fish & Wildlife Services and California Department of Fish & Wildlife. A revised schedule of key milestones and target dates for environmental permitting approvals, submittal and approval of a revised tentative tract map and completion of a subsequent final map is attached as Exhibit "A". Staff and Lewis will discuss the revised schedule and timing of anticipated marketing for the project in more detail at the meeting.

At a recent meeting, the Committee asked Lewis to provide an estimate of the project's market value in its current entitlement status versus the estimated market value when fully entitled with a recordable final tract map. Lewis senior management is evaluating the residential land and home sales/values in the market area and will provide an update at the meeting.

FISCAL IMPACTS:

The approved capital budget amount for the Asset Optimization – Lake Forest Property (Project No. 1264) is \$6,709,150. To date, project expenses for entitlement consulting, project planning and design, permits, fees and processing total \$5,287,575.

ENVIRONMENTAL COMPLIANCE:

This project is subject to the California Environmental Quality Act (CEQA) and in conformance with the California Code of Regulations Title 14, Chapter 3, Article 7, an EIR was certified by the City of Lake Forest on February 7, 2012.

RECOMMENDATION:

Receive and file.

LIST OF EXHIBITS:

Exhibit "A" – Residential Development Key Milestones

Exhibit "A"

SERRANO SUMMIT

Residential Development Key Milestones

Monday, July 20, 2015



	Start Date	Completion Date	Key Date	Description
Civic Center USACE IP				
USACE IP Application	3/25/2013	11/16/2015	10/5/2015	Draft EA Review by USACE
Section 106 Archeological Review	3/25/2013	9/2/2015	9/2/2015	SHPO & Tribes Review Completion
Section 7 USFWS Consultation	3/25/2013	9/18/2015	7/22/2015	LBV Surveys Completion
CDFW 1602 Permit	3/25/2013	9/11/2015	9/11/2015	Permit Issuance
Initial Entitlement Update				
Tentative Tract Map & Area Plan Revision	10/6/2015	2/23/2015	2/16/2016	Council Approval of TTM
EIR Addendum	10/6/2015	2/23/2015	2/16/2016	Council Adoption of EIR Addendum
Final Entitlements				
Final Tract Map	10/6/2015	2/23/2016	12/15/2015	Staff Technical Approval of Map
Infrastructure Plans	1/5/2016	7/19/2016	5/2/2016	100% Submittal
Landscape Streetscape Plans	3/1/2016	8/30/2016	7/4/2016	100% Submittal
Landscape Neighborhood Parks Plans	3/1/2016	8/30/2016	7/4/2016	100% Submittal
Serrano Park Plans	3/1/2016	8/30/2016	7/4/2016	100% Submittal

July 28, 2015

Prepared by: Jennifer Davis/Tanja Fournier

Submitted by: Robert Jacobson /Cheryl Clary

Approved by: Paul Cook



ASSET MANAGEMENT COMMITTEE

REAL ESTATE QUARTERLY PERFORMANCE – JUNE 2015

SUMMARY:

Staff will provide the Committee with an update on the financial performance of the District's real estate investments and other revenue-generating properties for the quarter and fiscal year ended June 30, 2015.

BACKGROUND:

For the quarter ended June 30, 2015, the District's residential and commercial real estate investments provided net operating income (NOI) of \$2.4 million, which represents a 13.31% return for the period, and for the fiscal year NOI was \$9.2 million, for an annual return of 12.46%. Land lease income from the Strawberry Farms Golf Course was \$136,804 and \$490,258 for the most recent quarter and fiscal year periods, respectively. Lease revenue from the District's five cellular sites was \$37,588 for the quarter and \$253,558 for the fiscal year ended June 30, 2015. A report detailing the NOI and returns for the District's real estate investment properties, golf course and cell sites is attached as Exhibit "A". Staff will provide updated property information at the meeting.

Residential Investment Properties:

The NOI for the Sycamore Canyon Apartments was \$1.9 million, which is favorable to budget by approximately \$153,800, primarily due to income from upfront cable / internet fees as negotiated in new contracts with the property's cable providers, Time Warner Cable / AT&T. For the fiscal year ended June 2015, NOI at the property was \$7.3 million, which was favorable to budget by approximately \$453,700 due to lower-than-anticipated vacancies, higher lease rates, lower payroll and income from upfront cable fees. The District's limited partnership investment in the Wood Canyon Villa property earned a preferred return of 9.00%, with a net return of 8.56% and 8.54% for the quarter and fiscal year ended June 30, 2015, respectively.

Commercial Investment Properties:

The NOI for the quarter ended June 30, 2015 at the Irvine Market Place (230 Commerce) property was \$57,843, which was unfavorable to budget by \$4,153. The variance was primarily due to unbudgeted rent concessions per the early renewal agreement of an existing tenant and higher-than-anticipated expenses for HVAC repairs. For the fiscal year ended June 30, 2015, the NOI was \$335,239, which was unfavorable to budget by \$126,874, primarily due to higher-than-expected vacancies in the first two quarters. There is currently one suite (#185 – 3,408 square feet) available for lease.

The NOI for the Waterworks Way Business Park property for the quarter ended June 30, 2015 was \$114,502, which was favorable to budget by \$1,406 due to lower-than-anticipated expenses for utilities and repairs. The NOI for the fiscal year ended June 30, 2015 was \$355,873, which was unfavorable to budget by \$28,267, primarily due to unanticipated vacancies earlier in the fiscal year.

The NOI for the Sand Canyon Professional Center medical office property was \$180,034 for the quarter ended June 30, 2015, which was favorable to budget by \$1,324, primarily due to late fees from tenants. For the fiscal year ended June 30, 2015, the NOI at the property was \$711,241, which was favorable to budget by \$6,444, due to late fees from tenants and a utility credit. The property is currently 100% occupied.

Strawberry Farms Golf Course and Cell Site Leases:

Land lease income for Strawberry Farms Golf Course for the quarter ended June 30, 2015 was \$136,804. This compares with income of \$131,781 for the same period last year, representing a 3.81% increase for the period. Income for FY 2014-15 was \$490,258, which represented a 1.67% decrease compared to the prior year. For the quarter and year ended June 30, 2015, lease revenue from the District's five cell sites was \$37,588 and \$253,558, respectively.

FISCAL IMPACTS:

For the quarter and fiscal year ended June 30, 2015, the District's commercial and residential real estate investments provided NOI of \$2.4 million and \$9.2 million, respectively. Strawberry Farms Golf Course land lease revenue was \$136,804 for the quarter and \$490,258 for the fiscal year end. District cell site revenue was \$37,588 for the quarter and \$253,558 for the fiscal year end.

ENVIRONMENTAL COMPLIANCE:

This item is not a project as defined in the California Environmental Quality Act (CEQA), Code of Regulations, Title 14, Chapter 3, Section 15378.

RECOMMENDATION:

Receive and file.

LIST OF EXHIBITS:

Exhibit "A" – Real Estate Performance Report

Exhibit "A"

Irvine Ranch Water District Real Estate Investment Performance Report as of June 30, 2015

INCOME PROPERTIES			FY 2014-15					FY 2014-15 RATE OF RETURN					3 Year Average Rate of Return	5 Year Average Rate of Return
Property Description	Capital Investment	Investment Inception	FY Q1	FY Q2	FY Q3	FY Q4	FY 2014-15 TOTAL	FY Q1	FY Q2	FY Q3	FY Q4	Average Fiscal YTD	FY 12/13 - 14/15	FY 10/11 - 14/15
Sycamore Canyon Apartments	\$43,550,810	Dec-92	\$ 1,740,005	\$ 1,730,738	\$ 1,876,705	\$ 1,934,670	\$ 7,282,118	15.98%	15.90%	17.24%	17.77%	16.37%	15.06%	14.17%
Wood Canyon Villa Apartments	\$6,000,000	Jun-91	\$ 134,631	\$ 136,110	\$ 133,151	\$ 134,631	\$ 538,523	8.56%	8.44%	8.58%	8.56%	8.54%	8.49%	8.40%
Irvine Market Place Office	\$5,739,845	Jul-03	\$ 81,542	\$ 78,105	\$ 117,749	\$ 57,843	\$ 335,239	5.68%	5.44%	8.21%	4.03%	6.44%	7.26%	6.88%
Waterworks Way Business Park	\$8,630,577	Nov-08	\$ 78,074	\$ 54,965	\$ 108,332	\$ 114,502	\$ 355,873	3.62%	2.55%	5.02%	5.31%	3.73%	4.16%	3.58%
Sand Canyon Professional Center	\$8,648,594	Jul-12	\$ 181,911	\$ 185,912	\$ 163,384	\$ 180,034	\$ 711,241	8.41%	8.60%	7.56%	8.33%	8.19%	6.81%	
TOTALS	\$72,569,826		\$ 2,216,163	\$2,185,830	\$2,399,321	\$ 2,421,680	\$ 9,222,994	12.18%	12.00%	13.20%	13.31%	12.46%	11.62%	10.17%

Notes/Assumptions:

- Wood Canyon cash flows represent partnership cash distributions from Western National Group.
- The 9.00% Preferred Return for Wood Canyon accrues on the original \$6 million investment amount along with any accrued preferred return. The current total monthly accrual is approximately \$45,000/month.
- Capital Investment does not include depreciation; Sycamore Canyon 2007-08 renovation costs included in Capital Investment total.
- IMP capital investment amount includes land cost of \$871,396; Waterworks Business Park capital investment includes land cost of \$2,420,213.

**Irvine Ranch Water District
Real Estate Investment Performance Report
Strawberry Farms Golf Course & Cell Site Income
as of June 30, 2015**

Property Description	2014-15 NET INCOME				
	FY Q1	FY Q2	FY Q3	FY Q4	NET INCOME 2014-15
Strawberry Farms Golf Course	\$ 128,367	\$ 119,384	\$105,703	\$136,804	\$490,258
TOTALS	\$ 128,367	\$ 119,384	\$105,703	\$136,804	\$490,258
Change From Prior Period	\$ (8,074) -5.92%	\$ 1,836 1.56%	\$ (7,957) -7.00%	\$ 5,023 3.81%	\$ (9,171) -1.67%

Property Description	2014-15 NET INCOME				
	FY Q1	FY Q2	FY Q3	FY Q4	NET INCOME 2014-15
Cell Sites	\$ 46,510	\$ 51,118	\$118,343	\$37,588	\$253,558
TOTALS	\$ 46,510	\$ 51,118	\$118,343	\$37,588	\$253,558

* March Cell Site NOI includes revenue share.

**Irvine Ranch Water District
Real Estate Investment Performance Report
Cell Site Terms
as of June 30, 2015**

Location:	Rattlesnake (Portola) Reservoir 4883 Portola Parkway, Irvine	Central Zone 1 Reservoir 13826 Sand Canyon Avenue, Irvine	Santiago Canyon Head Quarters 7431 Santiago Road, Santiago Canyon
Licensee/Lessee	712223 <u>Crown Castle (839428)</u> Site# 321620	712224 <u>Crown Castle (839459)</u> Site# 321757	712221 <u>AT&T Wireless</u> LA3212
Type:	Master Lease	Master Lease	Lease
Date:	1/14/02	11/22/99, #1 1/14/02	11/22/04
Contract Monthly Rent:	Greater of \$1,500 + 3% annual escalation or 40% of gross rents (March)	Greater of \$1,500 + 3% annual escalation or 40% of gross rents (July)	3% annual escalation(July)
Current Monthly Rent:	\$2,203	\$2,203	\$2,492
Approx. Annual Rent:	\$72,148	\$46,081	\$29,899 (Faux Tree)
Contract Term & notice	15 yrs+; Termination upon 1 yr notice	15 yrs+; Termination upon 1 yr notice	5 yrs + 4 5 yr extensions

Location:	Lake Forest Zone II West Reservoir 26001 Dimension, Lake Forest		
Licensee/Lessee	712228 <u>T- Mobile</u> LA02308A	712227 <u>Sprint PCS</u> 0G03XC113	712222 <u>AT&T</u> R086/FoothillCorridor1
Type:	License	License	License
Date:	12/16/96	9/8/97	9/9/98, #1 9/5/01
Contract Monthly Rent:	\$1,500 No escalation	\$1,500 No escalation	1500 (Oct) 3% annual escalation
Current Monthly Rent:	\$1,500	\$1,500	\$2,269
Annually	\$18,000	\$18,000 (Antennas on Tank)	\$27,228
Contract Term & notice	Termination upon 6 months notice	Termination upon 6 months notice	Termination upon 6 months notice

Location:	Lake Forest Zone II East Reservoir 20696 Regency Lane, Lake Forest
Licensee/Lessee	712230 <u>Verizon</u> SCAL North Lake Forest
Type:	License
Date:	10/11/95
Contract Monthly Rent:	\$1,500 No escalation
Current Monthly Rent:	\$1,500
Annually	\$18,000
Contract Term & notice	Termination upon 6 months notice