AGENDA
IRVINE RANCH WATER DISTRICT
ASSET MANAGEMENT COMMITTEE
THURSDAY, MARCH 23, 2017

CALL TO ORDER	**1:00 p.m.**, Committee Room, Second Floor District Office 15600 Sand Canyon Avenue, Irvine, California			
ATTENDANCE	Committee Chair: John Withers ____		Committee Member: Peer Swan ____	
ALSO PRESENT	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.

ACTION

5. REVISED REAL ESTATE INVESTMENT POLICY – JACOBSON/CLARY

   Recommendation: That the Board approve IRWD's Revised Real Estate Investment Policy.

6. SAND CANYON OFFICE DEVELOPMENT – PHASE II PROJECT/CONSTRUCTION MANAGEMENT – JACOBSON/CLARY

   Recommendation: That the Board approve the retention of Newport Real Estate Services to provide project/construction management services related to the Sand Canyon Office Development Phase II in an amount not to exceed $230,000.

OTHER BUSINESS

7. A. Directors' Comments:

8. Adjourn

* *

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.

March 23, 2017
Prepared By: Rob Jacobson
Submitted By: Cheryl Clary
Approved By: Paul Cook

ASSET MANAGEMENT COMMITTEE

REVISED REAL ESTATE INVESTMENT POLICY

SUMMARY:

For fiscal year ended June 30, 2016, the District implemented the Government Accounting Standards Board's (GASB) Rule No. 72, *Fair Value Measurement and Application.* Under the new Rule, real estate investment values previously reported on a cost basis are now reported on the District's annual financial statements at fair market value. Consistent with the change in valuation for financial reporting, staff recommends a revision to the District's Real Estate Investment Policy relative to the valuation used in the percentage limitation guidelines.

BACKGROUND:

The District's Real Estate Investment Policy (the Policy) was first adopted by the Board in August 1990, shortly after the District received authority from the State legislature to invest up to 30% of its Replacement Fund in real estate located in Orange County. The Policy has been revised periodically since then, most recently in December 2008.

Consistent with the authorization provided by the State, the Policy's Percentage Limitation Guidelines section provides that the aggregate real estate investments of the District will not exceed 30% of its total Replacement Fund. For calculation of the 30% availability, Replacement Fund assets include fixed income investments, real estate investments and receivables due to the fund. To date, the value of District real estate investments used in the 30% availability calculation was based on the cost of the properties, which was consistent with valuations used for financial reporting.

Fair Market Value Reporting:

For fiscal year ended June 30, 2016, the District implemented GASB Rule No. 72, *Fair Value Measurement and Application.* Under the new Rule, real estate investment values previously reported on a cost basis are now reported on the District's annual financial statements at fair market value. Based on the change in reporting, the valuation used for District real estate investments increased from a cost of $72.6 million to a fair market value of $198.8 million.

Consistent with the change in valuations used for District financial reporting, staff recommends revising the Policy to include the fair market value of real estate investments (as reported in the most recent financial statements) in the 30% availability calculation. A "Revised Real Estate Investment Policy," which includes the proposed revisions, is attached as Exhibit "A".

Staff will provide the Committee with an updated calculation of the 30% limitation based on current Replacement Fund assets at the meeting.

FISCAL IMPACTS:

This item will not have any direct fiscal impacts, but will modify guidelines used in determining the availability calculation on real estate investments.

ENVIRONMENTAL IMPACTS:

None.

RECOMMENDATION:

That the Board approve IRWD's Revised Real Estate Investment Policy.

LIST OF EXHIBITS:

Exhibit "A" – Revised Real Estate Investment Policy

Exhibit "A"

IRVINE RANCH WATER DISTRICT

REVISED REAL ESTATE INVESTMENT POLICY

Proposed Draft – March 2017

The primary goal of the District's real estate investment program is to utilize real estate as an alternative investment vehicle, when appropriate, to enhance the long-term portfolio return on the District's replacement funds, thus increasing available funding for the replacement of facilities when they reach the end of their useful lives.

To implement this real estate investment program, the Board of Directors has established an Asset Management Committee comprised of two of its members, and an alternate, who will be responsible for reviewing all proposed real estate investments and making recommendations to the District's Board of Directors and/or the Bardeen Partners, Inc. Board of Directors.

A. Legal Requirements

The District may invest up to 30% of its replacement funds in real estate located in Orange County (California Water Code Section 35912). This is permissive statutory authority for the District to invest in real estate and does not require that any such investments be made.

B. Allocation Objectives

It is not the District's intention to set nor to achieve any target allocations or time frames for the investment of replacement funds in real estate. Investments in real estate will be based on individual opportunities as they occur and not to meet pre-specified allocation targets or time frames.

C. Property Types and Financing Structures

The District may invest its real estate funds in any property types or financing structures that are legally permissible and generally would be considered of investment grade by institutional investors or real estate fiduciaries.

Property types may include, but are not limited to, residential housing, office, industrial, retail, mixed-use projects, or other properties deemed appropriate by the Asset Management Committee.

Financing structures may include both debt and equity positions and any combinations or variations thereof, all as deemed appropriate by the Asset Management Committee.

D. Risk/Return Guidelines

As a guideline, the District's real estate portfolio should be expected to achieve a long-term compounded real rate of return (net of inflation and expenses) of at least six percent (6%). This real rate of return is intended only to be a guideline, and applies to the real estate portfolio as a whole and not to individual investments.

IRVINE RANCH WATER DISTRICT

REVISED REAL ESTATE INVESTMENT POLICY

Proposed Draft – March 2017

Real estate investment will be made with special attention given to the preservation of capital through the investment in properties that are expected to maintain their values and/or returns over appropriate time periods.

As part of managing the risk associated with real estate investment, consideration will be given to diversity in property types, financing structures, location, development stage and market cycles; however, the District does not wish to establish any specific targets or restrictions based on these factors.

E. Percentage Limitation Guidelines

The District's aggregate real estate investments will not exceed thirty percent (30%) of its total replacement funds. These guidelines are being established as a means to determine compliance with this requirement.

The 30% limitation will be calculated prior to taking a legally binding debt or equity position in any real estate investment. For real estate investments which involve development of an operating property owned by the District, the 30% limitation will be calculated at the time the proposed real estate development project is approved by the Board.

Calculations of the percentage limitation will apply to the real estate portfolio as a whole and not to individual investments.

All or a portion of any real estate investments made in compliance with the percentage limitation at the time of investment will not be required to be liquidated if the percentage limitation is exceeded at a subsequent calculation date.

The most recent monthly cash balance in the replacement funds, plus the "net equity position" of existing real estate investments, plus any interdistrict receivables due the replacement funds will be used in calculating the percentage limitation on real estate investments. The "net equity position" is defined as the ~~original cost~~fair market value as reported in the District's most recent annual financial statements, less any outstanding liens or encumbrances, which are recourse only to the real estate investments.

Borrowings may be made against real estate investments, provided that the total outstanding amount of all such borrowings do not exceed sixty percent (60%) of the market value of the real estate portfolio at the time the borrowings are made, and are secured only by the investment in the real estate portfolio and are non-recourse to other District funds. Borrowings based on market values will require an appropriate form of valuation or appraisal of all existing real estate holdings prior to such borrowings being made. Total net proceeds from any real estate investment borrowings shall be available for reinvestment in approved real estate investments.

~~Any capital replacement or rehabilitation costs may be incurred on any real estate investment up to a maximum of the accumulated depreciation amount for that real estate investment without having this amount included in the calculation of the 30% limitation. Any amounts expended in excess of the accumulated depreciation will be included in the calculation in the 30% limitation.~~

F. Third-Party Agreements

The District may enter into agreements with qualified third parties for services related to property acquisition, development, operation and disposition, portfolio management and any other activities consistent with the real estate investment program.

G. Annual Review

The Board of Directors will review its real estate investment policies on an annual basis. This review may be part of the review and approval of the District's annual investment policy.

March 23, 2017
Prepared by: Rob Jacobson
Submitted by: Cheryl Clary
Approved by: Paul Cook

ASSET MANAGEMENT COMMITTEE

SAND CANYON OFFICE DEVELOPMENT – PHASE II
PROJECT/CONSTRUCTION MANAGEMENT

SUMMARY:

Phase II of the District's planned Sand Canyon office development project will include construction of a 71,000 square foot professional office building and completion of a central outdoor plaza area. Based on proposals received, staff is recommending the retention of Newport Real Estate Services (NRES) to provide project/construction management services for Phase II of the project. Phase II services will include project management of remaining plan pre-construction requirements, as well as construction management services for the planned project.

BACKGROUND:

In February 2008, the Board approved Phase I of the Sand Canyon Office Project on land adjacent to the Sand Canyon headquarters site. Phase I included construction of a 16,400 square foot medical office building, a community meeting room and the reconfiguration of the majority of the existing employee parking area. Phase I was completed in early 2012 and the medical office building is fully leased through April 2022.

Phase II of the approved campus master plan includes construction of an approximate 71,000 square foot professional office building on the remaining vacant land. The medical and professional office combination was originally recommended in a land use study, and the tenant diversification has been further supported by other local real estate professionals based on the site's zoning, trip allocation constraints and market data for the area.

The Board previously approved the retention of Ware Malcomb to provide architectural services related to design of the Phase II building and site work. Following the pre-application process with the City of Irvine, building plans were submitted and are currently in the second round of plan review. Plan approval is estimated to be complete in June/July 2017.

Construction Manager Recommendation:

Based on the plan approval status, retaining a project manager is recommended to assist staff with completion of the plan approval process, to provide a project cost estimate, as well as management of the bidding, contractor selection and construction of the project. Staff anticipates that construction will begin when a key tenant lease agreement is secured.

Staff identified and requested proposals from three firms to perform project management services related to completing the plan approval process and construction of Phase II. The firms include Newport Real Estate Services, Bernards and Abacus Project Management. Two of the firms, NRES and Bernards, submitted complete proposals, and the Abacus proposal did not include pricing information requested. A summary of the proposals is attached as Exhibit "A".

Based on the proposals received, staff recommends the retention of NRES to manage Phase II of the Sand Canyon office development project. The recommendation is based on NRES's successful history managing similar District office projects, its competitive fee proposal and experience working with the City of Irvine. Based on staff's estimate of four months of pre-construction services (60 hours per month) and 14 months of construction services, the proposed contract amount will be for a not-to-exceed amount of $230,000. NRES's proposed Scope of Services and related fee schedule are attached as Exhibit "B".

FISCAL IMPACTS:

Projected design, planning and construction costs for the Sand Canyon Professional Center Phase II project of $17.6 million are included in the FY 2016-17 Capital Budget (Project No. 6210).

Stabilized net operating income for the Phase II property in Year 3 is estimated at $1,790,000 per year, or a Return on Costs (including land) of approximately 8.7%, assuming an initial lease rate of $2.00 per square foot (NNN) and annual rent increases of 2.5%.

ENVIRONMENTAL COMPLIANCE:

A Final Environmental Impact Report has been prepared, certified and the project approved by the County of Orange Environmental Management Agency in compliance with the California Environmental Quality Act (CEQA) of 1970 (as amended), codified at California Public Resources Code Sections 21000 et. seq., and the State CEQA Guidelines in the Code of Regulations, Title 14, Division 6, Chapter 3.

RECOMMENDATION:

That the Board approve the retention of Newport Real Estate Services to provide project/construction management services related to the Sand Canyon Office Development Phase II in an amount not to exceed $230,000.

LIST OF EXHIBITS:

Exhibit "A" – Project Manager Proposal Summary
Exhibit "B" – NRES Scope of Services & Fee Proposal

Exhibit "A"

SAND CANYON OFFICE - PROJECT MANAGER PROPOSAL SUMMARY

Selection Criteria	Newport Real Estate Services (NRES) *Costa Mesa, CA*	Bernards Builders/Mgmt Svcs **Irvine, CA* * Headquarters in Los Angeles	Abacus Project Management **Newport Beach, CA* * Headquarters in Phoenix, AZ
Firm Strength/Experience	- 12 person firm - Services include: Project and Construction Mgmt and Property/Asset Mgmt - Founded 2002 - Glen Allen - President - Experience w/Irvine = Average	- 240 person firm - Services include: Builder and Construction Mgmt - Founded 1974 - Rick Fochtman - Senior Vice President - Experience w/Irvine = Average	- 35+ person firm - Services include: Project and Construction Mgmt, Consulting - Founded 1991 - Russell Thomson - Principal - Experience w/Irvine = None provided
Project Team Strength	Project lead = Tony Vacarro (34+ years experience); IRWD project experience	Project Lead = Anthony Verdi (19 years experience)	Project Lead = Mark Ratoza (30+ years experience)
Project Approach	- Provided comprehensive and detailed Scope of Services for project - Fee proposal (approx 1.5% +/- of est. construction costs)	- Provided comprehensive and detailed Scope of Services for project - Fee proposal (approx 4.5% of est. construction costs)	- Provided comprehensive Scope of Project Services available Hourly fee rate schedule provided
Related Project Experience	IRWD's Sand Canyon Phase I, Waterworks, 230 Commerce office projects IRWD's Bristol St. Promenade ffice project Vanguard University - Campus Headquarters Broadcom Campus Irvinbe CA	City of Lake Forest Civic Center/City Hall - Current CM Atascadero City Hall Calabasas City Hall & Library Culver City Transportation Facility	Chapman University - multiple building projects PetSmart Corp Headqtrs - Phoenix, AZ Urban West Office Project Eastlake Village Chandler and Maricopa AZ City Halls

EXHIBIT "B"

Irvine Ranch Water District

RESPONSE TO RFP FOR PROJECT/ MANAGEMENT SERVICES

SAND CANYON SITE (PHASE II)

PROJECT/CONSTRUCTION MANAGEMENT PROPOSAL

March 13, 2017

PROPOSED BY:

NEWPORT
Real Estate Services, Inc.®

NEWPORT REAL ESTATE SERVICES, INC.
3184 Airway Ave
Costa Mesa, CA 92626
Phone: (714) 850-0085
Fax: (714) 850-0086

Glen Allen, President
(714) 975-7676
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Anthony J. Vaccaro, Senior Vice President
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avaccaro@nres.net

Irvine Ranch Water District

NEWPORT
Real Estate Services, Inc.®

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Irvine Ranch Water District

NEWPORT
Real Estate Services, Inc.®

I. Executive Summary

Newport Real Estate Services, Inc. ("NRES") is pleased to present our proposal to provide Project/Construction Management Services to the Irvine Ranch Water District ("IRWD") in response to Request for Proposal for Project/Construction Management Services for the Sand Canyon Site (Phase II) Project, dated March 1, 2017 (the "Project"). NRES provides a wide range of project management and construction management services to institutional, corporate and developer clients.

NRES enjoys a long standing relationship with IRWD and has completed numerous projects, for both IRWD's investment entity and the water treatment and delivery operations group.

Previous IRWD project experience includes:

- Michelson Water Reclamation Plant – Flow Equalization Basin sprinkler system and electrical vault replacement
- Bristol Street Promenade – Investment development (Bardeen Partners)
- Sycamore Canyon Apartment Complex, Clubhouse, and Unit Remodels –(Bardeen Partners)
- Irvine Technology Center – Investment development (Bardeen Partners)
- Michelson Water Reclamation Plant – Underground storage tank upgrades
- Newport Lift Station
- Bake Parkway Recycled Water Pipeline
- Los Alisos Water Reclamation Plant – Influent sewer improvements
- Irvine Desalter Project – Brine line from Bake Parkway to Los Alisos Water Reclamation Plant
- PA 6, Zone 6 and D Reservoirs
- Waterworks Tech Center
- Sand Canyon Phase I

NRES provides a unique blend of both development and project management competencies. NRES is equally adept at managing the market analysis, design development, financial analysis, entitlement, and construction management activities. In addition to our extensive experience working in the City of Irvine, we also have close working relationships with a wide range of project consultants, including architects and contractors that would be likely contributors to the Project.

In particular, NRES has significant experience with office buildings. NRES has recently completed or is in development and construction on numerous office buildings.

The enclosed response to the Request for Proposal outlines our general Scope of Services, References, Contractor Recommendations, and Fee Proposal, as well as additional background information on our firm and the key individuals that would be responsible for your project.

We look forward to continuing our relationship with the Irvine Ranch Water District.

II. Scope of Services

NRES will oversee all of the Project Management related aspects of the Project, including, but not limited to:

Due Diligence Assistance. Assist in the Client's due diligence effort, particularly as it relates to the feasibility, entitlement and financing of the project.

Architectural Administration. Interview, and proposal evaluation of the pre-selected architect for the project or interview and selection of an alternate architect, if desired. Our services with regard to architecture would also include administration of the architect's contract, processing of the monthly invoices, assisting the architect with value engineering, governmental processing, and coordination of the architect's work with the other various project consultants.

Civil Engineering and Geotechnical Services. Solicitation of not less than three (3) competitive bids for civil engineering and geotechnical services, if needed, and the selection of the qualified civil engineer and geotechnical consultant. Contract administration, field oversight, and day-to-day coordination of the civil engineer and geotechnical consultant.

Entitlement Processing. Determine the existing entitlements for the Property. Develop an accurate fee schedule for all government, public and private utility, and exaction fees. Oversee the processing of all discretionary and administrative governmental reviews and approvals.

Coordination with Local Government Agencies. NRES will serve as lead manager on City negotiations particularly with regard to planning, traffic, engineering and environmental reviews. NRES shall keep client fully apprised of all negotiations and discussions with city agencies.

Working Drawings, Plans and Specifications. Coordinate and oversee the finalization of the working drawings by overseeing the activities of the design professionals, including architect, civil engineer, structural engineer, landscape architect, electrical and mechanical engineers, to the degree not yet complete.

Governmental Processing. Working in conjunction with the project architect, coordinate submittal of the preliminary design plans, engineering plans, and final working drawings to the city planning department, building department and engineering department for all required governmental reviews and approvals.

General Contractor. Administer all aspects of the general contractor qualification, bidding, selection, award, contract administration and payment review process, using generally accepted AIA construction documents (NRES is a licensed AIA affiliate). Utilizing a prequalified list of select general contractors, approved in advance by you and qualified to provide "prevailing wage" certification and the necessary completion bond, NRES will prequalify all general contractors, prepare detailed bid instructions and solicit comparable qualified competitive bids from each general contractor, both at the preliminary design development stage and upon completion of the construction documents.

BID INSTRUCTIONS. Prepare detailed bid instructions as necessary, for the general contractor scope of work for the Project.

FIELD CONSTRUCTION OVERSIGHT. Provide regular field supervision of the general contractor as necessary to insure schedule compliance, budget compliance, change order management and other aspects of the work.

CONSTRUCTION LOAN DRAW REQUEST PROCESSING. If necessary, NRES will prepare, on a monthly basis, the complete Loan Draw Request Application including invoices from all vendors completing work during the prior month, one month trailing unconditional lien releases from the subcontractors and the general contractor, the contractor's current Certificate for Payment, conditional lien releases from the contractor and all subcontractors for the current month, a statement of compliance in accordance with the lender's requirements insuring full compliance with all of the construction lender's Loan Draw Request Application requirements.

SCHEDULE. Prepare a summary Project Schedule, outlining all of the key milestones utilizing an automated scheduling program (i.e. Microsoft Project). As part of the general contractor bidding and selection process oversee the preparation of a detailed trade-by-trade, item-by-item construction schedule in an automated format and insure the general contractor's compliance therewith through the entire course of the project.

MARKETING INTERFACE. During the construction and leasing phases of the project, work closely with IRWD's marketing team, insuring that they have all of the required project management related materials and information. Meet with key prospective tenants, if necessary, to explain the progress of the Project.

CITY PERMITS. Meet with City to determine what permits are required and prepare a schedule identifying the timing for obtaining those permits, as applicable.

EASEMENTS/ENCROACHMENT PERMITS. Oversee the successful application and processing for all required adjacent property easements, public right-of-way encroachments and other such documentation necessary to permit and construct the project.

VALUE ENGINEERING STUDY. In cooperation with the general contractor and Architect, determine a target list of value engineering items that may be considered as acceptable alternates to the current design.

PROJECT CONTRACT NEGOTIATIONS. Negotiate the specific terms of the professional service agreements and contracts with each of the design professionals for the Project to prepare documents, when necessary.

PROJECT BUDGET. Prepare the Budget for the Project, which shall include a detailed, itemized budget that sets forth, by individual line item and by category, estimated Projects Costs that will be incurred in connection with the construction of the Project.

QUALITY CONTROL. Oversee the quality control, testing and inspection protocol. Insure that the necessary reports, tests and inspections required under the protocol will be provided by the various independent inspectors and laboratories and that they shall be compiled in triplicate.

UTILITY COORDINATION. Coordination of the construction of on-site utilities (i.e. telephone, electrical and gas) and the contract administration with the various utility providers that will be critical to the timely completion of the Project.

WEEKLY JOB MEETING. Coordinate and oversee the weekly on-site Project Job Meeting.

OWNER'S CHANGE ORDERS. Critically evaluate in detail, each request for Owner's Change Order and recommend approval or disapproval.

COORDINATION. Coordinate with the Owner's other on-and offsite consultants, contractors and vendors as necessary.

MONTHLY PROJECT STATUS REPORT. On a monthly basis, prepare a detailed Project Status Report that will detail the current status of the project, copies of all applicable meeting minutes, an updated project schedule and photographs of the project progress.

CONTRACTOR/VENDOR PAYMENT. Oversee the payment process to all consultants and contractors, consolidating the various draw requests from all consultants and contractors (together with such back-up documentation as the Owner may reasonably require evidencing the materials provided or work performed by such consultants and contractors is complete). Complete the Owner's payment voucher or Accounts Payable apron for approval by the Owner's representative and payment by the Owner's Accounts Payable system. Insure compliance with all applicable Disclosure and Prevailing Wage ordinances.

LIEN RELEASES. Obtain appropriate conditional lien releases from consultants and contractors for any partial payments made by the Owner. Obtain unconditional lien releases from all consultant and contractors for all previous payments, provided the Owner has complied with its payment obligations. Monitor and oversee the Preliminary Lien Notice process to insure a lien free project.

PROPERTY MANAGEMENT TURN-OVER. NRES will collect all of the appropriate turn-over documents, completion warranties, maintenance and operating manuals and other information to be turned over to the property manager.

INSURANCE. Insure that evidence of insurance is provided by all consultants and contractors under the supervision of NRES.

CLOSEOUT. Compile a closeout package that would include warranties, as-builts, final plans and specifications, a budget reconciliation and the Final Accounting of the Project.

GENERAL. Perform all other functions of a general and administrative nature required to protect the Owner interest(s) in the Project and/or as reasonably specified by the Owner from time-to-time in connection with the Project.

CONFIDENTIALITY. Treat as confidential, the Projects and any information disclosed to the NRES and consultants and contractors by the Owner or otherwise discovered by NRES in connection with the Project and not disclose any such information, except as required by law, to any third party, other than consultants and contractors, to the extent necessary for performance of their services. The foregoing covenant shall survive the expiration or termination of this Agreement.

III. Fee Proposal

I. <u>Preconstruction</u>

Provide preconstruction services which will include a preliminary review of the plans and specifications prepared by the project architect and obtain a budget cost estimate from a prequalified general contractor for the purposes of pro forma preparation. Provide additional as needed preconstruction services to assist the owner in plan preparation permit processing budgeting and scheduling in order to assist in the marketing of the building for lease.

$5,000 LUMP SUM

II. <u>Entitlement/Permit Processing, Design Professional and Commissioning Consultant Retention</u>

Entitlement/permit processing and retention of design and commissioning consultants, if necessary, shall be handled in an "as directed by the District" hourly basis. The hourly rates shall be:

Project Manager/Senior Vice President: **$150/HOUR**
President/Principal: **$180/HOUR**

III. <u>Construction Project Management Services</u>

Provide ongoing construction project management services once a decision to construct the building has been made. This fee shall commence upon issuance of the plans and specifications for bidding.

Shell Building and Concurrent Tenant Improvements

Our proposed Project Management Fee for the services outlined herein is as follows:

$13,500/MONTH

This fee will include the Shell Building and all tenant improvements completed concurrently therewith. Tenant improvement work that will not be completed by the time the shell building is complete will be subject to a Project/Construction Management fee of 3% of costs managed.

These fees are all inclusive and includes wages, overhead, office services, delivery, telephones, etc. In other words, there will be no additional reimbursements to NRES except for true third party out-of-pockets expenses paid by NRES in furtherance of the Project (i.e. city submittal fess). Any such costs will be approved in advance by the Client. The Fee and our services will commence immediately upon execution of this letter, and continue through 45 days after issuance of the Certificate of Occupancy to allow for project closeout. Our fee shall be prorated for any partial month of service.

<u>Payment Terms</u>

NRES shall invoice the Client on or about the first of each month for work during the prior month. Payment not received within 30 days of the date of the invoice shall be subject to a 2% late fee and shall accrue interest at a rate of 10% per annum until paid.

NRES is a duly licensed contractor and construction manager under the laws of the State of California. NRES's State of California Contractors License Number is 812561. Contractors are required by law to be licensed and regulated by the California Contractor's State License Board which has jurisdiction to investigate complaints against contractors if a complaint regarding a patent act or omission is filed within four (4) years of the date of the alleged violation. A complaint regarding a latent act or omission pertaining to structural defects must be filed within ten (10) years of the date of the alleged violation. Any questions concerning a contractor may be referred to the Registrar, Contractor's State License Board, and P. O. Box 26000, Sacramento, California 95826.

IV. References/Contractor Recommendations

We seek to provide a list of references from suppliers and contractors, as well as past clients. We believe that this gives our prospective clients a much better perspective on our ability to manage both up and down the project team.

MENLO EQUITIES - Newport Real Estate Services, Inc. has provided construction project management services on a number of Menlo Equities projects. These include: Burbank Office Complex, a two-building 160,000 ft.² plus class A office building complex, Amazon Distribution Ctr., Irvine, One Technology Place, a four-building creative office project.

Chad Iverson
Regional Partner
MENLO EQUITIES
5020 Campus Drive
Newport Beach, CA 92660
(949) 757-1521

ST. ANDREWS PRESBYTERIAN CHURCH - Newport Real Estate Services, Inc. recently completed the second of two major projects for this church campus, Phase I was a $23 million meeting hall, commercial kitchen and classroom complex, Phase II was a $7 million plaza a remodel.

Shawn Reilly
Executive Director
ST. ANDREW'S PRESBYTERIAN CHURCH
600 St. Andrews Rd
Newport Beach, CA 92663
(949) 574-2224

VANGUARD UNIVERSITY - Newport Real Estate Services, Inc. recently completed construction of the Vanguard University's Campus Corporate Headquarters and classroom complex. Notably this project included both classrooms and the campus' Administrative Offices, including a coffee shop.

Michael J. Beals, Ph.D.
President
VANGUARD UNIVERSITY
55 Fair Drive
Costa Mesa, CA 92626
(714) 966-5480

HYATT HOTELS - Newport Real Estate Services, Inc. is currently overseeing construction of two Hyatt Hotels in Irvine and Glendale respectively. The Irvine hotel is a seven-story Hyatt House and the Glendale property is an eleven-story Hyatt Place including one level of subterranean parking garage.

Greg Ruff
Regional Vice President
HYATT
71 South Wacker Drive
Chicago, IL 60606
(312) 780-5514

V. Newport Real Estate Services' Experience

NRES has significant recent and past experience with this product type. The firm is currently managing approximately $200,000,000 worth of speculative development, much of it in the office and R&D product types. A more detailed list of the Company's past project management experience may be found in Section VI. of this Proposal.

Below, please find resumes of the key individuals that will be responsible for managing the bulk of the project management duties. In addition to these two individuals, they will be supported by various members of the NRES team on an "as needed" basis. Mr. Allen and Mr. Vaccaro are all experienced real estate professionals, each with over 20 years experience in the real estate and construction industries.

Glen Allen, President

Mr. Allen is a senior real estate professional with an extensive 40-year development and construction management services background, not only in the Southern California market, but also throughout the United States. He is a licensed General Contractor (B-1) and Real Estate Broker in the State of California, and oversees Newport Real Estate Services, Inc.

Mr. Allen's expertise lies in the marketing, development and construction arenas. The types of projects constructed and developed by Mr. Allen include industrial, research and development, multi-tenant business parks, finished lots, office and retail. Mr. Allen is well versed in land acquisition and due diligence, project financing, financial analysis, joint venture structures, identification and analysis of development opportunities and recruitment, supervision and training of project management staff.

Mr. Allen previously served as Vice President/Division Manager, National Construction Services, for Catellus Development Corporation, where he was an Operating Officer and had direct P&L and management responsibility for over 3.8 million square feet of space, totaling $100M+ annually. Mr. Allen's involvement included contract negotiations and administration, staffing, oversight of entitlement, design, construction management and retention of project consultants on a national basis.

Mr. Allen began his career with The Koll Company/Koll Construction Company, where he oversaw a construction management project team and ultimately served as Vice President, Development in charge of multiple industrial, retail and office development projects throughout Southern California. He then joined Arvida/JMB Realty Corporation, and was responsible for the overall development, project management and disposition of Arvida's 3,500-acre Talega Project. He also served on the company's senior strategic management team.

Mr. Allen received a Bachelor of Science in Business Administration from the University of Phoenix and his MBA, with an emphasis in Organizational Development, from Pepperdine University. He resides with his family in Newport Beach, California. Mr. Allen is Chairman of the Board of COA de Mexico., S.A. de CV, a Mexican relief organization and NGO. Mr. Allen also serves on the board of directors of WRG, Inc., a woman and minority owned third-party real estate services company.

ANTHONY J. VACCARO, SENIOR VICE PRESIDENT

Mr. Vaccaro has 34 years of experience in the construction industry. Working as Superintendent and Project Estimator for several general contractors, he has successfully completed commercial, industrial and retail projects totaling more than 3 million square feet. He is proficient in all phases of development and construction management including design and pre-construction, conceptual estimating, entitlements, cost control, construction accounting, cost reporting, and field supervision. He has provided excellent customer service for such clients as Trammell Crow, The Irvine Co., Konica Business Technologies, Best Buy, Office Max, Investment Development Services, Westec Securities and Catellus Development Corporation. His vast experience in the field enables him to identify the problems before they become a major cost impact. His excellent rapport with clients, city officials and architects has made him an asset to the projects he manages.