AGENDA
IRVINE RANCH WATER DISTRICT
ASSET MANAGEMENT COMMITTEE
MONDAY, APRIL 17, 2017

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 ____	
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.

INFORMATION

5. 2016 ANNUAL REPORT RESIDENTIAL INVESTMENT PROPERTY PERFORMANCE – FOURNER/JACOBSON/CLARY

   Recommendation: Receive and file.

6. REAL ESTATE QUARTERLY PERFORMANCE – MARCH 2017 – DAVIS/FOURNIER/JACOBSON/CLARY

   Recommendation: Receive and file.

7. ASSET OPTIMIZATION – LAKE FOREST / SERRANO SUMMIT PROPERTY DEVELOPMENT AND MARKETING UPDATE – JACOBSON/CLARY

   Recommendation: Receive and file.

OTHER BUSINESS

8. A. Directors' Comments:

9. 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.

April 17, 2017
Prepared by: Tanja Fournier
Submitted by: Robert Jacobson/Cheryl Clary
Approved by: Paul Cook

ASSET MANAGEMENT COMMITTEE

2016 ANNUAL REPORT
RESIDENTIAL INVESTMENT PROPERTY PERFORMANCE

SUMMARY:

Staff and the District's apartment property consultant, Ms. Susan Sirota of Market-THINK, will present the annual performance report for the Sycamore Canyon and Wood Canyon Villa apartment properties for the calendar year ended December 31, 2016. The report will include property management and capital improvement plans for calendar year 2017, as well as an update on expectations for Orange County's apartment market for the year.

BACKGROUND:

Staff has completed its analysis of the 2016 financial statements (calendar year), and final 2017 operating and capital budgets for the Sycamore Canyon and Wood Canyon Villa apartment properties as submitted by the District's apartment property manager, Western National Properties. Staff and Ms. Sirota will present the following:

- A report of the 2016 financial performance for the District's residential investment properties including an overview of completed capital projects;
- A review of budget highlights and planned capital projects for 2017, including slope planting and irrigation renovations, the addition of electric vehicle charging stations, upgrades of exterior building lighting to LED, and improvements to two spas; and
- A forecast of Orange County apartment market activity for 2017, including new apartment construction projects, rental rate and occupancy projections, and perspectives on the 2017 apartment leasing market from industry economists.

The Sycamore Canyon and Wood Canyon Villa calendar year 2017 budgets are attached as Exhibits "A" and "B", respectively.

FISCAL IMPACTS:

For calendar year 2016, the net operating income (NOI) from the Sycamore Canyon Apartments property was $7.8 million. The District's preferred return income from the Wood Canyon Villa property was $540,000. For calendar year 2017, the net operating income (NOI) from the Sycamore Canyon Apartments property is projected to be $8.2 million. The District's preferred return income from the Wood Canyon Villa property is projected to be $540,000.

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” – Sycamore Canyon 2017 Operating and Capital Budget Summaries
Exhibit “B” – Wood Canyon Villa 2017 Operating and Capital Budget Summaries

Exhibit "A"

WESTERN NATIONAL GROUP

For The Budget Year Beginning 2017

IRVINE RANCH WATER DISTRICT 2253 - SYCAMORE CANYON (450 Units)

	2016 Budget	2016 Actual	Variance %	2017 Budget	Change %
SCHEDULED RENT	10,313,402	10,460,944	1.43%	10,921,161	4.39%
INCOME RENT	9,934,133	10,017,861	0.84%	10,453,174	4.34%
INCOME OTHER RENT	404,471	401,196	-0.80%	407,884	1.66%
GROSS RENTAL INCOME	10,338,604	10,419,057	0.78%	10,861,058	4.24%
TOTAL INCOME	**10,338,604**	**10,419,057**	**0.78%**	**10,861,058**	**4.24%**
MANAGEMENT/ADMIN	799,928	763,214	-4.58%	772,053	1.15%
GENERAL OFFICE	67,805	60,471	-10.81%	64,561	6.76%
ADVERTISING/PROMO	68,745	64,122	-6.72%	67,616	5.44%
RENTUP EXPENSE	95,805	79,381	-17.14%	82,957	4.50%
MAINT BUILDINGS	534,763	552,765	3.36%	573,801	3.80%
MAINT GROUNDS	183,047	168,580	-7.90%	188,611	11.88%
UTILITIES	218,170	220,343	0.99%	228,991	3.92%
INSURANCE/TAXES	683,418	676,162	-1.06%	697,842	3.20%
TOTAL OPERATING EXPENSE	2,651,681	2,585,038	-2.51%	2,676,432	3.54%
NET OPERATING INCOME	**7,686,923**	**7,834,019**	**1.91%**	**8,184,626**	**4.48%**
NON-RECURRING	760,224	502,068	-33.95%	637,860	27.04%
CAPITAL	152,186	131,574	-13.54%	171,040	29.99%
PARTNER ACTIVITY	6,000,000	7,080,000	18.00%	7,350,000	3.81%
CHANGE IN ASSET/LIABILITY	0	(125,654)	0.00%	0	100.00%
TOTAL OTHER ITEMS	6,912,410	7,587,988	9.77%	8,158,900	7.52%
CASH FLOW	**774,513**	**246,031**	**-68.23%**	**25,726**	**-89.54%**

Exhibit "B"

WESTERN NATIONAL GROUP

For The Budget Year Beginning 2017

IRVINE RANCH WATER DISTRICT 2340 - WOOD CANYON (230 Units)

	2016 Budget	2016 Actual	Variance %	2017 Budget	Change %
SCHEDULED RENT	4,582,522	4,575,179	-0.16%	4,751,492	3.85%
INCOME RENT	4,283,575	4,403,498	2.79%	4,534,859	2.98%
INCOME OTHER RENT	168,413	157,572	-6.43%	158,502	0.59%
GROSS RENTAL INCOME	4,451,988	4,561,070	2.45%	4,693,361	2.90%
TOTAL INCOME	**4,451,988**	**4,561,070**	**2.45%**	**4,693,361**	**2.90%**
MANAGEMENT/ADMIN	498,333	466,553	-6.37%	485,017	3.95%
GENERAL OFFICE	69,504	71,470	2.82%	72,012	0.75%
ADVERTISING/PROMO	31,446	33,522	6.60%	39,067	16.54%
RENTUP EXPENSE	43,899	49,179	12.02%	50,541	2.76%
MAINT BUILDINGS	346,538	374,907	8.18%	369,242	-1.51%
MAINT GROUNDS	102,424	95,531	-6.72%	118,936	24.49%
UTILITIES	121,243	122,322	0.89%	125,782	2.82%
OTHER EXPENSE	35,679	35,352	-0.91%	28,560	-19.21%
INSURANCE/TAXES	413,962	410,089	-0.93%	380,787	-7.14%
TOTAL OPERATING EXPENSE	1,663,028	1,658,925	-0.25%	1,669,944	0.66%
NET OPERATING INCOME	**2,788,960**	**2,902,145**	**4.06%**	**3,023,417**	**4.18%**
NON-RECURRING	2,511,663	1,354,655	-46.06%	2,054,466	51.65%
CAPITAL	91,018	87,478	-3.88%	71,846	-17.86%
DEBT RELATED	478,604	287,037	-40.02%	462,804	61.23%
SECURITY DEPOSITS	0	11,644	0.00%	0	100.00%
PARTNER ACTIVITY	637,831	636,355	-0.23%	637,834	0.23%
CHANGE IN ASSET/LIABILITY	563,761	422,142	-25.12%	602,995	42.84%
TOTAL OTHER ITEMS	4,282,877	2,799,311	-34.64%	3,829,945	36.82%
CASH FLOW	**(1,493,917)**	**102,834**	**-106.88%**	**(806,528)**	**-884.30%**

April 17, 2017
Prepared by: Jennifer Davis / Tanja Fournier
Submitted by: Robert Jacobson / Cheryl Clary
Approved by: Paul A. Cook

ASSET MANAGEMENT COMMITTEE

REAL ESTATE QUARTERLY PERFORMANCE – MARCH 2017

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 ended March 31, 2017.

BACKGROUND:

For the quarter ended March 31, 2017, the net operating income (NOI) for the District's residential and commercial real estate investments was \$2.6 million, which represents a 14.25% return for the period, and the fiscal year (FY) to date NOI was \$7.4 million. Land lease income from the Strawberry Farms Golf Course was \$111,151 and \$394,055 for the quarter end and FY periods, respectively. Lease revenue from the District's five cell sites was \$83,022 for the quarter, and \$198,379 year to date. 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".

Residential Investment Properties:

For the quarter ended March 31, 2017, the NOI for the Sycamore Canyon Apartments was \$2.1 million and \$6.0 million year to date, which were favorable to budget by approximately \$47,400 and \$78,700, respectively. The quarter end and FY variances were due to higher than anticipated lease rates and invoice timing of budgeted expenses. The District's limited partnership investment in the Wood Canyon Villa property earned a preferred return of 9.00%, providing income of \$133,151 for the quarter end and \$404,627 for the FY to date. The net returns for Wood Canyon were 8.57% and 8.56% for quarter end and FY periods, respectively.

Commercial Investment Properties:

The NOI for the quarter ended March 31, 2017 at the Irvine Market Place (230 Commerce) property was \$95,836, which was in line with budget. For FY to date, NOI at the property was \$97,144, which was unfavorable to budget by \$69,342 primarily due to payment of lease commissions for suite 250 leased sooner than anticipated in the budget. One suite (5,032 square feet) is currently available for lease at the property.

The NOI for the Waterworks Way Business Park property for the quarter ended March 31, 2017 was \$104,692 and \$354,671 year to date, which were unfavorable to budget by \$18,640 and \$1,623, respectively. The quarter end and fiscal year variances were primarily due to payment of a lease commission for an unbudgeted lease extension. The property is currently 100% leased. For the quarter ended March 31, 2017, the NOI for the Sand Canyon Professional Center medical office property was \$185,533, which was in line with the budget. For FY to date, the NOI was

$563,839, which was favorable to budget by $5,986 due to late fees and timing of budgeted expenses. 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 March 31, 2017 was $111,151, which was in line with budget. This compares with income of $121,435 for the same period last year, representing an 8.47% decrease for the period. FY to date lease revenue was $394,055, representing an increase of 3.21% compared to the same period last year. The quarterly lease revenue from the District's five cell sites was $83,022 and unfavorable to budget by approximately $36,000, primarily due to receiving a portion of the revenue share amount in the prior quarter. FY to date lease revenue was $198,379, which was in line with budget.

FISCAL IMPACTS:

For the quarter and fiscal year to date ended March 31 2017, the District's commercial and residential real estate investments provided NOI of approximately $2.6 million and $7.4 million, respectively. Strawberry Farms Golf Course lease revenue was $111,151 for the quarter and $394,055 for the FY to date. The District cell site revenue was $83,022 for the quarter and the FY to date was $198,379.

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 March 31, 2017

INCOME PROPERTIES			FY 2016-17					FY 2016-17 RATE OF RETURN				3 Year Average Rate of Return	5 Year Average Rate of Return
Property Description	**Capital Investment**	**Investment Inception**	**Jan-17**	**Feb-17**	**Mar-17**	**FY Q3**	**FY 2016-17 TOTAL**	**FY Q1**	**FY Q2**	**FY Q3**	**Average Fiscal YTD**	FY 14/15 - 16/17	FY 12/13 - 16/17
Sycamore Canyon Apartments	$43,550,810	Dec-92	$ 677,393	$ 679,525	$ 713,771	$ 2,070,689	$ 5,958,398	17.95%	17.76%	19.02%	18.24%	17.48%	16.25%
Wood Canyon Villa Apartments	$6,000,000	Jun-91	$ 45,863	$ 41,425	$ 45,863	$ 133,151	$ 404,627	8.56%	8.55%	8.57%	8.56%	8.55%	8.52%
Irvine Market Place Office	$5,739,845	Jul-03	$ 40,166	$ 21,764	$ 33,906	$ 95,836	$ 97,144	-2.42%	2.51%	6.68%	2.26%	5.08%	6.11%
Waterworks Way Business Park	$8,630,577	Nov-08	$ 43,309	$ 38,820	$ 22,563	$ 104,692	$ 354,671	5.66%	5.93%	4.85%	5.48%	4.79%	4.62%
Sand Canyon Professional Center	$8,648,594	Jul-12	$ 62,025	$ 62,185	$ 61,323	$ 185,533	$ 563,839	8.45%	9.05%	8.58%	8.69%	8.43%	7.50%
TOTALS	$72,569,826		$868,756	$843,719	$877,426	$2,589,901	$ 7,378,679	12.97%	13.35%	14.25%	13.52%	13.17%	12.38%

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.

- Irvine Market Place 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 March 31, 2017

	2016-17 NET INCOME				
Property Description	Jan-17	Feb-17	Mar-17	FY Q3	NET INCOME 2016-2017
Strawberry Farms Golf Course	$34,141	$37,010	$40,000	$111,151	$394,055
TOTALS	$34,141	$37,010	$40,000	$111,151	$394,055
Change From Prior Year Period				$ (10,284) -8.47%	$8,469 3.21%

	2016-17 NET INCOME				
Property Description	Jan-17	Feb-17	Mar-17	FY Q3	NET INCOME 2016-2017
Cell Sites	$15,511	$12,511	$55,000	$83,022	$198,379
TOTALS	$15,511	$12,511	$55,000	$83,022	$198,379
Change From Prior Year Period				$ (29,048) -25.92%	-$212 -0.24%

* March Estimated

4/11/2017
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Irvine Ranch Water District
Real Estate Investment Performance Report
Cell Site Terms
as of March 31, 2017

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
	712223	**712224**	**712221**
Licensee/Lessee	Crown Castle (839428) Site# 321620	Crown Castle (839459) Site# 321757	AT&T Wireless 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:	$2,269	$2,269	$2,566
Annually	$38,117	$38,117	$30,796
	10276818 10276843	10276843 10276818	(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		
	712228	**712227**	**712222**
Licensee/Lessee	T- Mobile LA02308A	Sprint PCS 0G03XC113	AT&T 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	$1,500 3% annual escalation (October)
Current Monthly Rent:	$1,500	$1,500	$2,407
Annually	$18,000	$18,000 (Antennas on Tank)	$28,885
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
	712230
Licensee/Lessee	Verizon 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

April 17, 2017
Prepared by: Rob Jacobson
Submitted by: Cheryl Clary
Approved by: Paul Cook

ASSET MANAGEMENT COMMITTEE

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

SUMMARY:

Staff and a representative from the District's entitlement consultant, Lewis Operating Group, will provide the Committee with an update on the Serrano Summit final map approval status with the City of Lake Forest. In addition, a representative from the District's land sale advisor, Province West, will provide an update on initial market study findings, as well as the status of the infrastructure cost estimate and phasing study currently underway with third-party consultants. Province West will also review the expected schedule for release of the marketing package, anticipated sale timeline and recent builder inquiries.

BACKGROUND:

In July 2008, the Board approved a Development Agreement (DA) between IRWD and the City of Lake Forest providing terms under which residential 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 depicting the future planning areas, the corresponding Area Plan for the project and certification of a project-specific Environmental Impact Report. 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.

In April 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 will add significant value to the property. A recordable final map is expected to be completed in spring 2017.

Final Map Review/Approval Status:

Lewis and the District's design consultants have submitted required final map improvement plans to the City for the Serrano Summit project's grading, utilities, infrastructure and landscaping conditions. Staff and Lewis will provide the Committee with the status of the final tract map review/approval process and an updated timeline for final map approval.

Serrano Summit Marketing Status:

Province West is managing the selected consultants providing services required to complete the formal offering package for the property. The consultants include Real Estate Economics (market study), KTGY (land planning/phasing) and Murow (cost estimate). In addition, David

Taussig & Associates will be retained to provide an update to Serrano Summit's approved Community Facilities District.

Staff and Province will provide the Committee with an update on the studies and schedule for release of the offering package and expected timeline to complete the sale process.

FISCAL IMPACTS:

The approved capital budget amount for the Asset Optimization – Lake Forest Property (Project No. 1264) is $6,954,190. To date, project expenses for entitlement consulting, project planning and design, permits, fees and processing total approximately $5,624,360.

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:

None.