

City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

DATE: MARCH 7, 2017

FROM: PUBLIC UTILITIES DEPARTMENT

WARDS: ALL

SUBJECT: LONG-TERM LEASE AND INDUSTRIAL DEVELOPMENT OF WATERMAN GOLF COURSE LOCATED AT 1494 S. WATERMAN AVENUE, SAN BERNARDINO, CALIFORNIA; GROUND LEASE AGREEMENT WITH GSW#4 DEVELOPMENT LLC OF ONTARIO CALIFORNIA, FOR A TERM OF 55 YEARS; WELL RELOCATION AGREEMENT WITH HILLWOOD ENTERPRISES, L.P. OF DALLAS TEXAS; TERMINATION OF LEASE WITH J.G. GOLFING ENTERPRISES, INC.; PURCHASE AND SALE AGREEMENT WITH HILLWOOD ENTERPRISES, L.P. - 55 YEAR LEASE FOR \$1,113,500 IN ANNUAL LEASE REVENUE

ISSUES:

Approve the fifty-five year term Ground Lease Agreement with GSW#4 Development, LLC. of Ontario, California, the Well Relocation Agreement with Hillwood Enterprises, L.P., of Ontario, California and the Purchase and Sale Agreement with Hillwood Enterprises L.P. for use of the Waterman Golf Course Properties in the City of San Bernardino and approve in concept the draft Termination Agreement with J. G. Golfing Enterprises, Inc.

RECOMMENDATIONS:

That the City Council:

1. Approve the 55-year term Ground Lease with GSW#4 Development, LLC, for the use of the Waterman Golf Course parcels for an annual rental revenue of approximately \$1,113,500, escalating over the term of the agreement, offset in the first 15 years by certain rental credits;
2. Approve the Well Relocation Agreement with Hillwood Enterprises, L.P. for the relocation of certain city owned water production and conveyance facilities;
3. Approve in concept the draft Termination Agreement to terminate the current ground lease agreement with J.G. Golfing Enterprises, Inc. and assign the agreement to Hillwood Enterprises, L.P.;
4. Approve the Purchase and Sale Agreement with Hillwood Enterprises, L.P. to transfer a 1.722 acre parcel within the Waterman Golf Course to the City of Riverside Public Utilities for the sum of \$1.00;

5. Authorize the City Manager, or his designee, to execute Ground Lease with GSW#4 Development, LLC, the Well Relocation Agreement with Hillwood Enterprises, L.P. and the Purchase and Sale Agreement with Hillwood Enterprises, L.P., including making minor and non-substantive changes, and execute any documents necessary to administer these agreements.

BOARD OF PUBLIC UTILITIES RECOMMENDATIONS:

On January 23, 2017, the Board of Public Utilities, with of the eight of eight members present (one seat vacant) by unanimously voted to recommended that the City Council approve the fifty-five year term Ground Lease Agreement with GSW#4 Development, LLC. of Ontario, California, and the Well Relocation Agreement with Hillwood Enterprises, L.P., of Ontario, California; approve in concept the draft Termination Agreement with J. G. Golfing Enterprises, Inc. and the draft Purchase and Sale Agreement with Hillwood Enterprises L.P. for use of the Waterman Golf Course Properties in the City of San Bernardino.

LEGISLATIVE HISTORY:

On March 29, 2016, the Board of Public Utilities approved a recommendation to the City Council to approve an Exclusive Negotiation Agreement (ENA) with Hillwood Enterprises L.P. (Hillwood) to negotiate price and terms for a potential long-term ground lease to allow industrial development of the San Bernardino Golf Course located at 1494 S. Waterman Avenue, San Bernardino California.

On April 26, 2016, the City Council approved a six-month term ENA which expired on November 3, 2016. The parties have worked in good faith during the term of the ENA to develop the agreements necessary to execute the proposed transaction.

BACKGROUND:

The City of Riverside, through its Public Utilities Department, acquired the approximate 62 acres located at 1494 S. Waterman Avenue, now generally described as the Waterman Golf Course in 1931 (35 acres) and 1961 (27 acres) from a private party and the Riverside Water Company, respectively. At the time of the acquisitions, the property was used exclusively for groundwater production from the Bunker Hill Groundwater Basin.

Since 1965 the land has been leased to various parties for the operation of a public golf course. On April 24, 1979, the Assignment of Use Agreement and Lease and Consent Agreement transferred the lease from San Bernardino Investors to J.G. Golfing Enterprises, Inc. (Lessee) who has since operated the premises as a public golf course.

The Lessee's current lease term expires on April 30, 2037. As of May 1, 2012, the Lessee's annual rent was \$156,000 and is subject to annual consumer price index increases. The Lessee has been in discussions with Hillwood Enterprises, L.P. (Hillwood) and desires to assign the existing lease to Hillwood for industrial development of the Property.

RPU continues to operate a number of small production and monitoring wells on the property. Staff have determined that most of the wells can be abandoned. The Warren 1 and Thorne 12

wells will be retained for groundwater production. Warren 4 Well will be relocated and developed to a modern standard within the bounds of the property. These three wells provide sufficient production capacity from this well field and contribute to RPU's annual production rights from the Bunker Hill Groundwater Basin.

DISCUSSION

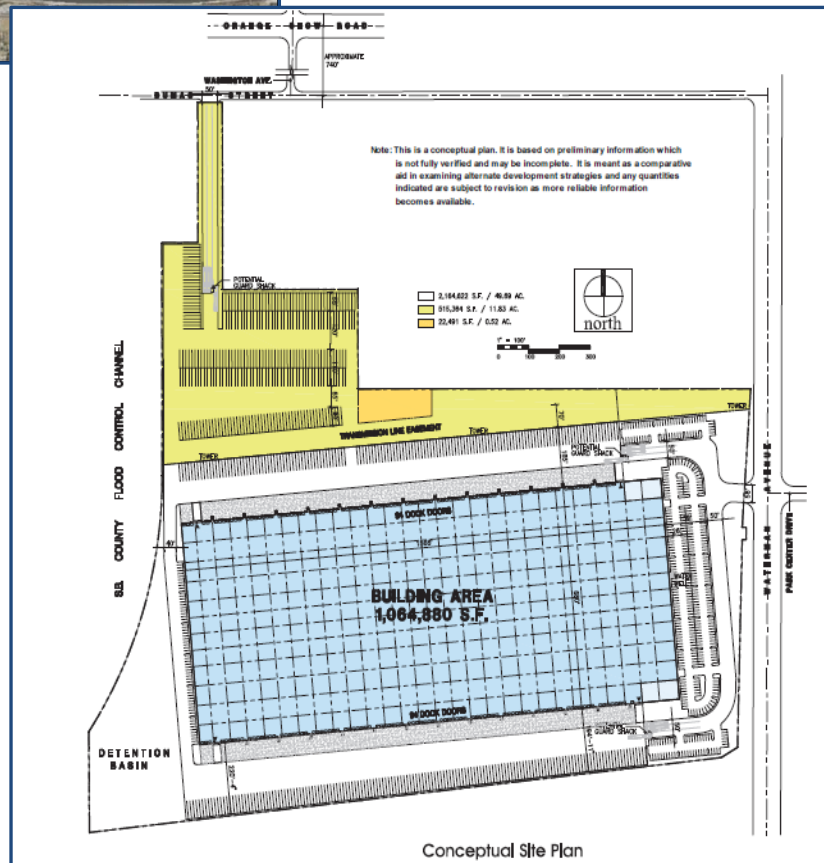
Preparation for the commencement of the long term lease will require a number of steps and agreements to be executed over the next eighteen months. The steps are:

1. Execute the *Ground Lease with GSW#4 Development, LLC* ("GSW") (Attachment 1). GSW is an entity of Hillwood.
2. Concurrent with executing the Ground Lease with GSW, execute the *Well Relocation Agreement with Hillwood* (Attachment 2). This agreement will facilitate the development of the parcel including relocation of certain well and pipeline facilities by RPU's specification by Hillwood. Rent credits over a fifteen year period, would be provided for the well and pipeline relocation, subject to maximum values.
3. Hillwood will be responsible for all development entitlements through the City of San Bernardino and is expected to take approximately 18-months. These entitlements include assembling the parcels through a parcel map process, rezoning the parcels and acquiring by development rights and permits for the proposed facilities.
4. During the entitlement process, Hillwood will complete negotiations and close escrow on the Southern California Edison parcel that is contained inside of the larger RPU property holding. Upon acquisition of the parcel by Hillwood from SCE, the City will execute the *Purchase and Sale Agreement with Hillwood* (Attachment 3) to deed the parcel to the City.
5. After development entitlements are secured, the *Termination of Lease with J.G. Golfing* (Attachment 4) will commence. Rent credits over a fifteen year period, would be provided for the J.G. Golfing lease buyout, subject to maximum values.

Net of the rent credits, the net present value of the proposed transaction over the 55-year term is estimated at a minimum value of \$45,000,000. Lease Year 1 revenue, net of the rent credit, is approximately \$470,000.



Waterman Golf Course Location Map and Conceptual Development Plan



Ground Lease Agreement

GSW desires to construct an approximate 1,065,000 square foot logistic center by assembling the parcels through purchase of the SCE parcels and completing a parcel map, acquiring the current ground lease interest, and relocating current water facilities within the footprint of the proposed facility. Under the terms of the lease, GSW would pay a monthly ground lease amount of \$88,494.00 upon commencement of the lease (\$1,061,928 annually). The monthly lease amount would escalate each year beginning on the first day of the third year of the agreement and reset at years 11, 21, 31, 41 and 51 based on a fair market value appraisal, subject to a minimum 10% escalation from the prior fair market value appraisal amount. Rent credits in the first 180 months (15 years) would be provided to compensate Hillwood for actual expense associated with the J.G. Golfing Enterprises buyout and well relocation work, as more fully described in the following sections. Additional compensation of \$4,302 per month would be paid

to RPU by Hillwood for the use of the north portion of the property for access and parking.

The general terms of the ground lease are described below:

Term	55 years, commencing the first day of the first month following termination of the J.G. Golfing Enterprises Lease
Rent	Rental of \$88,494.00 per month escalating at CPI beginning in Year 3. Reset to fair market value calculation based on 0.5% monthly (6% annual capitalization) of valuation as entitled undeveloped land at Years 11, 21, 31, 41, and 51 subject to minimum price escalation of 10% over prior base fair market value calculated lease value
Parking Area	Rental of \$4,302.00 per month escalating at CPI beginning in Year 3. Reset to fair market value calculation based on 0.5% monthly (6% annual capitalization) of valuation as entitled undeveloped land at Years 11, 21, 31, 41, and 51 subject to minimum price escalation of 10% over prior base fair market value calculated lease value
Lease Option Payments	Option payments of \$10,000 per month, payable quarterly from lease execution through the earlier of lease commencement or March 31, 2018
Taxes	Possessory Interest, taxes and assessments to be paid by Hillwood
Environmental and Permitting	To be paid by Hillwood
Improvements	Become the Property of the City at the end of the Lease period

Well Relocation Agreement

The existing Warren 4 Well and Rice-Thorne Pipeline facility is located within the footprint of the proposed logistics facility to be constructed by Hillwood. Under the terms of the Well Relocation Agreement, these facilities will be relocated and reconstructed to RPU's specification by Hillwood or their sub-contractor. RPU would provide a rent credit of \$28,620 per month against the first 180 months of rent obligation. The monthly rent credit represents a three percent interest straight-line amortization of the cost to reconstruct the Warren 4 well and related pipeline facilities. If the actual cost incurred by Hillwood is less than \$4,100,000, the rent credit would be pro-rated downward accordingly.

Purchase and Sale Agreement

Southern California Edison owns a 1.722 acre parcel (APN 0141-421-14) that is located within the larger RPU property holding. Under the terms of the Purchase and Sale Agreement, Hillwood will acquire the parcel from SCE and subsequently deed it to RPU for a nominal sum of \$1.00. The 1.722 acre parcel will then be leased to Hillwood under the terms of the Lease Agreement described above.

J.G. Golfing Lease – Termination Agreement

J.G. Golfing Enterprises current lease term expires on April 30, 2037. The current annual rent revenue is approximately \$173,000 and escalates annually with the Consumer Price Index. The City's lease agreement with J.G. Golfing Enterprises does not include a clause for termination, other than for cause. Likewise, J.G. Golfing does not have an option for termination. Hillwood has been in discussions with J.G. Golfing under the lessee's right to assign the lease. Under

the terms of the assignment agreement, Hillwood would pay to J.G. Golfing an acquisition/assignment fee of \$4,500,000. RPU would provide a rent credit of \$25,000 per month against the first 180 months of rent obligation. The monthly rent credit represents a zero percent interest straight-line amortization of the buyout consideration paid by Hillwood to J.G. Golfing. Should the actual consideration paid by Hillwood to J.G. Golfing be less than \$4,500,000, the rent credit would be pro-rated downward accordingly. The final Termination Agreement will be presented to the Public Utilities Board and City Council for final approval.

Lease Revenue

The lease amounts are the minimum guaranteed values in the lease agreement, and may be higher depending on increases in land value and consumer price index. Current and projected minimum lease revenue is:

Lease Period	Monthly Lease revenue*	Lease Option Payment	Total Monthly
Execution through 3/31/2018	\$14,401	\$10,000	\$24,401
4/1/2018 – 3/31/2028	\$39,176		\$39,176
4/1/2028 – 3/31/2033	\$49,043		\$49,043
4/1/2033 – 3/31/2038	\$102,663		\$102,663
4/1/2038 – 3/31/2048	\$113,557		\$113,557
4/1/2048 – 3/31/2058	\$125,657		\$125,657
4/1/2058 – 3/31/2068	\$139,013		\$139,013
4/1/2068 – 3/31/2073	\$153,792		\$153,792
* Monthly lease amount subject to CPI increases beginning in year 3 and not reflected in the table values.			

The nominal lease revenue of the remaining 19 years on the JG Golfing lease is approximately \$4,200,000. The increased incremental value of the proposed lease over the remaining period of the JG Golfing lease is approximately \$12,700,000. The incremental revenue in lease year one is approximately 0.5% of retail revenue for the Water Fund.

FISCAL IMPACT:

The proposed lease agreement will yield new revenue of not less than \$45,000,000 over the term of the lease. Net of the rent credits for the J.G. Golfing buyout of \$25,000 per month and new well and waterline facilities of \$28,620 per month, the first lease year rent is \$470,000. Out of pocket costs to RPU of \$1.00 for the acquisition of the Southern California Edison parcel will be incurred. Annual revenues of \$470,000 will be applied to the Public Utilities Water Fund Revenue Account 0000520-373111. Sufficient funds are available in Public Utilities' Facility Rehabilitation Account No. 6230000-470803.

Prepared by: Girish Balachandran, Public Utilities General Manager
Certified as to
Availability of funds: Scott G. Miller, PhD., Chief Financial Officer/City Treasurer
Approved by: John A. Russo, City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Lease Agreement
2. Well Relocation Agreement
3. Purchase and Sale Agreement
4. J.G. Golfing Termination Agreement – Draft
5. Board of Public Utilities Meeting Minutes – 01/23/17
6. Presentation