



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: JULY 25, 2017

**FROM: COMMUNITY & ECONOMIC DEVELOPMENT WARD: 6
DEPARTMENT**

SUBJECT: LEASE OF VACANT PROPERTY AGREEMENT WITH ROHR, INC., A UTC AEROSPACE SYSTEMS COMPANY, FOR APPROXIMATELY NINE (9) ACRES OF VACANT PROPERTY LOCATED AT 8200 ARLINGTON AVENUE, FOR THREE YEARS PLUS TWO ONE-YEAR OPTIONAL EXTENSIONS FOR USE AS A MATERIAL YARD FOR CONSTRUCTION OF THE RIVERSIDE TRANSMISSION RELIABILITY PROJECT (RTRP) 69KV POWER LINES, LEASE AMOUNT OF \$500,002

ISSUE:

Approve the Lease of Vacant Property Agreement with Rohr, Inc., a UTC Aerospace Systems Company, for approximately nine (9) acres of vacant property located at 8200 Arlington Avenue, for three years plus two one-year options to extend, for use as a material yard for construction of the Riverside Transmission Reliability Project (RTRP) 69kV power lines in the amount of \$500,002.

RECOMMENDATIONS:

That the City Council:

1. Approve the Lease of Vacant Property Agreement with Rohr, Inc., a UTC Aerospace Systems Company, for approximately nine (9) acres of vacant property located at 8200 Arlington Avenue, for three years plus two one-year options to extend, for use as a material yard for construction of the Riverside Transmission Reliability Project (RTRP) 69kV power lines, in the total amount of \$500,002 (Lease Agreement - Attachment); and,
2. Authorize the City Manager, or his designee, to execute the Lease of Vacant Property Agreement for three years and the two one-year options to extend, including making minor, non-substantive changes, and to sign all documents and instruments necessary to complete the transaction.

BOARD RECOMMENDATION:

On July 10, 2017, the Board of Public Utilities with 8 of 8 members present, voted with 8 ayes and 0 abstentions to recommend that City Council approve the Lease Agreement with Rohr, Inc., a UTC Aerospace Systems Company, for approximately nine (9) acres of vacant property located at 8200 Arlington Avenue, for three years plus two one-year options to extend, for use as a material

yard for construction of the Riverside Transmission Reliability Project (RTRP) 69kV power lines, in the total amount of \$500,002.

BACKGROUND:

In January 2006, the Board of Public Utilities (Board) approved the Riverside Transmission Reliability Project (RTRP), a joint project with Southern California Edison (SCE) to provide Riverside Public Utilities (RPU) a second connection to the state electric transmission grid addressing long-term capacity and reliability needs of the City. The City Council certified the Final Environmental Impact Report (FEIR) for RTRP on February 5, 2013.

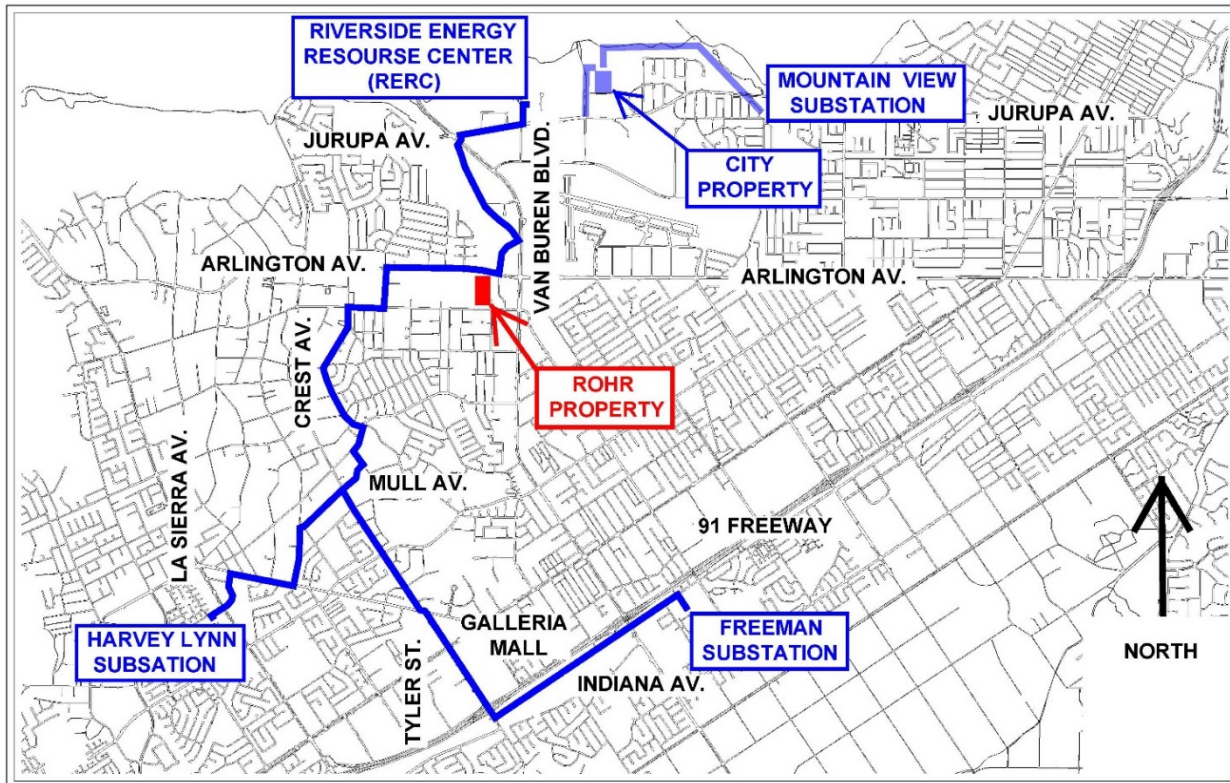
SCE's portion of RTRP includes construction of telecommunication lines, 230kV transmission lines, and a 230kV switchyard. RPU's portion includes construction of a new 230kV to 69kV substation, improvements to existing substations, construction of new 69kV sub-transmission lines, relocation of existing distribution lines, and installation of new telecommunication lines.

RTRP is comprised of multiple work segments based on earliest possible start dates and economies of scale. The first segment known as the Sub-Transmission Project is complete. It included the addition, relocation, and reconfiguration of 9.8 circuit miles of 69kV. The next two segments, scheduled to start in June 2018, include construction of 13.6 circuit miles of 69kV connecting Riverside Energy Resource Center (RERC) to Harvey Lynn and Freeman Substations. The scheduled completion date is October 2020.

The final segment of work, scheduled to start in April 2019 is dependent on SCE securing a Certificate of Public Convenience and Necessity from the California Public Utility Commission (CPUC). The CPUC has elected to begin the preparation of a Subsequent Environmental Impact Report to address changes in the proposed 230KV route that was not included in the FEIR that was certified on February 5, 2013. The CPUC expects to complete their Subsequent EIR in February 2018, and then work towards a final decision in the fall of 2018.

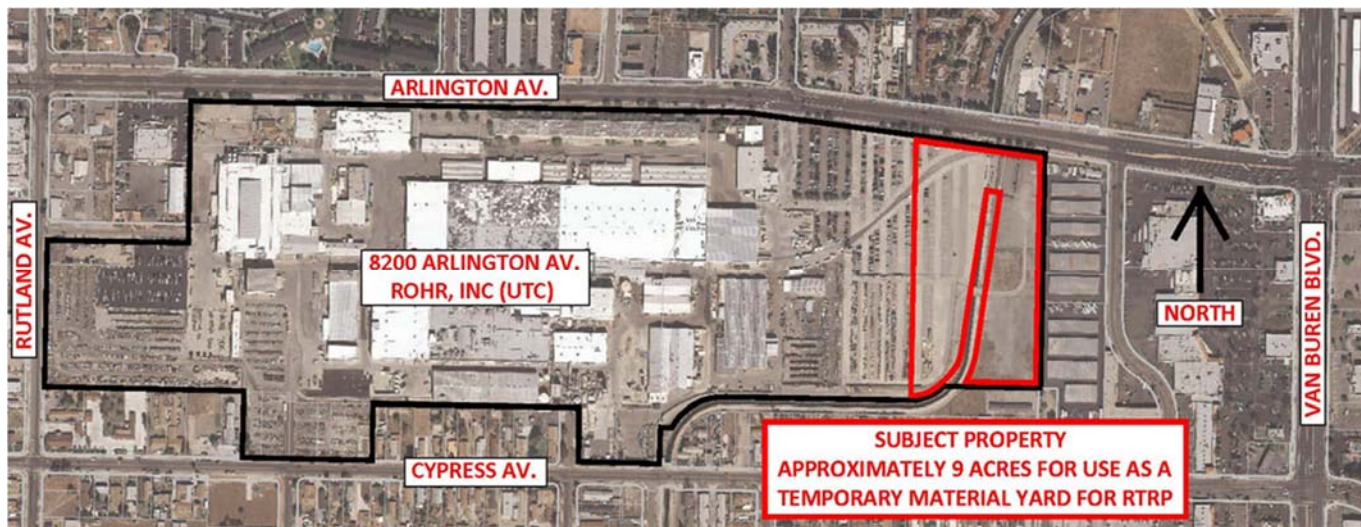
RPU's portion of work includes the addition of 2.5 circuit miles of 69kV connecting RERC to Wilderness and Mountain View Substations and construction of the 230kV to 69kV Wilderness Substation. The scheduled completion dates for the 69kV lines and the substation are December 2022 and April 2023 respectively. The scheduled in-service date for this final phase of RTRP is December 2023.

Approximately 18 acres are required to store the materials and equipment needed to construct the 69kV lines between RERC and the Harvey Lynn and Freeman Substations. RPU began searching for a suitable property in February 2015. The search began with City owned properties and then expanded to include privately owned properties. The search concluded with a combination of private property, the 9-acre site at Rohr, Inc. (Rohr), and 9 acres of the 23-acre City owned property, the location of the future Wildlife Switchyard and Wilderness Substation. The two 9-acre sites are ideally located to support the project as shown on the site map below.



SITE MAP

The scheduled start date to prepare the City owned site for construction of SCE’s switchyard and RPU’s substation is April 2019. However, construction of the 69kV lines requires a material yard through December 2022. To address the issue of needing a material yard while also needing to begin site preparation work for the proposed Wilderness and Wildlife Substations, options such as postponing the grading work, continuing the search for suitable replacement property, and requiring the contractor(s) to secure suitable property were considered. These options were rejected due to unfavorable outcomes such as project delays and increased costs. The option selected is to split the material yards between the two properties and consolidate them later at the Rohr site (see map below) resolves that issue.



ROHR PROPERTY

Rohr will be making significant improvements to repurpose a portion of its property for use by the City. Parking and driveway modifications will improve traffic flow in and out of the plant and replacing the weathered and outdated chain-link fencing along Arlington Avenue with decorative wrought iron security fencing will enhance safety and aesthetics at the easterly end of the plant along Arlington Avenue.

RPU intends to use the southerly nine acres of the City owned property on Wilderness for RTRP construction activities and Toro has expressed interest in continuing its lease with Riverside for use of the northerly portion of the City property. This arrangement provides the additional acreage needed for RTRP related equipment and material storage and additional time for Toro to continue its product evaluation work, and its search for suitable replacement property. The scheduled start date for grading the entire site for the switchyard and substation is April 2019. Prior to that date, Toro will vacate the site and the RPU material storage and equipment related to construction of the 69kV lines will be moved from this site to the Rohr site.

DISCUSSION:

Subject to City Council approval, RPU will lease approximately nine acres of vacant property (Property) at the easterly end of Rohr's property for three years with options to extend the lease for two additional years. The property is flat, its surface is a combination of concrete, asphalt, and gravel, and security fences enclose the property. It is ideal for the safe handling and secure storage of materials and it is centrally located within the RTRP area. The Property is also ideal in that it is large enough to allow for the safe navigation of large equipment that is required to handle materials that is proposed to be staged there.

The proposed three-year lease agreement between Rohr and the City of Riverside spans the timeframe needed to prepare the material yard to receive and store power poles, bulk materials, and equipment, and to construct the 69kV lines between RERC and the Harvey Lynn and Freeman Substations. The two one-year options to extend the term span the timeframe needed to perform all tasks related to construction of the 69kV lines connecting RERC to the Wilderness and Mountain View Substations as presently scheduled.

To prepare the site for use by RPU, Rohr will remove all materials except permanent structures, install security fencing and gates around the Property, and reconfigure the parking lots and driveways to accommodate employee parking. Rohr will issue a Notice of Commencement to RPU on or prior to December 31, 2017. RPU or its contractor(s) will prepare the site to receive the materials needed to construct the RTRP 69kV lines. This work includes the installation of temporary power, lighting sufficient to illuminate the entire material yard, remote monitoring security, and constructing facilities for the safe handling and secure storage of materials. The cost of this work could approach \$100,000 and will be included in future construction contracts. As approved by the Board at its October 17, 2014 meeting, the total authorized funds for RTRP Work Order No. 642975 is currently \$42,605,521. As of June 5, 2017, the total expenditures for Work Order 642975 are \$26,497,133.

Negotiating rent began with methodology commonly used by commercial and industrial appraisers. The appropriate annual rate of return is between 7.5% and 10.0%. Based on recent sales comparables from appraisals received by the City for other properties, the estimated fair market value of the Rohr property is between \$6.00 and \$7.00 per square foot. Annual rent is computed by multiplying the annual rate of return by the fair market price per square foot. For example, using a value of \$6 per square foot times a 7.5% annual rate of return for the 9-acre site

would yield an annual rent of \$176,418. Representatives from Rohr and the City of Riverside negotiated a rent of \$500,000 for the first three years and \$1.00 per year for each of the two option years (which compares favorably to \$176,418 x 3 years or \$529,254).

Based on City approved improvement plans prepared by Rohr and bids received from reputable contractors, Rohr estimates their cost of improvements at \$1 million dollars. To offset a portion of its upfront costs, Rohr agreed to the rent based on a lump sum payment of \$500,000 as compensation for the first three years and a one dollar (\$1) payment paid annually for each of the two option years if exercised. As stipulated within the Lease Agreement, should Rohr fail to complete the improvement work and issue the Notice of Commencement to RPU by December 31, 2017, it would be in default under the proposed Lease. Should that occur, Rohr shall refund the payment made by City within sixty days (60) of the City issuing a demand for return of payment.

The proposed Lease Agreement contains a provision for Rohr to sell the property at any time after the first two years and it requires that Rohr gives the City at least 12 months' notice in advance of the sale. Rohr must also provide the City with 90 days' notice to vacate the property prior to the expected sale date. If Rohr sells the property during the lease term, then Rohr will refund the City the pro-rated amount for any unused portion of the rent based upon a total refund allowance of \$167,000 in Year 3 of the lease and \$1 each for Year 4 and Year 5 if the options to extend are exercised.

RPU staff has investigated the various options in depth and has concluded that the proposed Lease Agreement is fair to all parties and that it provides the most economical and efficient means to provide for a material handling yard for RTRP.

FISCAL IMPACT:

The total expenditure is \$500,002 for the Lease Agreement including the two one-year options to extend the term, if exercised. Sufficient funds are available in Public Utilities' Electrical Capital Account No. 6130000-470685.

Prepared by:	Rafael Guzman, Community & Economic Development Director
Certified as to availability of funds:	Scott G. Miller, PhD, Chief Financial Officer/Treasurer
Approved by:	Al Zelinka, FAICP, Assistant City Manager
Approved as to form:	Gary G. Geuss, City Attorney

Attachments:

1. Lease Agreement with Rohr, Inc., a UTC Aerospace Systems Company
2. Draft July 10, 2017, Board Minutes