

RIVERSIDE PUBLIC UTILITIES

Board Memorandum

BOARD OF PUBLIC UTILITIES

DATE: September 9, 2019

ITEM NO: 8

SUBJECT: FIRST AMENDMENT TO GROUND LEASE AGREEMENT WITH GWS#4 DEVELOPMENT, LLC; FIRST AMMENDMENT TO WELL RELOCATION AGREEMENT WITH HILLWOOD ENTERPRISES, L.P.; AND INCREASE WORK ORDER NO. 1709464 BY \$788,474 FOR A TOTAL PROJECT AMOUNT OF \$5,381,653

ISSUES:

Approve the First Amendment to the Ground Lease Agreement with GWS#4 Development, LLC, which redefines property easements and increases to City payments to Lessee as credits to monthly rent totaling \$493,179; approve the First Amendment to the Well Relocation Agreement with Hillwood Enterprises, L.P. consistent with the redefined property easements in accordance with the amended Ground Lease Agreement; and, approve an increase to Work Order No. 1709464 for additional work to construct Warren 4R potable water well in the amount of \$788,474 for a total project cost of \$5,381,653.

RECOMMENDATIONS:

That the Board of Public Utilities recommend that the City Council approve:

1. Approve the First Amendment to the Ground Lease Agreement with GWS#4 Development, LLC, which redefines property easements and increases to City payments to Lessee as credits to monthly rent totaling \$493,179;
2. Approve the First Amendment to the Well Relocation Agreement with Hillwood Enterprises, L.P. consistent with the redefined property easements in accordance with the amended Ground Lease Agreement; and
3. Approve an increase to Work Order No. 1709464 for additional work to construct Warren 4R potable water well in the amount of \$788,474 for a total project cost of \$5,381,653.

BACKGROUND:

On January 23, 2017, the Board of Public Utilities (Board) 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. (Hillwood), of Ontario, California. The two (2) agreements allow Hillwood to lease the property and construct a warehouse and distribution building located on the Waterman Golf Course Properties, as shown in Attachment 1. As a requirement to the agreement, Hillwood is obligated to relocate the existing Warren 4 well, associated Rice-Thorne pipeline, and perform numerous water facility abandonments.

The total cost estimate to relocate Warren 4 and the associated pipeline is \$4,100,000, and is inclusive of a \$500,000 contingency. As provided in the Well Relocation Agreement, Hillwood will relocate the existing

Warren 4 well and associated pipeline (Well Relocation Work) at their sole cost and expense, including any excess costs beyond the total cost estimate. Riverside Public Utilities (RPU) will reimburse Hillwood of all costs through credits against the rent obligations defined by the Ground Lease Agreement. However, rent credit reimbursement will not be given for costs associated with RPU requested upgrades or unforeseen conditions (additional work). Costs for additional work is to be directly funded by RPU as soon as reasonably practical in order to allow the Well Relocation Work to proceed with no impact upon the construction schedule.

In December 2018, Hillwood completed the drilling of the relocated well, Warren 4R, and currently has awarded contracts to equip Warren 4R. Hillwood is scheduled to complete the Well Relocation Work by December 2019.

DISCUSSION:

Unanticipated costs were incurred during the project, having impact to Hillwood's total rent credit and costs directly funded by RPU for additional work.

Cost overruns affecting the total rent credit (\$493,179) can be attributed to the assumptions made at the time the agreements and total cost estimate were written, and did not include such variables as economic fluctuations, inflation, and steel tariffs. As a result, the original total cost estimate was undervalued.

RPU funded costs for additional work (\$788,474) includes:

1) Warren 4R Re-drilling

During the early phases of the Warren 4R construction, water samples were taken to validate the well's potable use. Results from the water quality sampling showed several constituents, including boron, fluoride, and arsenic, to be above the standard drinking water maximum contaminant levels (MCLs), and was deemed by staff to be unsuitable for intended use. In an effort to construct a well having acceptable water quality, RPU staff directed Hillwood to abandon the drilled well at the failed location, and proceed with re-drilling the well at a new location, shown in Attachment 2. After having drilled a pilot hole at the new location, water sample results confirmed all tested water quality constituents were within current regulatory standards. Re-drilling the well resulted in an increase in both the contractor and consultant engineering costs associated with re-mobilization, pilot hole re-drilling, additional water samples, pipeline relocation, additional contract management and engineering support. In addition, the new location of Warren 4R required modification to the property easements to reflect the new location of the well.

2) Stainless Steel Well Casing Upgrade

To increase overall life expectancy and reduce maintenance of Warren 4R, optional well construction materials were investigated. Due to long-term cost effectiveness of higher-grade steel walls, RPU directed Hillwood to install stainless steel casing at the screened and lower sections of the well.

Staff recommends amending the affected agreements which would increase the total project estimate from \$4,100,000 to \$5,381,653, and show the new location of the Warren 4R, associated pipeline and property easements.

FISCAL IMPACT:

1. The capital expenditure for the entire project is estimated to be \$5,381,653, which is \$1,281,653 higher than the original estimate and itemized in Table 1, below.

2. Of the \$1,281,653 of total cost overruns:

- a. \$493,179 will be City payments to Lessee as credits to monthly rent – in accordance with Ground Lease and Well Relocation Agreement, the total Monthly Well Cost Credit is to be adjusted from \$4,100,000 to \$4,593,179 during the first one hundred eighty (180) Monthly Rent obligations to account for the cost overruns not related to Additional Work. Following completion of the well relocation work, the Monthly Well Cost Credit will be adjusted from the original \$28,620 per month to reflect the actual cost overruns and is estimated to be approximately \$32,380 per month.
- b. \$788,474 increased expenditure directly funded by RPU for Additional Work to construct Warren 4R potable water well against Work Order No. 1709464 – Additional Work includes relocation of Warren 4R due to poor water quality at the planned location and utilizing stainless steel material for the construction of Warren 4R.

Table 1: Project Capital Expenditure

Item	Contract Cost	Cost Difference	Total Revised Cost
Well Relocation Work – (<i>Credits to Monthly Rent</i>)	\$4,100,000	\$493,179	\$4,593,179
Additional Work – (<i>Directly Funded by RPU</i>)	\$0	\$788,474	\$788,474
Total Project Cost*	\$4,100,000	\$1,281,653	\$5,381,653

* Detailed cost breakdown provided in Table 2, attached.

Sufficient funds are available in Public Utilities Potable/Irrigation Well Replacement Account No. 6230100-470833.

Prepared by: Todd L. Jorgenson, Utilities Assistant General Manager/Water
Approved by: Todd M. Corbin, Utilities General Manager
Approved by: Al Zelinka, FAICP, City Manager
Approved as to form: Gary G. Geuss, City Attorney

Certifies availability
of funds: Brian Seinturier, Fiscal Manager

Attachments:

1. Warren 4R/ GWS #4 Project Area
2. Old and New Location of Warren 4R Potable Water Well
3. Detailed Cost Breakdown
4. First Amendment to the Ground Lease Agreement with GWS#4 Development LLC
5. First Amendment to the Well Relocation Agreement with Hillwood Enterprises, L.P