



RIVERSIDE PUBLIC UTILITIES

Customer Relations/Finance Committee

CUSTOMER RELATIONS/FINANCE COMMITTEE

DATE: JUNE 21, 2021

SUBJECT: ADOPT REVISIONS TO REAL PROPERTY FINANCIAL MANAGEMENT POLICY TO INCLUDE PROVISIONS FROM ASSEMBLY BILL 1486 AND RECOMMEND THE REAL PROPERTY FINANCIAL MANAGEMENT POLICY BE UPDATED EVERY FIVE YEARS

ISSUES:

Adopt revisions to the Riverside Public Utilities Real Property Financial Management Policy to include the provisions of Assembly Bill 1486, and recommend the Policy be updated every five years.

RECOMMENDATIONS:

That the Customer Relations and Finance Committee recommend that the Board of Public Utilities:

1. Adopt revisions to the Riverside Public Utilities Real Property Financial Management Policy to include the provisions of Assembly Bill 1486; and
2. Approve staff's recommendation to update the Real Property Financial Management Policy every five years, rather than every two years.

BACKGROUND:

On November 21, 2014, the Board of Public Utilities (Board) adopted the Riverside Public Utilities (RPU) Real Property Financial Management Policy (Policy).

On October 13, 2015, the City of Riverside, acting on behalf of Riverside Public Utilities, closed escrow on the Mission Square Complex located at 3750 University Avenue. The Mission Square Office Complex is a six-story, 127,533 square foot office building and a four level, 490-space parking structure. Building tenants, square footage and lease expirations are detailed in Attachment 3.

On November 20, 2015, the Board of Public Utilities adopted revisions to the Policy to reflect the commercial operation of the Mission Square Office Complex. The addition to the Portfolio Management section of the Policy was titled Commercial Operation of Mission Square Office

Complex.

Policy Summary

The Policy serves as a guide for the Board when carrying out its Charter prescribed duties. The guiding principles within the Policy are:

- Maximization of ratepayer value guides all decisions; and
- Stewardship, which includes acquisition, use and disposition, shall be done in conformance with California law.

The Policy contains eight sections, including: 1) Purpose; 2) Powers and Duties of the Board of Public Utilities; 3) Classification; 4) Evaluation and Assessment; 5) Financial Valuation; 6) Portfolio Management; 7) Legal Considerations; and 8) Examples.

The Policy includes classification of Real Property:

Required – In Use properties are necessary for the production and delivery of water and power by RPU and/or associated with the operations and administration of RPU.

Exclusive properties are those used exclusively in current RPU operations and are owned by the City. Exclusive use is critical to ensuring continued operations. Examples of exclusive properties include power plant sites, water treatment facility sites, vacant land used to replenish groundwater basins, etc.

Multi-use Properties are those properties which are City-owned and necessary for RPU operations but whose use does not exclude other operations from taking place (e.g., vacant lots with wells). These properties can be placed under review for further development or other considerations. Multi-use properties may include land that has attached water rights (that in all cases will be retained by RPU).

Environmental Properties are those properties which serve as or have the potential to offer environmental mitigation for any adverse impacts that RPU operations have or may have on the local environment.

Required – Future Properties consist of any and all properties that may one day be used in the operations required of RPU by its mandate as a water and electric service provider or utilized in the fulfillment of RPU's mission statement (e.g., properties with water rights or mineral rights). Required - Future properties may include properties that could become Required – In Use properties in the future. Required - Future properties may also be properties which have characteristics which may be valuable to RPU (e.g., prominent location) or that may have characteristics which are similar to other assets that RPU may wish to acquire.

Idle Properties are all properties other than those characterized as Required - In Use or Required - Future. In general, Idle properties are properties that are not currently utilized in the core operations of RPU. Idle properties can be separated into two categories: income properties and miscellaneous properties.

Income Properties are properties that do not fall into one of the aforementioned categories but which deliver lease or rent payments to RPU.

Miscellaneous Properties are all other properties. Such properties may have the potential to be reclassified as income properties if the land could be leased or rented with or without investment in structures, fixtures, appurtenances, or improvements or could be declared surplus and sold.

RPU meets regularly with the Community & Economic Development Department/Real Property Services Division regarding properties labeled Idle properties. If the property falls into the Idle category, investment opportunities should be considered. If the property is available to be leased, the necessary comparison of potential sale value to the net present value of expected cash flow should be made. If the property is leased, a third party should be considered to manage the property. If leases are not an option, the property should be considered for sale.

Deciding factors for discussion when evaluating Idle properties for disposition, staff considers many factors including but not limited to, existing City use or whether future City use is necessary, potential development of the site, zoning, environmental conditions, existing utility easements (for example, are there encumbrances such as conservation or utility easements that can't be or need to be relocated to allow for development) and financial consideration. The total percentage of all RPU properties in the Idle category are approximately 6% of the total property portfolio including properties in Riverside and San Bernardino.

The complete list of RPU owned properties is included in Attachment 4 and includes the above property classifications as defined by the Policy

DISCUSSION:

On October 9, 2019, Governor Newsom signed into law Assembly Bill 1486 (AB 1486) which amended the notice provisions of Government Code 54220 et. Seq. which governs the process for disposition of surplus property. AB 1486 includes that in addition to noticing the required list of public agencies, all public agencies (such as the City of Riverside, Successor Agency and Housing Authority) must notify affordable housing developers, from a list provided by the State's Housing and Community Development (HCD), with a 60-day advance opportunity to buy publicly-owned land for the development of affordable housing.

Staff recommends revising the Policy to reflect AB 1486 with the addition of the following language to Paragraph 3. Board of Public Utilities Powers and Duties, Section 3, 4 and 5.

3. For exempt surplus land, there are several exemptions that could possibly apply which include, if the property is less than 5,000 square feet in area, less than the minimum legal residential building lot size, if the property has no record access and is less than 10,000 square feet in area and is not contiguous land. In summary, if the property is independently undevelopable, and does not meet the minimum lot size for development, then it is considered exempt surplus land. "Undevelopable" is limited in Administrative Manual Section 08.003.00 to very small properties that must be sold to a contiguous owner.

4. For Surplus Land prior to marketing the property and as required by Government Code section 54222 et seq., once City Council adopts a Resolution and declares a property as surplus and prior to disposing or participating in negotiations with prospective buyers, a written notice of availability must be sent to required public agencies and California Housing Financial Agency (CalHFA) affordable housing developers that are registered with the State's Department of Housing and Community Development (HCD) for a 60-day

period. However, public agencies and affordable housing developers will have the “first right of refusal” or priority consideration for all City-owned land that has been declared surplus land. An entity proposing to use the surplus land for developing low- and moderate-income housing shall agree to make available not less than 25 percent of the total number of units developed on the parcels at affordable housing cost, as defined in Section 50052.5 of the Health and Safety Code and, or affordable rent, as defined in Section 50053 of the Health and Safety Code, to lower income households, as defined in Section 50079.5 of the Health and Safety Code. If responses are received during the 60-day first offering period, then a minimum of 90-days must be allowed for negotiations. A written summary of the responses and negotiations must then be provided to HCD who has 30-days to respond before the City can proceed with a development proposal.

5. If there is interest from an affordable housing developer or public agency, staff will market the property to the general public to sell it at fair market value in accordance with the City’s Administrative Manual 8.003.00 – Disposition of City -Owned Real Property. If the property is developed with ten or more residential units, the 15% of the total project’s units must be restricted as affordable to lower income households and will be required to record a covenant to ensure the continued affordability during the requisite time period.

In consideration of the number of years between legislative actions impacting municipally owned properties, staff is also recommending that the Policy be updated every five years instead of every two years.

Next Steps

Staff is actively working with the Community & Economic Development Department/Real Property Services Division on evaluating Pellisier Ranch, Riverside Golf Course and the Ab Brown Sports Complex. This item will be presented to the City Council on May 25, 2021.

FISCAL IMPACT:

There is no fiscal impact associated with the adoption of revisions to the Real Property Financial Management Policy. All Real Property transactions are brought to the Board and City Council with a fiscal impact for the requested approvals.

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Approved by: Al Zelinka, FAICP, City Manager
Approved as to form: Kristi J. Smith, Interim City Attorney

Certifies availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer

- Attachments:
1. Red-lined Version of the Real Property Financial Management Policy
 2. Clean Version of the Real Property Financial Management Policy
 3. Mission Square Building Tenant Listing
 4. RPU Property Inventory with Classifications
 5. Presentation