



City of Rialto

Legislation Details (With Text)

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Title: Request City Council to Receive and File the Statement of Income and Expenses related to Airport Escrow Account for August 2019.

Sponsors:

Indexes:

Code sections:

Attachments: 1. Exhibit A - Airport SR Aug 19 - Airport Escrow Statement of Income and Expense.pdf, 2. Exhibit B - Airport SR Aug 19 - Airport Monthly Statements.pdf, 3. Exhibit C - Airport SR Aug 19 - Cont Liability Protocol Monthly Statements.pdf, 4. Exhibit D - Airport SR Aug 19 - Cont Liab Escrow Statement of Income and Expense.pdf, 5. Exhibit E.png, 6. Exhibit F.png

| Date | Ver. | Action By | Action | Result |
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For City Council Meeting [December 10, 2019]

TO: Honorable Mayor and City Council

APPROVAL: Rod Foster, City Administrator

FROM: Jessica Brown, Finance Director

Request City Council to Receive and File the Statement of Income and Expenses related to Airport Escrow Account for August 2019.

BACKGROUND:

On September 25, 2012, the City Council approved the Second Amended and Restated Contract of Sale for Areas B, C and D (the "Airport Contract") with Lewis-Hillwood Rialto LLC (LHR). A key provision of the Airport Contract required the City to deposit \$30 million into escrow to fund pre-development obligations, including tenant relocation, demolition, remediation and infrastructure (the "Article VI Work" as defined in the Airport Contract).

On January 22, 2013, the City Council approved Joint Escrow Instructions by and among the City of Rialto, LHR, and First American Trust FSB for work related to redevelopment of the Rialto Municipal Airport. On March 14, 2013, the City wired the funds to First American Trust FSB. On April 9, 2013, the City Council adopted Resolution No. 6249 appropriating budget as follows:

| | | |
|--------------------------|-----------------------------|----------------------|
| Relocation | 300-500-4267-2011-130704 | 12,000,000.00 |
| Demolition | 300-500-4267-3001-130704-45 | 5,100,00.00 |
| Remediation | 300-500-4267-3001-130704-55 | 3,900,00.00 |
| Infrastructure | 300-500-4267-3001-130703-05 | 9,000,000.00 |
| Total Expenditure | | 30,000,000.00 |

On October 13, 2015, the City Council reallocated \$3,000,000 from the Demolition budget to the Infrastructure Budget and \$1,000,000 from the Remediation budget to the Infrastructure Budget. On February 23, 2016, the City Council reallocated \$1,278,168 from the Remediation Budget to the Infrastructure Budget and \$30,000 from the Relocation Budget to the new Miscellaneous Expense Budget. The Budget Reports below reflect the adjusted budget.

Since a third party trustee disburses these funds, the financial activities avoid the City's normal financial reporting systems. Because of the substantial size of the expenditures, staff indicated that it would provide a monthly report to the City Council summarizing the income and expenditures related to the Airport Escrow Account.

ANALYSIS/DISCUSSION:

Expenditures from Airport Escrow Account

During August 2019, the City had no expenditures from the Airport Escrow Account; however, there was one substantive transaction - a transfer for \$2,189,122.77 from First American Trust to the Cal Trust Short Term Fund Portfolio. A cumulative income and expense report for the month ending August 31, 2019, is attached as **Exhibit A**.

Table 1 summarizes the Airport Escrow Account activity from inception through August 31, 2019:

Table 1
Summary of Account Status

| Summary | Date | Section | Amended Budget | Section Actuals | Total Amounts |
|--|-----------|---------|----------------|-------------------|--------------------|
| Total Required Expenditures | | | | | \$ 30,000,000.00 |
| Total Expenditures to Date | 8/31/2019 | | | | \$ (27,320,185.76) |
| Relocation | | 6.02 | 11,970,000.00 | (\$11,164,891.18) | |
| Demolition | | 6.03 | 2,100,000.00 | (\$1,538,266.67) | |
| Remediation | | 6.04 | 1,621,832.00 | (\$310,604.51) | |
| Infrastructure | | 6.05 | 14,278,168.00 | (\$14,271,417.23) | |
| Other | | n/a | 30,000.00 | (\$35,006.17) | |
| | | | 30,000,000.00 | (27,320,185.76) | |
| Remaining Required Expenditures | 8/31/2019 | | | | \$ 2,679,814.24 |
| Available Funds in Escrow Account (NAV) | | | | | |
| Cash with First American Trust | 8/31/2019 | | | \$144,564.78 | |
| Cal Trust Portfolio | 8/31/2019 | | | | |
| Short Term Fund | | | | \$2,552,985.26 | |
| Medium Term Fund | | | | \$0.00 | |
| | | | | | \$2,697,550.04 |
| Potential Excess/(Shortage) of Funds | | | | | \$ 17,735.80 |
| Cumulative Investment Income | | | | | \$ 279,244.30 |
| Cumulative Realized Investment Gains/(Losses) | 8/31/2019 | | | | \$ (79,201.24) |
| Cumulative Unrealized Investment Gains/(Losses) | 8/31/2019 | | | | \$ 498.18 |
| Net Portfolio Returns | | | | | \$ 200,541.24 |
| Transfer to City General Fund Reserves | | | | | \$ (182,805.44) |
| Balance of Investment Earnings in Escrow Account | | | | | \$ 17,735.80 |

Source: Reconciliation of August, 2019 Statements from FSB and CalTrust

The City is obligated to expend \$30 million toward Article VI Work. To date, the City has expended/obligated \$27,320,185.76 with remaining required expenditures of \$2,679,814.24. Table 2 summarizes the budgeted versus actual expenditures by category - there may be some categorical adjustments once final documentation is processed.

Table 2
Budget Status Report

| Expense | Original Project Budget | All Budget Adjustments | Amended Project Budget | To Date Expenses | Remaining Budget |
|----------------|-------------------------|------------------------|------------------------|-----------------------|--------------------|
| Relocation | \$12,000,000 | (\$30,000) | \$11,970,000 | (\$11,164,891) | \$805,109 |
| Demolition | \$5,100,000 | (\$3,000,000) | \$2,100,000 | (\$1,538,267) | \$561,733 |
| Remediation | \$3,900,000 | (\$2,278,168) | \$1,621,832 | (\$310,605) | \$1,311,227 |
| Infrastructure | \$9,000,000 | \$5,278,168 | \$14,278,168 | (\$14,271,417) | \$6,751 |
| Other | \$0 | \$30,000 | \$30,000 | (\$35,006) | (\$5,006) |
| Totals | \$30,000,000 | \$0 | \$30,000,000 | (\$27,320,186) | \$2,679,814 |

Investment Returns

On August 31, 2019, the Net Asset Value of the investment portfolio was \$2,697,550.04. The cumulative investment income of \$279,244.30 offsets realized losses to the investment portfolio of (\$79,201.24) and unrealized gains of \$498.18 producing net portfolio returns of \$200,541.24. The City has completed four transfers of investment earnings to the City General Fund Reserve totaling \$182,805.44 resulting in the \$17,735.80 retained surplus.

The City Treasurer invests the portfolio in the CalTrust Short Term Fund at Cal Trust. The latest reported average annual total return for the Fund was 2.69%. The latest monthly statements from Cal Trust and First Savings Bank are attached hereto as **Exhibit B**.

Land Sales Report

Table 3
Summary of Closed Land Sales/Rialto Airport

| Closing No. | Buyer | Closing Date | Parcel Acres | Gross Sales Proceeds | Transaction Costs | LHR Note | SBIAA Payments | City Proceeds | City Deposit to Protocol Account | Net City Proceeds |
|-----------------------------|---------------------------|------------------|---------------|---------------------------------------|----------------------|---------------------------------------|--------------------------|-------------------------|----------------------------------|-------------------------|
| 1 | Medline | 03/03/15 | 59.40 | \$ 10,349,260.00 | \$ - | \$ (1,826,644.00) | \$ (895,346.00) | \$ 7,627,270.00 | \$ - | \$ 7,627,270.00 |
| 2 | Niagara | 03/03/15 | 23.88 | \$ 4,161,308.00 | \$ - | \$ (734,471.00) | \$ (697,203.00) | \$ 2,729,634.00 | \$ (399,515.00) | \$ 2,330,119.00 |
| 3 | PDC OC/IE | 11/23/15 | 3.86 | \$ 672,968.00 | \$ - | \$ (118,779.00) | \$ (112,752.00) | \$ 441,437.00 | \$ (97,131.00) | \$ 344,306.00 |
| 4 | Locust & Linden Fund IX | 01/22/16 | 0.19 | \$ 32,520.00 | \$ - | \$ (5,740.00) | \$ (5,449.00) | \$ 21,331.00 | \$ (4,694.00) | \$ 16,637.00 |
| 5 | Monster | 09/27/16 | 51.21 | \$ 8,922,692.00 | \$ - | \$ (1,574,855.00) | \$ (1,379,790.00) | \$ 5,968,047.00 | \$ (1,062,406.00) | \$ 4,905,641.00 |
| 6 | Walnut Opportunity LLC | 01/06/17 | 2.020 | \$ 691,000.00 | \$ (1,898.00) | \$ - | \$ (140,200.00) | \$ 548,902.00 | \$ (20,400.00) | \$ 528,502.00 |
| 7a | LHR Renaissance South | 03/16/17 | 41.740 | \$ 7,272,738.00 | \$ - | \$ (1,283,638.00) | \$ (1,218,504.00) | \$ 4,770,596.00 | \$ - | \$ 4,770,596.00 |
| 7b | LHR Renaissance North | 03/16/17 | 2.989 | \$ 520,838.00 | \$ - | \$ (91,928.00) | \$ (87,263.00) | \$ 341,647.00 | \$ (75,174.00) | \$ 266,473.00 |
| 8 | Rialto Bldg 5 Project LLC | 03/16/17 | 51.547 | \$ 8,981,616.00 | \$ - | \$ (1,585,255.00) | \$ (1,504,817.00) | \$ 5,891,544.00 | \$ (1,296,334.00) | \$ 4,595,210.00 |
| 9 | Rialto Bldg 6 Project LLC | 08/22/17 | 58.888 | \$ 10,260,688.00 | \$ - | \$ (1,811,011.00) | \$ (1,719,118.00) | \$ 6,730,559.00 | \$ (1,480,945.00) | \$ 5,249,614.00 |
| 10 | Dermodity (DPIF2 CA 7) | 01/15/19 | 20.882 | \$ 3,638,428.00 | \$ - | \$ (642,183.00) | \$ (609,597.00) | \$ 2,386,648.00 | \$ (525,141.00) | \$ 1,861,507.00 |
| Totals to Date | | 1/15/2019 | 316.60 | \$ 55,504,056.00 | \$ (1,898.00) | \$ (9,674,504.00) | \$ (8,370,039.00) | \$ 37,457,615.00 | \$ (4,961,740.00) | \$ 32,495,875.00 |
| Total Airport Acres | | | 438.22 | | | | | | | |
| Percent of Land Sold | | | 72.2% | Additional Land Sales Proceeds | | \$ (4,687,878.00) | \$ - | \$ - | \$ - | |
| | | | | | | Early Release of CPP | \$ (3,000,000.00) | \$ 3,000,000.00 | \$ - | \$ 3,000,000.00 |
| | | | | | | Release of Protocol Amounts | \$ - | \$ - | \$ 450,345.50 | \$ 450,345.50 |
| | | | | | | Total FAA Escrow Distributions | \$(16,057,917.00) | \$ 40,457,615.00 | \$(4,511,394.50) | \$ 35,946,220.50 |

Through August 2019, the City has sold 10 properties totaling 317 acres as summarized in Table 3, representing 72% of the Airport property.

The gross land sales proceeds from all transactions are \$55,504,056.00. From the gross sales price, the City paid the following amounts:

- \$9,674,504.00 to LHR as repayment of the LHR Note, and
- \$8,370,039.00 to San Bernardino International Airport Authority (SBIAA) pursuant to the City/SBIAA Agreement.

The City has realized sales proceeds of \$37,457,615.00. From the City's net sales proceeds, the Escrow Agent retained the amount of \$4,961,740.00 pursuant to the Protocol Agreement between the City and LHR. LHR matches the City's Protocol Agreement investment and the Escrow Agent holds the combined funds in trust until certain conditions related to the Airport Closure are satisfied. The City received the net amount of \$32,495,875.00 for deposit into the General Fund.

As part of the March 2017 closings, the City and SBIAA each received an early release of Contingent Purchase Price of \$3,000,000 and the City received a release of \$450,345 from the Protocol Account. SBIAA has received total FAA Escrow distributions of \$16,057,917 and the City has received total consideration of \$40,457,615 (before Protocol Account allocations). After Protocol Account allocations, the City has netted \$35,946,220.50.

Contingent Liability/Protocol Account

The latest monthly statements from Cal Trust and First Savings Bank related to the Protocol Agreement are attached hereto as **Exhibit C** (Sub Account A). The City Treasurer invests the funds with CalTrust. LHR established a similar account with FSB (Sub Account B) for an identical deposit. FSB will hold these funds until the City and LHR satisfy the conditions precedent to release.

The total protocol account balance is \$4,693,492.65, consisting of net deposits of \$4,511,427.50, net portfolio returns of \$182,065.15, and expenses of (\$18,783.00), producing net portfolio returns of \$200,848.15. LHR's account totals \$4,643,051.10, including deposits of \$4,490,995.00 and investment income of \$152,056.10.

A cumulative income and expense report for both the City and LHR accounts during the month ending August 31, 2019, is included as **Exhibit D**.

Return on Investment

Through August 31, 2019, the City realized \$58,504,056 in gross land sales proceeds and contingent purchase price allocations, while expending/obligating \$45,364,729, producing a net positive return to the City General Fund of \$13,139,327. At project completion, the City forecasts that it will net \$17,700,000 to the City General Fund (recovery of initial \$30,000,000 investment plus an additional \$17,700,000 for total return of/on investment of \$47,700,000). Staff will adjust this forecast periodically as the project proceeds.

Table 4
Return On Investment Report
Airport Redevelopment Project

| | Build Out Forecast | To Date Actuals | |
|---------------------------|-----------------------|----------------------|----------------------------|
| Revenues | | | |
| Gross Land Sales | \$ 76,000,000 | \$ 55,504,056 | |
| Contingent Purchase Price | \$ - | \$ 3,000,000 | |
| Other Income | \$ - | \$ - | |
| | ===== | ===== | |
| Total Revenues | \$ 76,000,000 | \$ 58,504,056 | |
| Expenses | | | |
| LHR Note Repayment | \$ (12,300,000) | \$ (9,674,504) | for prior relocation costs |
| City Relocation | \$ (12,000,000) | \$ (11,164,891) | |
| City Demolition | \$ (2,100,000) | \$ (1,538,267) | |
| City Remediation | \$ (2,900,000) | \$ (310,605) | |
| City Infrastructure | \$ (13,000,000) | \$ (14,271,417) | |
| City Other | \$ - | \$ (35,006) | Trustee Fees |
| SBIAA Payment | \$ (16,000,000) | \$ (8,370,039) | |
| | ===== | ===== | |
| Total Expenses | \$ (58,300,000) | \$ (45,364,729) | |
| Net City Return | 8/31/2019 | \$ 17,700,000 | \$ 13,139,327 |

The former Redevelopment Agency invested \$8.4 million for relocation expenses. The table above does not acknowledge these expenses, but they should be considered part of the total cost of relocation for the Airport Redevelopment Project.

ENVIRONMENTAL IMPACT:

Pursuant to Section 15378 of the California Environmental Quality Act, a “Project” means the whole of an action, which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. A Project does not include the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment.

GENERAL PLAN CONSISTENCY:

The proposed action is consistent with the following Guiding Principle of the General Plan:

“Our City government will lead by example, and will operate in an open, transparent, and responsive manner that meets the needs of the citizens and is a good place to do business.”

LEGAL REVIEW:

The City Attorney reviewed and approved the staff report.

FINANCIAL IMPACT:

The report summarizes various financial transactions of the Airport Escrow Account.

RECOMMENDATION:

Staff recommends that the City Council Receive and File the Statement of Income and Expenditures related to the Airport Escrow Account for the month ending August 31, 2019.