



# City of Rialto

## Legislation Details (With Text)

**File #:** 17-1109 **Version:** 1 **Name:**  
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**File created:** 11/26/2017 **In control:** City Council  
**On agenda:** 12/12/2017 **Final action:**  
**Title:** Request City Council to Receive and File the Statement of Income and Expenses related to Airport Escrow Account for October 2017.

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:** 1. Exhibit A Airport Escrow Statement of Income and Expense October 31 2017.pdf, 2. Exhibit B CalTrust and FSB Statements for Airport Escrow October 2017.pdf, 3. Exhibit C CalTrust and FSB Statements for Protocol Account October 2017.pdf, 4. Exhibit D Protocol Account Income and Expense CY 2017.pdf

Date	Ver.	Action By	Action	Result
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For City Council Meeting [December 12, 2017]

TO: Honorable Mayor and City Council

APPROVAL: Michael Story, City Administrator

FROM: Robb R. Steel, Assistant CA/Development Services Director

Request City Council to Receive and File the Statement of Income and Expenses related to Airport Escrow Account for October 2017.

### **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).

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
<b>Total Expenditure</b>		<b>30,000,000.00</b>

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:

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 October 2017, the City did not have any expenditures from the Airport Escrow Account. A cumulative income and expense report for the month ending October 31, 2017, is included as **Exhibit A**.

The table below summarizes the Airport Escrow Account activity from inception through October 31, 2017:

**Summary of Account Status (10/31/17)**

Summary	Date	Section	Amended Budget	Section Actuals	Total Amounts
Total Required Expenditures					\$ 30,000,000.00
Total Expenditures to Date	10/31/2017				\$ (29,094,624.05)
Relocation		6.02	11,970,000.00	(\$10,764,510.40)	
Demolition		6.03	2,100,000.00	(\$1,536,447.92)	
Remediation		6.04	1,621,832.00	(\$308,125.73)	
Infrastructure		6.05	14,278,168.00	(\$16,460,540.00)	
Other		n/a	30,000.00	(\$25,000.00)	
			30,000,000.00	(29,094,624.05)	
Remaining Required Expenditures	10/31/2017				\$ 905,375.95
<b>Available Funds in Escrow Account (NAV)</b>					
Cash with First American Trust	10/31/2017			\$307.54	
Cal Trust Portfolio	10/31/2017				
Money Market Fund				\$910,350.66	
Medium Term Fund				\$0.00	
					\$910,658.20
Potential Excess/(Shortage) of Funds					\$ 5,282.25
Cumulative Investment Income					\$ 257,276.73
Cumulative Realized Investment Gains/(Losses)	10/31/2017				\$ (79,059.02)
Cumulative Unrealized Investment Gains/(Losses)	10/31/2017				\$ (0.00)
Net Portfolio Returns					\$ 178,217.71
Transfer to City General Fund Reserves					\$ (172,935.46)
Balance of Investment Earnings in Escrow Account					\$ 5,282.25

Source: Reconciliation of Oct, 2017 Statements from FSB and CalTrust

The City is obligated to expend \$30 million toward Article VI Work. To date, the City has expended/obligated \$29,094,624.05 with remaining required expenditures of \$905,375.95. The table above summarizes the budgeted versus actual expenditures by category - there may be some categorical adjustments once final documentation is processed.

**Budget Status Report (10/31/17)**

Expense	Original Project Budget	All Budget Adjustments	Amended Project Budget	To Date Expenses	Remaining Budget
Relocation	\$12,000,000	(\$30,000)	\$11,970,000	(\$10,764,510)	\$1,205,490
Demolition	\$5,100,000	(\$3,000,000)	\$2,100,000	(\$1,536,448)	\$563,552
Remediation	\$3,900,000	(\$2,278,168)	\$1,621,832	(\$308,126)	\$1,313,706
Infrastructure	\$9,000,000	\$5,278,168	\$14,278,168	(\$16,460,540)	(\$2,182,372)
Other	\$0	\$30,000	\$30,000	(\$25,000)	\$5,000
<b>Totals</b>	<b>\$30,000,000</b>	<b>\$0</b>	<b>\$30,000,000</b>	<b>(\$29,094,624)</b>	<b>\$905,376</b>

**Investment Returns**

On October 31, 2017, the Net Asset Value of the investment portfolio was \$910,658.20. The realized losses to the investment portfolio totaling (\$79,059.02) offset total investment income of \$257,276.73, producing a surplus of \$178,217.71. The City has completed 3 transfers of investment earnings to

the City General Fund Reserve totaling \$172,935.46 resulting in the \$5,282.25 retained surplus.

The City Treasurer invests the portfolio in the CalTrust Short Term Fund at Cal Trust (the City transferred the funds during June from the Government Money Market Fund). The latest reported average annual total return for the Fund was approximately 1.00%. The latest monthly statements from Cal Trust and First Savings Bank are attached hereto as **Exhibit B**.

### Land Sales Report

Through August 2017, the City sold 9 properties totaling 296 acres as summarized in the table below, representing 68% of the Airport property.

#### 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
Totals to Date		8/31/2017	295.72	\$ 51,865,628.00	\$ (1,898.00)	\$ (9,032,321.00)	\$ (7,760,442.00)	\$ 35,070,967.00	\$ (4,436,599.00)	\$ 30,634,368.00
Total Airport Acres			438.22							
Percent of Land Sold			67.5%							
				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			\$ (15,448,320.00)	\$ 38,070,967.00	\$ (3,986,253.50)	\$ 34,084,713.50

The gross land sales proceeds from all transactions are \$51,865,628.00. From the gross sales price, the City paid \$9,032,321.00 to LHR as repayment of the LHR Note, and \$7,760,442.00 to San Bernardino International Airport Authority (SBIAA) pursuant to the City/SBIAA Agreement. The City has realized net sales proceeds of \$35,070,967.00. From the City's net sales proceeds, the Escrow Agent retained the amount of \$4,436,599.00 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 \$30,634,368.00 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. SBIAA has received total FAA Escrow distributions of \$15,448,320 and the City has received total consideration of \$38,070,967 (before Protocol Account allocations). After Protocol Account allocations, the City has netted \$34,084,713.50.

### 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.

During October 2017, the City account accrued interest of \$4,378.31 producing total investment earnings to date of \$23,538.81. FSB charges an annual escrow fee of \$3,750, and the City has paid a total of \$11,250 in fees. The net investment earnings (total investment earnings less escrow fees) are \$12,288.81.

## Protocol Account Status

		1084651701	1084652700	
		City	LHR	LHR
<b>Deposits and Investment Income</b>				
Begin Balance of All Funds on	10/1/2017	\$ 3,994,164.00	\$ 3,977,358.36	\$ 7,971,522.36
Total Protocol Deposits This Month	10/31/2017	\$ -	\$ -	\$ -
Total Investment Income This Month	10/31/2017	\$ 4,378.31	\$ 2,976.19	\$ 7,354.50
Total Expenses this Month	10/31/2017	\$ -	\$ -	\$ -
Total Transfers (Out)/In This Month	10/31/2017	\$ -	\$ -	\$ -
Net Deposits This Month		\$ 4,378.31	\$ 2,976.19	\$ 7,354.50
Total Available Protocol Funds	10/31/2017	\$ 3,998,542.31	\$ 3,980,334.55	\$ 7,978,876.86
<b>Account Status</b>				
	10/31/2017			
Required Expenditures (sum of all original deposits less early release)		\$ (3,986,253.50)	\$ (3,965,886.50)	\$ (7,952,140.00)
Available Funds in Escrow Account (NAV)		\$ 3,998,542.31	\$ 3,980,334.55	\$ 7,978,876.86
(Shortage of Funds)/Surplus of Funds		\$ 12,288.81	\$ 14,448.05	\$ 26,736.86
All Protocol Deposits to Date	10/31/2017	\$ 3,986,253.50	\$ 3,965,886.50	\$ 7,952,140.00
All Investment Earnings to Date	10/31/2017	\$ 23,538.81	\$ 14,480.55	\$ 38,019.36
All Expenditures to Date	10/31/2017	\$ (11,250.00)	\$ (32.50)	\$ (11,282.50)
Total Available Protocol Funds	10/31/2017	\$ 3,998,542.31	\$ 3,980,334.55	\$ 7,978,876.86
<b>Summary of Investment Portfolio</b>				
Cash with FSB		\$ 390.76	\$ 3,980,334.55	\$ 3,980,725.31
CalTrust Money Market Portfolio		\$ 3,998,151.55	\$ -	\$ 3,998,151.55
Total All Invested Funds		\$ 3,998,542.31	\$ 3,980,334.55	\$ 7,978,876.86

Source: Monthly Statements from CalTrust and FSB for Protocol Account (Oct, 2017)

A cumulative income and expense report for the month ending October 31, 2017, is included as **Exhibit D** (City Protocol Account only).

Return on Investment

Through October 31, 2017, the City realized \$54,865,628 in gross land sales proceeds and contingent purchase price allocations, while expending/obligating \$45,887,387, producing a net positive return to the City General Fund of \$8,978,241. At project completion, the City forecasts that it will net approximately \$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.

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.

**Return On Investment Report**  
**Airport Redevelopment Project**

	Build Out Forecast	To Date Actuals	
<b>Revenues</b>			
Gross Land Sales	\$ 76,000,000	\$ 51,865,628	
Contingent Purchase Price	\$ -	\$ 3,000,000	
Other Income	\$ -	\$ -	
<b>Total Revenues</b>	<b>\$ 76,000,000</b>	<b>\$ 54,865,628</b>	
<b>Expenses</b>			
LHR Note Repayment	\$ (12,300,000)	\$ (9,032,321)	for prior relocation costs
City Relocation	\$ (12,000,000)	\$ (10,764,510)	
City Demolition	\$ (2,100,000)	\$ (1,536,448)	
City Remediation	\$ (2,900,000)	\$ (308,126)	
City Infrastructure	\$ (13,000,000)	\$ (16,460,540)	
City Other	\$ -	\$ (25,000)	Trustee Fees
SBIAA Payment	\$ (16,000,000)	\$ (7,760,442)	
<b>Total Expenses</b>	<b>\$ (58,300,000)</b>	<b>\$ (45,887,387)</b>	
<b>Net City Return 10/31/2017</b>	<b>\$ 17,700,000</b>	<b>\$ 8,978,241</b>	

**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 October 31, 2017.