

- **Board of Directors**
Asset and Recreation Committee

November 14, 2006 Board Meeting

9-2

Subject

Status of the development of the Diamond Valley Lake recreation facilities and the entitlement and sale of the North Property

Description

Staff intends to proceed with a revised strategy for the Diamond Valley Lake (DVL) Recreation and Land Development Program. This strategy would pursue entitlement of the North Property for potential sale of the surplus property and development of DVL recreation facilities to be funded through the current budget and land sale proceeds. The strategy would be implemented in phases.

For immediate action:

- Update the 2004 Draft DVL Master Plan for the East Recreation Area (ERA) and the North Area, in coordination with the City of Hemet General Plan to establish appropriate land use and densities;
- Update the 1997 Draft Recreation Plan and Business Planning Framework;
- Amend and entitle the McSweeny Specific Plan and the DVL Park Specific Plan to cover the entire North Property and the entire ERA, respectively, to maximize value for the land;
- Perform appraisal of North and ERA properties to establish budget for the development of the recreational facilities; and
- Through a separate board action, request authorization to perform preliminary design and develop cost estimates for recreation lake complex within the ERA.

For future action:

- Finalize and request board approval for the DVL Master Plan, the Recreation Plan, and the Business Planning Framework which will establish a methodical and systematic approach to development of recreation facilities, with the goal of completing phases linked to the revenues generated from property sales;
- Within the Business Planning Framework, establish funding mechanisms for recreation development, operations, maintenance, and capital replacement through DVL property sales and other means;
- Develop construction documents, a cost estimate based on the final construction documents, bid and execute contracts to construct the recreation facilities at the ERA;
- Seek a master developer interested in planning, developing, and investing capital towards a self-sustaining recreational/commercial development based on the amended DVL Park Specific Plan that may include retail, commercial, and residential development for ground lease or fee sale;
- Seek a qualified public entity/private concessionaire to manage the DVL recreation facilities at the ERA and/or the east marina through the RFQ process;
- Perform a cost/benefit analysis on the further development of the east marina and investigate private development interest;

- Complete the design and construction of the east marina utilities with funds derived from property sales, if available;
- Proceed with the entitlement and sale of the North Property;
- Consider the purchase of the 15-acre in-holding within the North Property; and
- Assess the cost and land value benefits of completing the Salt Creek Channel flood control improvements.

Introduction

California law encourages the recreational use of all water bodies in the state, including water supply reservoirs. In accordance with this policy, Metropolitan is authorized to undertake recreation projects in connection with its facilities. Recreation uses were included in the initial project plans for what was then called the Eastside Reservoir Project. As described below, Metropolitan has completed several milestones towards the construction of recreational facilities at DVL, and staff is continuing the process of designing, constructing, and identifying an appropriate operator for the minimum recreational facilities.

Background

To construct the DVL reservoir, Metropolitan acquired approximately 3,000 acres located outside the reservoir's footprint. Metropolitan contemplated using portions of this property for recreational uses upon completion of the reservoir construction. The 1991 Final Environmental Impact Report for the Eastside Reservoir Project identified recreation elements that were proposed to be included as part of the project. These elements included boat ramps for access to the reservoir, hiking trails around the reservoir, a separate recreation lake and swim lagoon/water park, a day use area, campgrounds for tent and RV camping, sports fields, and a golf course. Metropolitan has provided the facilities directly related to recreational uses on the reservoir, including boat ramps at the east marina, a hiking/biking trail on the reservoir's perimeter, and a hiking/equestrian trail in the North hills adjacent to the reservoir. The remaining recreational facilities were planned for the areas located adjacent to the east and west dams.

In November 1997, the Board adopted the Guiding Principles for development and operation of recreation facilities, approved the draft Recreation Plan, authorized preparation of the Specific Plan/Supplemental Environmental Impact Report documents to obtain entitlements for the recreation complex, and approved the Business Planning Framework for procurement of private concessionaire and contract operations for the recreational areas.

Metropolitan processed the Diamond Valley Lake Park Specific Plan covering a portion of the ERA through the city of Hemet in 2002. The plan allows construction of the recreation lake and a variety of other recreational facilities. Metropolitan leased 85 acres of the ERA to the Valley-Wide Recreation and Park District for the construction and operation of some of the recreation facilities, including ball fields and swimming pools. Another 22 acres were leased for two museums that will provide displays of the archaeological and paleontological finds from the reservoir construction and exhibits on water education.

In June 2004, a board workshop was conducted to review the Draft DVL Master Plan, which focuses on the development of the ERA and North Property. In 2005, the Board approved a process for determining if there were benefits to the joint development of the ERA and the North Property, a parcel of 732 acres across Domenigoni Parkway from the ERA that was declared surplus to Metropolitan's needs. A Request for Proposals (RFP No. 760) for DVL Recreation and Land Development Program was issued to allow private developers an opportunity to propose their vision for combined planning, financing, development, and operation of the recreation facilities in the ERA in conjunction with the residential/commercial development of the North Property and the optional development of the east marina area. The RFP drew responses from development teams that included some of the largest homebuilders in the country. Three technically qualified and financially viable development teams were identified and ranked through the RFP process: Shopoff/Centex, Lewis/Shea/Parsons/LEDO, and Lennar/Rancon.

Metropolitan executed an Exclusive Negotiating Agreement (ENA) with Shopoff/Centex in April 2006. By May 2006, Shopoff/Centex completed the first phase of the negotiations by submitting their preliminary plans for the recreation and residential/commercial development, as well as initial cost and revenue estimates. Metropolitan's staff and consultants reviewed the submittal, provided input and requested additional information. However, in June 2006, Shopoff/Centex provided a letter stating their decision to terminate their participation in the program. Metropolitan's staff concurred with the decision to terminate the ENA.

At the time the Board approved negotiations with Shopoff/Centex, it also directed staff to continue discussions with the two other qualified development teams in the event that the negotiations failed. Based on their second-place ranking by the evaluation committee, staff initiated discussions with Lewis/Shea/Parsons/LEDO. By October 2006, and after several weeks of discussions regarding an ENA, Shea indicated to staff that given the softening of the real estate market, it no longer made business sense for them to continue with the program. The third team, Lennar/Rancon, has not expressed continued interest in the program.

Plan

In support of the 1997 board-adopted Guiding Principles to create self-sustaining recreational facilities at the ERA, staff will proceed with the following strategy.

Diamond Valley Master Plan, Recreation Plan, and Business Planning Framework

Revise the Draft DVL Master Plan, Draft Recreation Plan, and the Business Planning Framework. The revised plans will establish appropriate land use and densities for the North and ERA properties, and provide an opportunity to reassess the recreational components of the ERA. It is anticipated that the development of these recreational components will be limited to and financed by Metropolitan with proceeds from the sale of the North Property, while other revenue-producing recreational components will be privately funded. The plan for operations and ongoing capital improvements will be updated to reflect all potential revenue sources including user fees, city contributions, proceeds from revenue-generating uses, and area-wide assessments. Furthermore, a schedule and estimated costs for construction of the recreation improvements; financing strategies for these facilities, including selling surplus parcels of land acquired for the reservoir construction such as the North Property; and management, operations, and maintenance of the East Recreation Area and the east marina, will be provided. **Attachment 1** illustrates key milestones and priority activities during the next several years.

East Recreation Area

The ERA is approximately 1,010 acres in size. The DVL Park Specific Plan covers 538± acres of the 1,010 acres. Three existing ground leases and the partial development of the road and infrastructure have left approximately 430 acres for future development within the DVL Park Specific Plan (see **Attachment 2**).

In November, as a separate board action, staff will seek approval for the preliminary design of 266 acres of the remaining 430 acres of the Specific Plan, including the east recreation lake complex, which will provide for an approximately 70-acre lake, a swim lagoon, RV/camping rough-graded site for future private development, day use/picnic area, pedestrian and bicycle paths, trails, parking areas, and restrooms.

Staff will advertise a RFQ to seek public recreation agencies or private concessionaires to propose their strategy to manage and create self-sustaining facilities for the ERA and for the existing marina. In the next six months, staff will update the Business Planning Framework that was adopted by the Board in November 1997.

The area outside of the existing DVL Park Specific Plan is approximately 472± acres. This area will be assessed to determine if it is surplus to Metropolitan's needs. A consultant will concurrently pursue entitlements for the area so that in the future Metropolitan will have the option of using the area through ground leases or selling the property.

North Property

The North Property is approximately 732 acres in size and is generally bounded by Domenigoni Parkway on the south, State Street on the east, Chambers Street on the north, and the southerly extension of Lyon Avenue on the west. A portion of the North Property, approximately 670 acres, is within the boundary of the McSweeney Ranch

Specific Plan, allowing for residential and commercial uses, as shown on [Attachment 3](#). At its November 2005 meeting, the Board affirmed the Chief Executive Officer's determination that Metropolitan's North Property is surplus to Metropolitan's needs and initiated the process of property disposition in compliance with the California Surplus Land Act (CA Gov't Code Sections 54220-54227).

In response to the current real estate market, staff recommends that Metropolitan retain ownership of the North Property while pursuing entitlements to enhance its value for future sale.

These measures would include a cost/benefit discussion for the purchase of the 15-acre in-holding that was not included in Metropolitan's original purchase. The in-holding was the family home site for a prior owner, and may now be available for purchase.

The current entitlement under the McSweeney Ranch Specific Plan allows for 4.2 dwelling units (DUs) per acre, but this specific plan does not cover the entire North Property. The city has commenced the process of updating its general plan, and it is anticipated that the revised general plan will provide for up to 5 DUs per acre on the North Property. An amendment to the specific plan to cover the entire North Property and to bring the approved density in line with the revised general plan would increase its value and facilitate a phased sale to cover the costs of minimum recreation development.

Salt Creek Channel

The Salt Creek Channel provides flood control drainage for the surrounding area in the city of Hemet, as shown on [Attachment 4](#). It specifically traverses both the ERA and the North Property. Although partial improvements of the Salt Creek Channel on the North Property were constructed, there are portions within the North Property and the ERA which remain to be improved. These improvements, however, potentially offer local benefits to the adjacent property owners as well as regional benefits to the city, which may in turn allow for a joint application to seek federal funding to construct the project. Consultants are in the process of identifying cost-sharing opportunities. Staff plans to return to the Board next year to request funding for the preliminary hydrology study for the area tributary to Salt Creek as well as a draft cost-sharing agreement.

Conclusion

While Metropolitan's core business is not recreation, the inclusion of recreation facilities has been a part of the DVL project since the beginning. Metropolitan will always have management oversight of recreation that occurs on its facilities to ensure that recreational activities do not adversely affect operations. As such, staff will continue to engage consultants with the appropriate expertise, allowing the Board to make timely and effective decisions regarding recreation development and sale of the North Property.


 Jill F. Wicke
 Manager, Real Property Development and
 Management

10/18/2006
 Date


 Jeffrey Kightlinger
 General Manager

10/18/2006
 Date

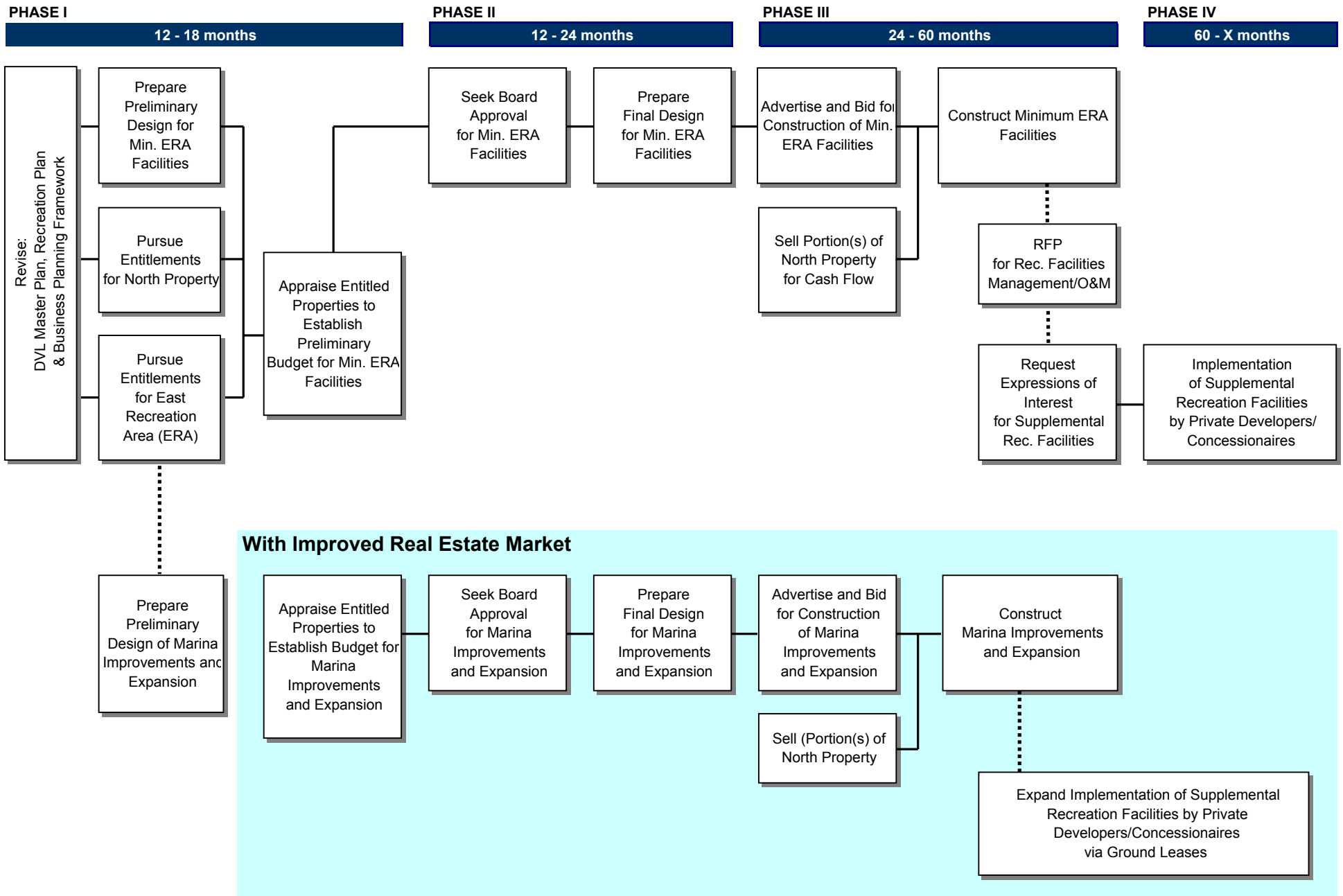
[Attachment 1 – DVL Recreation and Land Development, Key Milestones & Priority Activities](#)

[Attachment 2 – Map of the East Recreation Area](#)

[Attachment 3 – Map of the North Property](#)

[Attachment 4 – Salt Creek Channel traversing the East Recreation Area and the North Property](#)

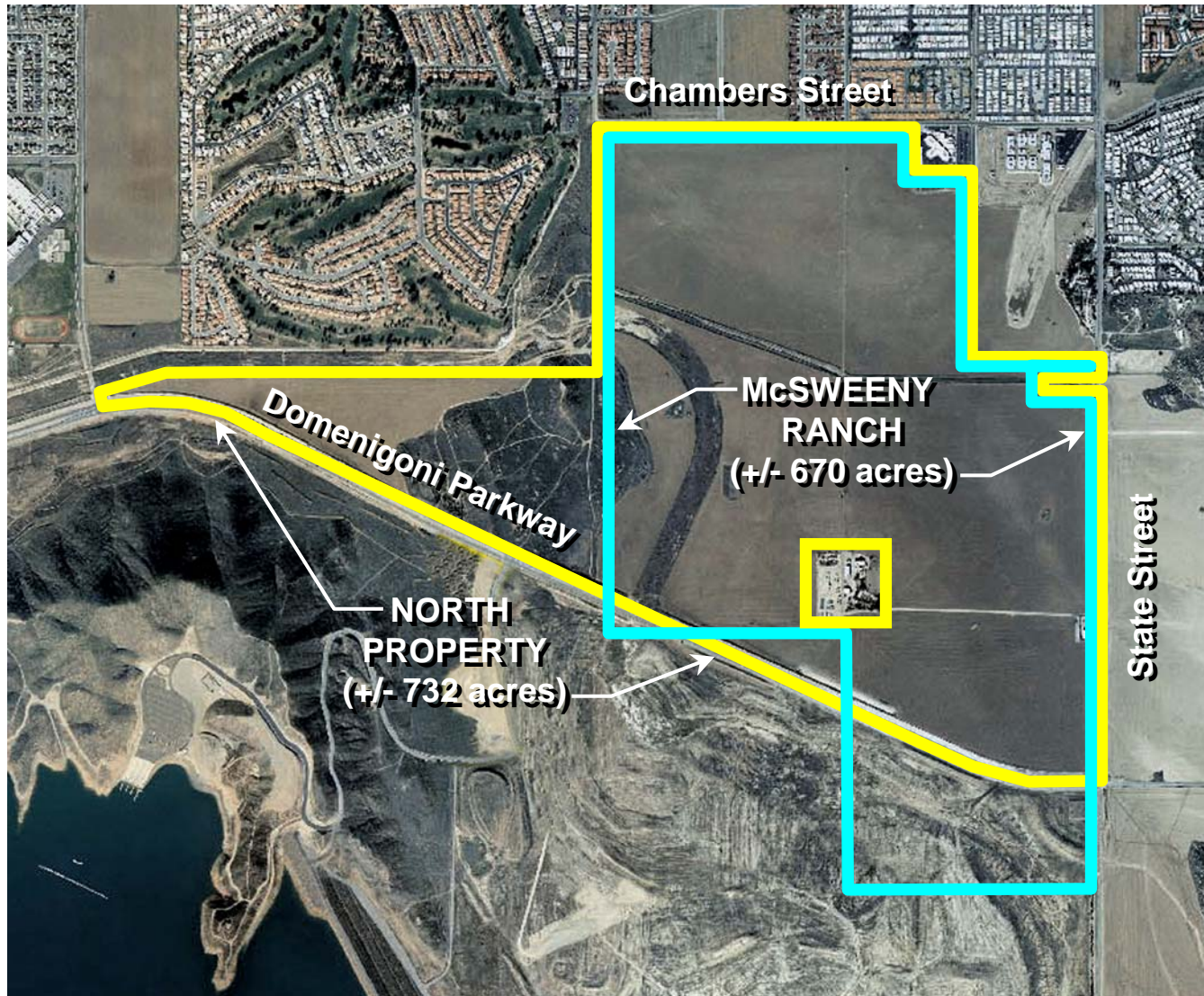
KEY MILESTONES & PRIORITY ACTIVITIES



EAST RECREATION AREA



NORTH PROPERTY



SALT CREEK CHANNEL

