



● **Board of Directors**
Real Property and Asset Management Committee

2/8/2011 Board Meeting

8-8

Subject

Authorize (1) initiation of CEQA compliance and entitlement activities related to the proposed Diamond Valley Lake solar projects; and (2) expenditures not to exceed \$1.5 million to fund those activities (Approp. 15334)

Description

At its January 25, 2011, meeting the Real Property and Asset Management Committee (RP&AM) heard a staff presentation on information letter 9-4, "Initiation of CEQA compliance and entitlement activities for proposed Diamond Valley Lake (DVL) land uses." The presentation covered the proposed DVL land use plan and recommended entitlements for all affected properties. An alternative to approving and authorizing funds to obtain all entitlements at this time was included for authorization of only the land use changes and CEQA compliance necessary to enter into the proposed agreement for development of portions of the north and west properties for solar generation (Board Letter 8-1). It was explained to the RP&AM Committee that provision of authorization to obtain the entitlements for the solar project at this time will allow the proposed solar developer to participate in the Southern California Edison process for purchase of renewable energy. This is an annual process and applications are due in early March. The committee voted to take action on the item and approved for Board consideration the option directing staff to initiate the CEQA compliance and entitlement activities related only to the solar projects and to authorize expenditures not to exceed \$1.5 million to fund those activities. The funds are to be expended from DVL program budget funds previously appropriated by the Board (Approp. 15334). Further, the Committee directed staff to return to the February 22, 2011, RP&AM meeting with the remaining elements of the proposed DVL land use plan for further discussion and consideration.

The goal of the proposed DVL land use plan is to protect Metropolitan's water resource facilities from incompatible land uses, while enhancing the value of the land and generating revenue. Specifically, the land use strategy, consistent with Metropolitan's overall real property management strategy, is to:

- Maintain ownership of land immediately adjacent to DVL to protect it and other operational facilities from incompatible uses, while promoting revenue generation through long-term ground leases;
- Enhance land values through the entitlement process and sell or lease (at board direction) the land outside the immediate vicinity of DVL;
- Retain ownership and lease property to generate revenue;
- Not pursue residential uses;
- Have developers or lessees pay most capital costs for infrastructure; and
- Follow best development practices of entitling property in a down economy to achieve greater success when the market recovers.

The proposed DVL land use plan emphasizes renewable energy, commercial and light industrial uses, and does not contemplate Metropolitan funding development. Completing the entitlement/CEQA process during a down real estate market will give Metropolitan the most flexibility and greatest value when the market recovers. Finally, the city of Hemet is currently updating its General Plan, which is potentially affected by the proposed DVL land use plan so it is important to coordinate with the city's planning effort.

Detailed Report

Metropolitan commenced planning for construction of a new reservoir in western Riverside County in the 1980s. Upon approval of the Final Environmental Impact Report (FEIR) on October 8, 1991, Metropolitan's Board selected the Diamond Valley site as the project location and authorized the purchase of all lands necessary for the construction and operation of the reservoir. Ultimately, Metropolitan acquired approximately 20,000 acres of land. Much of this property is designated as reserve land and is permanently protected as mitigation for environmental impacts associated with Metropolitan projects. Almost 4,000 acres, mostly located adjacent to the east and west dams, are available for mixed use development, including renewable energy, commercial, and recreational uses. In discussions with city of Hemet staff following the most recent RP&AM Committee meeting, the city staff informed Metropolitan that they are preparing to update their General Plan now and that they have a strong interest in considering any proposed DVL-related General Plan changes now in order to avoid having to reopen the General Plan at a later time.

Attachment 1 highlights Metropolitan-owned property around DVL. Property shaded red would be retained to protect DVL and adjacent operational facilities, but could be leased for compatible uses to generate an ongoing revenue stream. Staff proposes to entitle green-shaded properties and ultimately sell or lease for future development, depending on board direction. Finally, staff suggests retaining yellow-shaded property to lease for renewable energy projects to generate revenue and potentially purchase power for Metropolitan use at some future date.

The proposed land uses for each of Metropolitan's parcels are presented in the subsequent paragraphs.

West Property

Located in the county of Riverside, the west side of DVL is comprised of approximately 670 acres. The DVL land use plan contemplates a solar farm for this property (**Attachment 2**). Because this land is adjacent to the West dam, the Wadsworth pump plant/forebay, and the San Diego Canal, it is prudent for Metropolitan to retain ownership of the property and enter ground leases for compatible uses. Through RFP 944, Metropolitan selected a proposal for a solar farm under a ground lease on approximately 450 acres of the West Property, which is the subject of the confidential letter 8-1 on the February 8, 2011 Board meeting agenda. RFP 944 (Section 2.1) provided that Metropolitan would cover the additional costs of land use entitlements and certification of the EIR. It is estimated that the cost to obtain entitlements solely for the development of a solar project on the West and North Properties (see North Property below) will not exceed \$1.5 million. Funds are available in Appropriation No. 15334 (DVL). The West Property includes sites that may have commercial potential when Highway 79 is expanded.

Domenigoni Property

The 430 acres of Domenigoni property are just south of Domenigoni Parkway, in the county of Riverside, and immediately adjacent to the San Diego Canal and reserve land (**Attachment 3**). Again, given the proximity to Metropolitan facilities, the land use plan recommends that Metropolitan retain ownership and generate revenue through ground leases. The proposed use remains agricultural, with lessees possibly testing new technologies related to water and energy.

Warren Road Property

The approximately 175 acres of property at Warren Road and Domenigoni Parkway, in the county of Riverside, would be suitable for clean tech industrial uses/light manufacturing, particularly given its proximity to the planned Route 79 and mixed-use development identified in the city of Hemet's Draft General Plan ([Attachment 4](#)). Staff recommends entitling the Warren Road Property for those purposes to enhance the value and then selling or leasing at fair market value at the appropriate time, depending on board direction.

North Property

The northern portion of the North Property, approximately 200 acres, is currently set aside for a solar farm ([Attachment 5](#)). Similar to the West Property, Metropolitan selected a proposal for a solar farm, through RFP 944, which is the subject of Board Letter 8-1 on the February 8, 2011 board meeting agenda. As noted above, RFP 944 and the proposed business terms with a solar developer require Metropolitan to fund the cost of entitlements and CEQA compliance that exceed the deposit made by the respondent to the RFP. Because the use is renewable energy to generate revenue and there is the potential for Metropolitan to secure power in the future, staff recommends retaining ownership of the land for the duration of the long-term ground lease.

The proposed DVL Land Use Plan identifies that a non-residential, commercial/industrial mixed-use village would be appropriate for the remaining North Property acreage, approximately 525 acres. These mixed uses would include clean technology industries, along with some commercial/retail uses. Staff recommends entitling the property for these uses and then selling or leasing at fair market value ([Attachment 6](#)), again depending on board direction. The North Property is located in the city of Hemet.

East Property

The East Property is comprised of about 1,020 acres in the city of Hemet, and includes a number of existing public uses ([Attachment 7](#)). In 2002, Metropolitan prepared, and the city approved, the Diamond Valley Lake Park Specific Plan (DVLPS) to allow recreation development on 538 acres of the total 1,020 acres of the East Property. Metropolitan currently leases 85 acres to the Valley-Wide Recreation & Park District for an aquatic center and ball fields. The education complex houses Metropolitan's DVL Visitor Center and the Western Science Center, which curates Metropolitan's paleontological and archaeological artifacts from the construction of DVL. Metropolitan recently leased the DVL Visitor Center's classrooms for the Western Center Academy charter middle school. Finally, a concessionaire operates the DVL marina, allowing the public to have access to DVL for boating, fishing, hiking, and biking.

The proposed DVL land use plan identifies expansion of the marina and development of an RV Park within the East Property through long-term ground leases to generate revenue while providing additional public recreational activities.

As the East Property develops, developers may propose small commercial/retail uses, which would be brought back to the Board for consideration and direction.

Because the East Property is immediately adjacent to the East dam and the wildlife corridor, staff believes that it is important to maintain ownership of the property and allow leasing for compatible uses, such as the RV Park, further recreation opportunities, expanded marina operations, and a possible education/research institute.

Entitlement/CEQA Process

Staff selected URS Corporation through a competitive process (RFQ 926) to provide the necessary technical expertise through the entitlement/CEQA process. The cost of the 18-month to 2-year entitlement/CEQA process for all of the land use changes described above is estimated to be \$1.5 million to \$3 million, including Metropolitan staff time, outside consulting costs, city of Hemet staff, Riverside County staff, and permitting costs. The large range in the estimated entitlement/CEQA costs is due to regulatory uncertainty. The cost to complete the entitlement process for only the solar projects that are currently pending before the Board (Board Letter 8-1) is estimated to be \$1 million to \$1.5 million.

This project is included within capital Appropriation No. 15334, DVL Transformation Program, which has \$23,877,582 in remaining undistributed funds.

Policy

Metropolitan Water District Act -- Section 140 (in part) [Acquisition and Disposal of Property; Implied Powers] A district may take by grant, purchase, bequest, devise or lease, and may hold, enjoy, lease, sell or otherwise dispose of, any and all real and personal property of any kind within or without the district and within and without the state necessary or convenient to the full exercise of its powers.

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

For carrying out a variety of studies in conjunction with pursuing entitlements and leases identified in this board letter, the proposed actions are exempt under the provisions of CEQA and the State CEQA Guidelines. They involve basic data collection and resource evaluation activities which do not result in a serious or major disturbance to an environmental resource. These activities may be strictly for information gathering purposes, or as part of a study leading to actions that a public agency has not yet approved, adopted, or funded. Accordingly, these proposed actions qualify under one categorical exemption (Class 6, Section 15306 of the State CEQA Guidelines). The proposed actions on the consultant services are not subject to CEQA because they involve 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 (Section 15378(b)(4) of the State CEQA Guidelines). For subsequent proposed projects and real estate entitlements identified within the context of the proposed land uses at DVL, the appropriate lead agencies will be responsible for complying with all applicable federal and state environmental laws and regulations. Metropolitan's Board will then review and consider the CEQA documentation before taking further actions on these matters.

The CEQA determination is: Determine that the proposed actions are exempt from CEQA pursuant to Sections 15306 and 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Option #3:

None required

Board Options

Option #1

Adopt the CEQA determination and

- a. Authorize staff to initiate CEQA compliance and entitlement activities related to the proposed Diamond Valley Lake (DVL) solar projects; and
- b. Authorize expenditures not to exceed \$1.5 million to fund those activities (Approp. 15334).

Fiscal Impact: Metropolitan will expend up to \$1.5 million to fund required CEQA compliance and entitlement activities, and receive up to \$1.5 million in option agreement payments over the five-year period for the solar projects described in Board Letter 8-1.

Business Analysis: Authorization of funding CEQA compliance and entitlement activities for the proposed solar projects allows Metropolitan to enter into the option agreements described in Board Letter 8-1.

Option #2

Adopt the CEQA determination and

- a. Authorize staff to initiate CEQA compliance and entitlement activities for all affected properties as described above; and
- b. Authorize expenditures not to exceed \$3 million to fund those activities enabling Metropolitan to accommodate the city of Hemet’s request to coordinate with their planned General Plan update (Approp. 15334).

Fiscal Impact: Up to \$3 million would be spent to entitle all applicable DVL properties.

Business Analysis: Opportunity to enhance the value of the property for future sale or lease

Option#3

Take no action.

Fiscal Impact: Failure to approve Option #1 will result in no expenditure of funds at this time and preclude Metropolitan from entering into the proposed Option to Lease properties at DVL for solar development at this time.

Business Analysis: With regard to the solar development, failure to enter into an agreement at this time may result in termination of the process with this entity. With regard to the remaining properties, the proposed action to entitle the property to increase its value and facilitate sale or lease will be delayed.

Staff Recommendation

Option #1

 2/1/2011

 Ralph Hicks Date
 Manager, Real Property Development and
 Management

 2/1/2011

 Jeffrey Kightlinger Date
 General Manager

Attachment 1 – Metropolitan’s Diamond Valley Property

Attachment 2 – West Property

Attachment 3 – Domenigoni Property

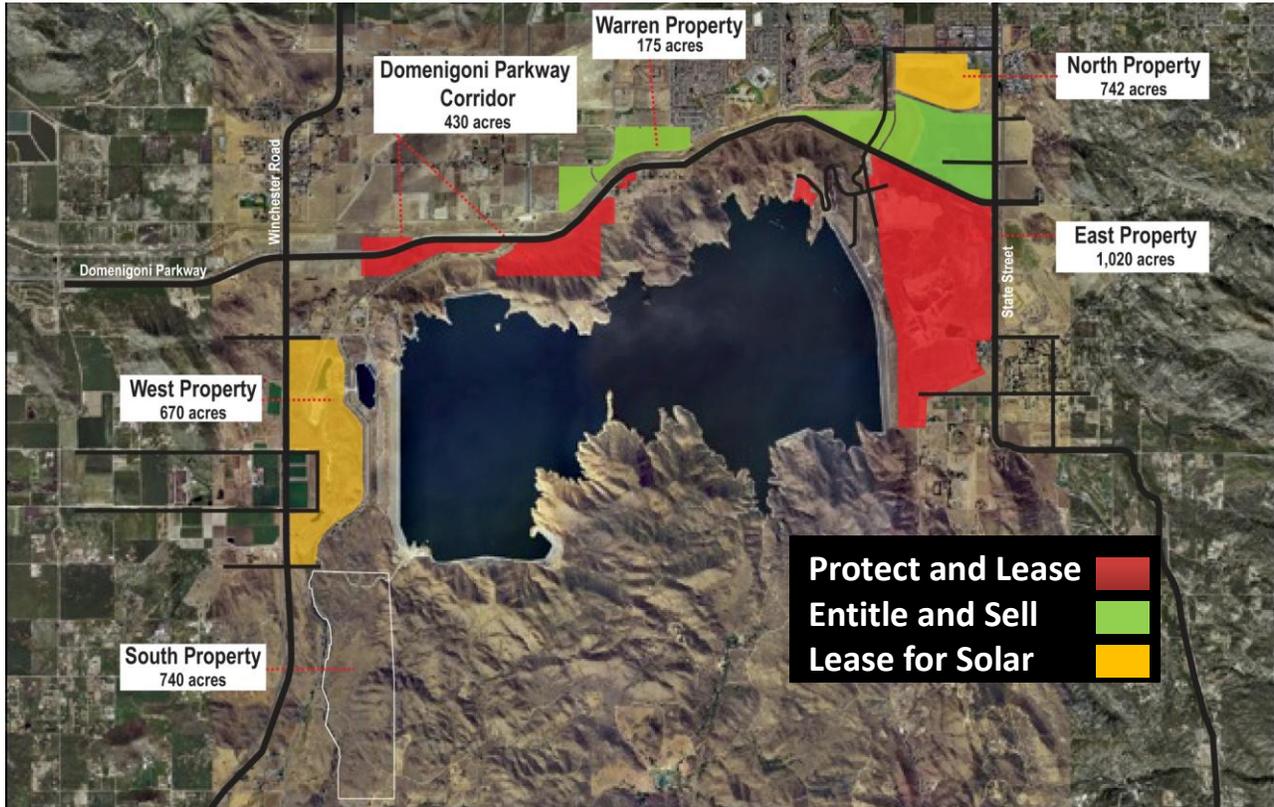
Attachment 4 – Warren Road Property

Attachment 5 – North Property – Solar Farm

Attachment 6 – North Property – Mixed Use

Attachment 7 – East Property

METROPOLITAN'S DVL PROPERTY



WEST PROPERTY



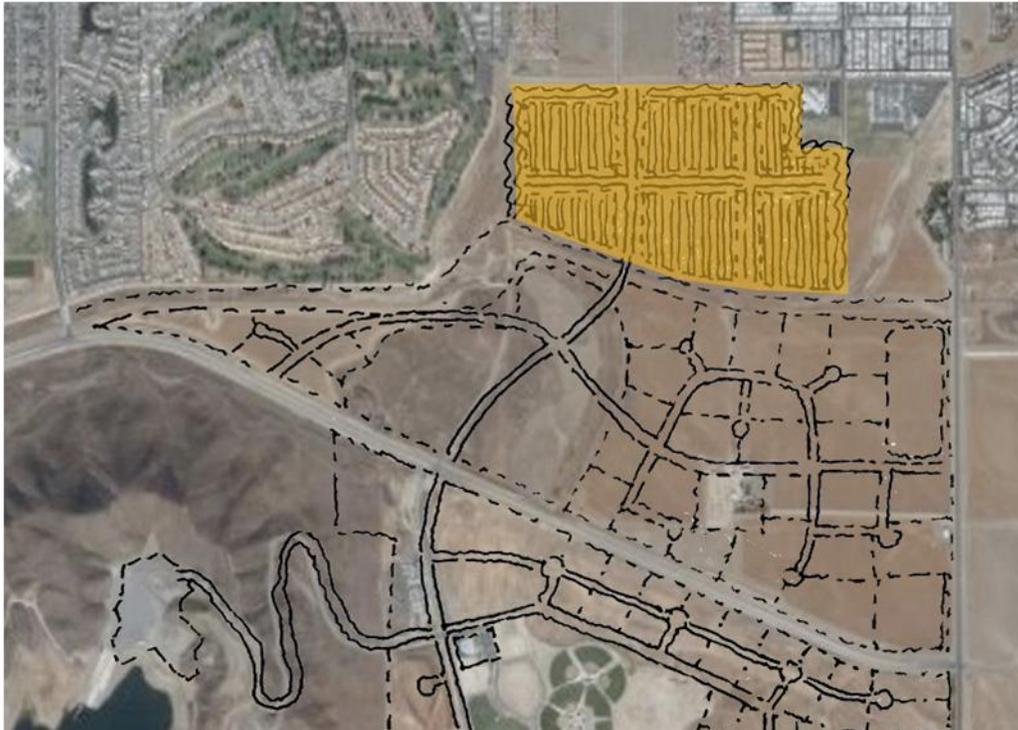
DOMENIGONI PROPERTY



WARREN ROAD PROPERTY



NORTH PROPERTY—SOLAR FARM



NORTH PROPERTY—MIXED USE



EAST PROPERTY

