



Memorandum

**TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE**

FROM: Katy Allen

SUBJECT: REAL PROPERTY ASSETS

DATE: April 10, 2008

Approved

Paul Krutz

Date

4/13/08

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

It is recommended that the Community and Economic Development Committee approve this report and recommend City Council approval of the proposed process for surplusizing under-utilized City of San Jose real property assets as outlined in Attachment B.

OUTCOME

City Council consideration of a recommended process for surplusizing City-owned real property assets.

BACKGROUND

At the February 25, 2008 Community and Economic Development Committee meeting, staff presented a report on City of San Jose Real Property Assets (see Attachment I) including a recommended process for designating properties as surplus to the needs of the City and marketing them for lease or sale. In the discussion that followed, Committee members provided staff with input on the proposed surplusizing process and on the disposition of potential revenues from the sale of City-owned property. This follow-up memo is responsive to those suggestions, addresses the difficulty of funding the Property Inventory project given current budgetary constraints, and places both the property surplusizing process and the City-Owned Property Inventory project in the context of the City's current efforts to implement a "rigorous asset management program" as recommended in the Structural Deficit report.

Comments from the Committee regarding the proposed property surplusizing process included the following points:

- Ensure that a thorough cost/benefit analysis is completed when one or more Departments wishes to retain under-utilized property for possible future uses.
- A recommendation that proceeds from property sales be allocated for shortfalls on existing projects or maintenance backlogs and have a citywide rather than district-specific focus.

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- Seeking interest from affordable housing developers and school districts through the process mandated in CA Government Code section 54222 could be done concurrently with the public outreach phase of the surplusing process.

The February 25th report also noted the challenges to creating a comprehensive and up-to-date City-owned property inventory given the current dispersed state of relevant property data and the significant investment needed to locate, scan, and index existing documents.

ANALYSIS

One of the priority strategies identified in the General Fund Structural Deficit Task Force's Final Report was the implementation of a "rigorous asset management program". Development of this program is now underway with staff review of best practices in other cities. When implemented, the asset management program will include the adoption by Council of specific policies and guidelines for management of the City's real property assets. These policies will become the framework and provide the context for the surplusing process and property inventory discussed in the February staff report to this committee and in this memorandum. While proceeding with approval of the process at this time might be considered as "putting the cart before the horse", having a Council approved surplusing process in place will provide the option of proceeding with property sales that are clearly in the City's best interest while the asset management program is being developed. In addition, it is clear from the best practices material reviewed to date that a comprehensive property inventory is the cornerstone of any asset management program. With the larger asset management effort in mind, Staff is recommending some revisions to the process presented in February (Attach. B) based on the Committee's comments.

Internal Fiscal Analysis

The "Internal Review" step in the surplusing process has been revised to specifically mention the necessity for a fiscal analysis when a Department would like to retain a property that is currently under-utilized. As part of the development of an asset management program, staff will ask Council to adopt guidelines for this analysis as part of a larger asset management policy.

State Property Disposition Mandates

California Government Code section 54222 requires the City to offer surplus property for certain uses (low cost housing, parks / open space, public school, enterprise zones) before proceeding with a sale or lease. This requirement was not discussed in the process outlined in February which was focused primarily on the Council's decision on whether or not to surplus a property. Because section 54222 only requires a negotiation period with parties interested in acquiring property for the specified uses, and does not require the City to accept any offers, staff is recommending that the 54222 process begin concurrently with the public outreach process seeking community input (Step V). This approach would reduce the total cycle time for a surplus property sale and allow staff to include any potential buyer responses related to the specified 54222 uses in the information packet that comes back to Council (Step VI).

Use of Proceeds from Property Sales

With the exception of properties purchased with restricted funds (for example the property at 1015 S. Bascom that was purchased with Library Bond funds), current Council policy allocates funding from the sale of City-owned property to the Economic Uncertainty Reserve. At the February 25th CED Committee meeting concerns were raised about the disposition of property sale proceeds and it was suggested that this issue be part of the full Council discussion of the property surplusing process. The concerns expressed by the committee were:

- Proceeds from property sales should be allocated on the basis of citywide need and not on the basis of which Council District the property is in.
- Use of proceeds from property sales should be limited to purposes such as shortfalls on already approved projects or infrastructure maintenance backlogs and not used for new projects.

The allocation of the proceeds of the recent sale of the Corte de Rosa property to close a funding gap in the Police Substation budget was discussed as an appropriate use of property sale proceeds.

In response to these comments, a Manager's Budget Addendum will be prepared to introduce a discussion of the use of funds from surplus property sales or leases into the 2008-2009 budget process.

City-Owned Property Inventory Project Funding

As previously mentioned, an inventory of the City's real property holding will be a cornerstone of our asset management program. Attachment A gives the status of the City-owned Property Inventory Project as of February and outlines the work plan for Phase II of the project. It has become apparent that it will be very difficult to fully fund this project in the 2008-2009 Proposed Budget due to the intense competition for limited General Fund resources. The administration will consider recommending additional funding for this project as additional resources become available.

EVALUATION AND FOLLOW-UP

If the recommendation in this memorandum is approved by the City Council, a review of the surplusing process and the status of the City-Owned Property Inventory Project will be included in the policy discussion regarding asset management standards that will accompany the implementation of a City of San Jose Asset Management Program.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**

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- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

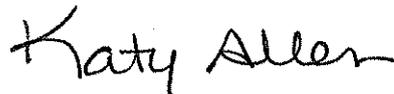
None of the criteria above are applicable to the proposed action. However, if the new surplusing process is approved, additional public outreach will be done and public feedback solicited for each potential surplus parcel as part of that process.

COORDINATION

This memorandum has been coordinated with the City Attorney and the City Manager's Office.

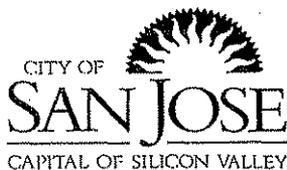
COST SUMMARY/IMPLICATIONS

The proposed action is Committee/Council endorsement of a proposed property surplusing process and does not allocate any funds directly. If approved, there would be additional noticing and outreach costs for the Real Estate Division.



KATY ALLEN, DIRECTOR
Public Works Department

For questions please contact PHIL PRINCE, DEPUTY DIRECTOR, at 535-8311.



Memorandum

TO: COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE

FROM: Katy Allen

SUBJECT: CITY OF SAN JOSE REAL
PROPERTY ASSETS

DATE: February 6, 2008

Approved

Date

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

1. Accept this Report on City of San Jose Real Property Assets
2. Approve the key process elements for designating properties as surplus to the needs of the City and marketing them for lease or sale

OUTCOME

A City Council approved process for designating property as surplus to the operational needs of the City and increased outreach on potential real property actions to City and community stakeholders.

BACKGROUND

The Mayor's March 2007 Budget message included 2 items – *1h. Review of Underused Lands and 6e. Review of City-Owned Assets* – that directed staff to review the use of City-owned real property and facilities for opportunities to generate revenue from lease or sale. To date, staff efforts to be responsive to these referrals have met with limited success. However, the experience gained from these efforts has pointed out that, in order to be more successful at identifying and surplusing under-utilized City-owned property, there is a clear need for:

- **A Comprehensive Property Inventory** – The existing property database, last updated in 2002, was built on a software platform that is now obsolete and is not consistent with current City standards. The creation of this original database did not include any review of available property-related documents.
- **A Property Surplusing Process** – Neither the Municipal Code, nor current Council Policy, stipulates how the designation of surplus City property should be handled. In past practice, the Council and the community have not been involved in the process until a property is brought forward to Council for approval of an already negotiated sales agreement or authorization to auction the property.

- **Better Context for Council Surplusing Decisions** – A lack of context due to the two factors above, combined with a hesitancy to dispose of currently under-utilized City-owned properties when there is a recognized need for more park land, has limited the revenue generation potential of the City's real property assets.

To address the first item above, funding was approved in the 2006-2007 Adopted Operating Budget for the first phase of the development of a City-Owned Property Database. It soon became apparent that building a City-owned property inventory involves significantly more work than the technology effort in creating a database because property records are incomplete and scattered over different parts of the organization. The first phase effort identified 1,073 City-owned parcels that have an Assessor's Parcel Number (APN) and created hard and soft-copy files for each. There are many more properties owned by the City (medians, easements, etc.) that do not have a parcel number. A substantial amount of work remains to sort through approximately 12,000 hard copy real property deeds and a similar number of related documents in order to identify, organize, and digitize the records of properties the City currently owns.

On June 26, 2007, staff brought seven City-owned parcels to Council with a recommendation that they be declared "surplus to the needs of the City" and publicized for sale by auction to raise one-time revenue and reduce maintenance costs. The Council did not take action and directed staff to return with more information on the seven parcels and a discussion of the process by which surplus City-owned properties are identified and sold. The referral also directed staff to do community outreach when surplusing City-owned parcels. Before bringing the parcels back to Council, staff has focused on developing a process for designating properties as "surplus". The proposed process is outlined in an attachment to this memorandum.

ANALYSIS

In the current budgetary climate, it is more important than ever to manage the City's real property as a fiscal asset. Staff is proceeding on two fronts in an attempt to provide the Council with the context for making fiscally prudent decisions regarding the use and disposition of City-owned property. The first is the development of a work plan and investment proposal for the next phase of the City-Owned Property Inventory Project (outlined in Attachment A) that will be submitted to the City Manager for consideration in the 2008-2009 budget process. Staff believes an investment in collecting all available information on City-owned properties in a database accessible to staff, the Council, and (eventually) the public via the internet, will more than pay for itself within two years by facilitating the sale or leasing of properties that are not needed for core operational purposes. A recent property sale (Corte de Rosa) generated both \$2.4 million in revenue for the City and a proposed land use (single family housing) that is acceptable to the adjoining neighborhood.

The second staff effort is the development of a process for designating properties as surplus to the operational needs of the City and exploring their potential for producing ongoing revenue through leasing at market rates or one-time revenue and maintenance cost reduction through sale. Attachment B lists the key steps in a proposed process that staff believes will provide the

Council with the context needed for property surplusing decisions. Key elements of the process include an internal staff review for potential operational uses, public outreach for community concerns, and the creation of an information packet for each parcel that includes the results of these research efforts and all available relevant property information. Staff is seeking Committee input on this proposed process and a recommendation for its consideration by the full Council.

EVALUATION AND FOLLOW-UP

An investment proposal for the City-owned Property Inventory Project is anticipated to be included in the City Manager's 2008-2009 Proposed Operating Budget.

The proposed property surplusing process, if recommended by the Committee and approved by the full Council, will result in candidate parcels being brought to Council for authorization to begin public outreach on community concerns. The same parcels will come back again with outreach results for Council to consider in making a "surplus" designation. Given the extensive internal review and public outreach components of this recommended process, it is anticipated the Council would see two complete cycles of this process each year.

It should be noted that staff already has Council direction to sell the following properties:

- Two parcels at 1015 South Bascom Avenue that were purchased with Library Bond funds
- Six former Fire Stations (listed below) to fund Furniture, Fixture and Equipment costs for new Fire Stations (the 7th site, Old Fire Station 27, has already been sold)
 - Old Fire Station 12 – 502 Calero Avenue
 - Old Fire Station 17 – 1488 Ridgewood Drive
 - Old Fire Station 21 – 1749 Mt. Pleasant Drive
 - Old Fire Station 23 – 1771 Via Cinco de Mayo
 - Old Fire Station 24 – Aborn Road between Sierra Drive and Pumherston Way.
 - Old Fire Station 25 – 1525-1590 Gold Street

In addition, Staff is currently discussing the following properties with potential buyers who have expressed interest:

- A vacant lot at the corner of Coleman Avenue and Santa Teresa Street (a sale to the County is being discussed);
- A second phase of the vacation and sale of a portion of N. 9th to Standard Pacific; and
- The property at 410 Park Avenue, for which an offer is already on the table by a party that is proposing a large housing development.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. (Required: Website Posting)

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- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This memorandum does not meet any of the above listed criteria; however, it will be posted on the City's website for the February 25, 2008 Committee Agenda. The proposed new process for designating City-owned property as "surplus" will include new public outreach efforts.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Budget Office. The surplusing process steps have been reviewed at meetings of the Property Acquisition and Disposition Committee and the Community and Economic Development CSA.

Katy Allen

KATY ALLEN

Director, Public Works Department

For questions please contact PHILIP PRINCE, DEPUTY DIRECTOR, at 535-8300.

Attachment A - City-Owned Property Inventory Project
Project Status, Work Plan and Cost Estimate
February 2008

PROJECT OBJECTIVE

An up-to-date City-Owned Property Inventory available to staff and the public via the internet. When complete, the Inventory database will include the following information and features:

1. Web access
2. Property/parcel maps
3. Search by address, Council District, types of use and interactive maps
4. Property/parcel data including active leases or easements
5. Site photographs
6. Purchase and funding source information
7. Property and building maintenance information
8. Digital images of related documents including
 - a. Deeds
 - b. Title Reports and underlying documents
 - c. Legal descriptions
 - d. Environmental reports
 - e. Historical documents

PROJECT CHALLENGES

1. Existing City-owned property intranet site (not updated since 2002) was built on software that is now obsolete and did not include a review of related City property documents.
2. Recent title company report showed 1,073 City-owned properties with parcel numbers
3. Many more properties (such as medians and right-of-ways) do not have parcel numbers
4. There are 12,000 paper deeds in 24 file drawers that are solely identified by deed number and do not include identification by location or type of property right acquired
5. Related documents are found only in hard copy and are not centrally located
6. Most Real Estate and all Survey Section staff are capital funded which means General Fund resources must be identified to support the work effort on this project.

STATUS OF CURRENT PROJECT PHASE (I)

Completed

1. Initial funding of \$155,000 approved for this project in 2006-07 / \$50,000 remains
2. Identification and confirmation of 1,073 individual city-owned assessor parcels
3. Student interns created electronic and hard copy files for each parcel
4. Standardized assessor maps created for each parcel
5. Square footage or acreage of each parcel listed on master spreadsheet
6. Standardized General Plan and Zoning maps created for each parcel
7. 60 environmental site assessments located, scanned, and filed
8. 35 Title Reports located, scanned and filed

Phase I Tasks Underway or Remaining

1. Staff is conducting site visits to gather on-site information and take photographs
2. Staff is identifying, scanning, and filing available topographic and geological reports
3. Identification of Department maintenance responsibilities for each fee-owned parcel
4. Identification of existing and needed hardware/software resources to upgrade database

**Attachment A - City-Owned Property Inventory Project
Project Status, Work Plan and Cost Estimate
February 2008**

Phase I Completion Benefits

1. A shared master spreadsheet identifying City-owned property that has an Assessor's Parcel Number with parcel size, General Plan and zoning designations, identification of available property documents and the Department responsible for property maintenance
2. Up-to-date hard and soft copy files for each parcel that include pictures and available relevant data.
3. Completed specifications and work plan for the database upgrade

PHASE II -- TASKS AND BENEFITS

Phase II of this project will focus on the conversion to an upgraded Inventory database and the incorporation of all existing data and documents. The major Phase II tasks are as follows:

1. **Upgrade of City-Owned Property Database / Web Access**
New software and programming services are needed to build a new database and give staff and the general public web access to the system. The system will be designed to include links to relevant documents.
2. **Indexing and Scanning of 12,000 Deeds**
The cost of this task is primarily staff time for sorting, indexing and imaging the deeds. Real Estate staff will be utilizing the Development Services Imaging Center to minimize the cost of this work
3. **Review and Classification of 12,000 Deeds**
This task will involve staff from the Real Estate Division and the Public Works Survey Section reviewing and classifying the deeds in terms of what they confer (fee ownership, permanent easement rights, rights-of-entry, temporary construction easements, etc.) and whether they are active or expired. Staff will also be confirming the actual location for properties in which the City has fee interest.
4. **Identifying, Indexing, and Imaging Building Records**
This task involves compiling and imaging the existing records for buildings on City-owned property including plans, inspection reports, and maintenance records.

The total cost of the Phase II work is estimated to be approximately \$500,000. A budget proposal will be submitted to the City Manager for consideration in the 2008-09 budget process.

Phase II Completion Benefits

1. A City-owned property database that is accessible to staff and the public via the internet.
2. Digital images of all currently existing documents and photographs related to City-owned property that is centralized and searchable in one place
3. A valuable tool for reviewing existing City-owned property assets, determining the need for additional land, and identifying surplus property that can be sold or leased for one-time or ongoing revenue.

Phase III will be the ongoing effort to obtain additional relevant documentation (i.e., title and environmental reports) and keep the system updated to reflect new real property transactions.

Process for Surplusing City-Owned Property

I Process Initiation

- A External party expresses interest in acquiring City-owned property
- B Public Works Real Estate (PWRE) staff identifies under-utilized property
- C City Department requests disposal of property for which they have maintenance/ oversight responsibility

II Public Works Real Estate (PWRE) Review

- A Confirmation of which City Department, if any, has property oversight responsibility
- B Preparation of property information packet summarizing parcel location; size; book value (purchase price); funding source and restrictions on use; maintenance costs; maps; deed; title reports; environmental reports; and current sale or lease value

III Internal Review

- A Packets distributed to Property Acquisition and Disposition Committee (PADC) and City Departments for 30-day review and comment period
- B If a valid internal operational use is identified, a fiscal analysis will be conducted, based on Council policies and guidelines, to determine if the property should be retained for operational use or surplused to generate revenue.

IV Council Notification / Authorization

- A If no plausible City use is identified by PADC, an item is placed on a Council Agenda seeking Council authorization to begin noticing for community input and to circulate for affordable housing, open space or educational use interest through CA 54222

V Public Outreach

- A Notice of potential surplusing for sale or leasing is sent to property owners and residents within 300 feet of property
- B Notice is sent to SNI PAC (if applicable) where property is located and PWRE works with Council Office to ensure local community groups are notified
- C PWRE works with Council Office to schedule a community meeting if community indicates interest
- D Circulate properties to Housing Authority, County Parks, State Resources Board and appropriate school district for interest under CA Govt. Code 54222

VI City Council Review

- A PWRE adds community feedback and 54222 responses to the property information packet and agendas property recommended for surplusing for Council public hearing
- B City Council recommends surplusing (for lease or sale) or directs staff to retain property

VII Marketing Property for Lease or Sale

- A PWRE staff or broker market property for lease or sale
- B PWRE staff or broker negotiates lease or sales agreement

VIII City Council Approval

- A Sales or Lease agreement is brought to City Council for approval