



Memorandum

TO: PUBLIC SAFETY, FINANCE &
STRATEGIC SUPPORT COMMITTEE

FROM: Peter Jensen

SUBJECT: Status Report on Asset Management
Key Activities & 2010 Work Plan

DATE: February 10, 2010

Approved

Date

2/10/10

RECOMMENDATION

Accept the staff report and 2010 work plan for Real Estate Services and Asset Management.

EXECUTIVE SUMMARY

This memo presents the status of current work activities related to Real Estate Services & Asset Management, and proposes additional work activities for 2010. Current work activities include:

- **Property-related revenue** will meet the budgeted 2009-2010 projection of \$1.8 million for sales if active negotiations are successful. Lease revenue is projected to reach the budget level of \$1.18 million for leases if telecommunications leases currently in negotiation are completed in a timely way.
- **Significant properties**, including Former City Hall and the E Lot, the former Singleton and Story Road landfills, and two parcels near the Water Pollution Control Plant, are being analyzed for possible disposition.
- **Municipal Code and Council Policy amendments** reflecting the guiding principles Council approved in April 2009 will be presented within the next 60-90 days for Council approval.
- **Follow-up work on audit recommendations** has included an assessment of all leases and the development of billing and collection procedures.
- Information is provided on the **Council referral regarding benchmarking and the provision of a detailed budget.**
- Preliminary work is proceeding on the **Council referral regarding a study of making golf courses self-sustaining.**

Work to be added in 2010 includes:

- The first year of an every-five-years assessment of **all City-owned properties and leases.**
- Additional **follow-up on audit recommendations.**
- The addition of the **Hayes Mansion & Conference Center to the group of significant properties to be analyzed**, with a focus on reducing or eliminating the General Fund subsidy for debt service.

BACKGROUND

In an April 7, 2009 memorandum to Council, the departments of General Services and Public Works presented to Council their recommendations for Asset Management Principles and Key Activities. Council adopted the Asset Management Principles and approved a list of activities to be conducted in FY 2009-2010. These guiding principles provide a framework for ensuring City-owned properties are used in a strategic and cost-effective manner that supports core City services, enhances the delivery of those services and sustainable business models, and increases financial returns. An Asset Management timeline was also developed to identify key activities to be completed by the Real Estate Services & Asset Management (RESAM) Division.

Beginning with the 2009-2010 fiscal year, the RESAM Division transitioned from the Department of Public Works to the General Services Department. Based on the new guiding principles, the Division's focus is to pursue a portfolio approach to the management of the City's real estate assets with a focus on increasing ongoing revenue. This strategy involves significantly more proactive activities for the Division, and reflects a shifting emphasis from land acquisition during the City's decade of investment to ongoing management of those investments. General Services will accomplish this by conducting regular reviews and alternative use analyses of all City-owned properties, to ensure that those properties are being used in a way that best helps achieve the overall goal of supporting the cost-effective delivery of City services.

In addition to the Asset Management Principles, staff also recommended that an annual report be provided to the Public Safety, Finance, and Strategic Support Committee to allow the committee to monitor the implementation of this program and provide feedback to staff on specific property issues.

This memorandum provides the Committee with an update on the status of the program, along with a work plan for 2010.

ANALYSIS

Status of Current Work Efforts

1. Property-Related Revenue

The General Services Department budget forecast called for the sale of \$1.8M in properties for fiscal year 2009-2010. To date, \$150,000 has been received from a sale of property to the Santa Clara Valley Water District. In addition, Council has approved the sale of three additional properties for a total of more than \$122,000. There is one more small transaction anticipated to be presented for Council approval within the next month regarding a grant of easement to Great Oaks Water Company for a property on South Bascom Avenue.

Another property had been expected to be sold to the Housing Department with a value of \$1.5 - \$2 million, a parking lot located on 6th Street across from the old Main Yard site. However, this transaction is on hold pending action regarding the Redevelopment Agency budget related to Housing funds.

The Department is in negotiations on a number of sites that would allow the budgeted revenue target to be met even if Housing is unable to purchase that site in the current fiscal year. Our efforts include offering 29 small sites for sale as a result of Council declarations of surplus in April and June 2009. Of those sites:

- Eleven (11) have been contracted for sale through brokers
- Of the remainder, there are seven (7) sites for which adjacent owners have indicated an interest in buying. RESAM staff is conducting meetings with those owners to negotiate sales agreements.
- For any sites that are not able to be sold by brokers or staff to adjacent owners, staff will request Council authorization to offer them for sale at auction. This request is expected to be presented to Council in March.

Ongoing revenues from telecommunications and property leases were projected at \$1,180,000 for FY 2009-2010. The budget target is proving challenging to meet for several reasons. Primarily, the department has cleaned up several uncollectable receivables from past years. To a lesser extent, some retail tenants are having a difficult time meeting their rent obligations. The department is working with these tenants to ensure that they continue to make payments to the best of their abilities. In spite of these challenges, it is anticipated that actual revenues will finish the year at or near the budgeted amount, as long as telecommunications leases in negotiation are completed soon.

2. *Significant Properties*

The April 7 Council memo identified six significant properties to be evaluated in 2009. Listed below are the sites and an update on the status of activities related to them:

■ **Former City Hall**

- This site includes the original 4-story building, 6-story Annex and "Health" Building. In cooperation with the Redevelopment Agency, a study of short-term reoccupation of the building was conducted earlier this year. This possibility, considered as an option for relocating staff from the Old Martin Luther King Jr. Library, was not pursued further because of the estimated cost. Preliminary discussions regarding the disposition of Redevelopment Agency obligations to the County have included consideration of a transfer of this site from the City to the County. Staff is working with the County on due diligence efforts such as an appraisal of the site. Staff has also developed a work plan for disposition alternatives for the site if no agreement is reached with the County.

■ **E Lot**

- There are a number of possible dispositions for this site, depending on decisions made regarding Former City Hall. As a result, staff has applied for CEQA approval at this site in order to be prepared to move forward if the opportunity arises. The site is again hosting Cirque du Soleil performances that began this month.

■ **Singleton Landfill**

- The property has been reviewed by PG&E and other solar providers for potential solar uses. No conclusions have been reached as of yet, and staff is delaying any other activity until then.

■ **Story Road Landfill – Eastern Portion**

- There has been no activity on this site, as development options are difficult. Staff will continue to explore the potential for this site. However, the Western Portion of the Story Road Landfill site, which was declared surplus by Council on June 16, has had some interest as a potential site for emerging solar technology.

■ **Water Pollution Control Plant Land (Nine-Par Site)**

- Staff is currently negotiating a lease at this site in cooperation with the Environmental Services Department (ESD). The intent is to use the site for ESD's biogas activities.

■ **Water Pollution Control Plant Land (Site near Highway 237)**

- Staff is exploring granting an ingress/egress easement within the southernmost portion of this property to privately owned property adjacent and east of this property.

3. *Municipal Code and Council Policy Amendments*

Council's April 7 action directed the Administration and City Attorney's Office to develop amendments to the Municipal Code and to relevant Council policies to reflect and facilitate the transition to a portfolio management approach to managing the City's real property assets. Amendments to Municipal Code Chapter 4.04, which delegates authority to the City Manager, and Chapter 4.20, which governs the process of disposing of City-owned surplus property, are currently being reviewed, along with revisions to Council Policy 7-1, which focuses on below-market leases, and corresponding guidelines. These changes will address recommendations in the 2008 Auditor's report described below, as well as the Council-approved Asset Management Principles.

These policy and municipal code changes are expected to be ready for Council review within 60-90 days.

4. *Audit Recommendations*

In 2008, the Auditor released a report on the "City's Oversight of Financial Assistance to Community-Based Organizations (CBO)." The Auditor found that oversight responsibility of CBO leases is decentralized and lacks coordination, which has led to expired leases, late rental payments, and other breaches of contract. Furthermore, lease agreements provide staff with limited authority to ensure compliance short of terminating tenancy. Thus, the Auditor recommended coordinating oversight and monitoring below-market rate leases, as well as establishing an approval and renewal process for tenancy.

In response to the Auditor's recommendations, staff has completed the following tasks:

- a. **An assessment of leases managed by non-enterprise fund departments for tracking purposes** – Staff identified approximately 80 below-market rate leases and other long-term use agreements. Staff created a matrix that identifies, among other elements, the current status of these leases/agreements, key terms, rental payment requirements, and the responsibility for monitoring them. This information will be useful in the effort of centrally monitoring lease/agreement data for market rate comparison, size, term of lease, and connection to City services. A market rate comparison has been completed and shared with the tenants. This comparison is incorporated in this memo as Attachment A. Staff is currently working to bring current all expired leases, rental payments, insurance certificates, and other required reporting documents. (Recommendation 08-04:#10 & #11)
- b. **Development of billing and collection procedures for below-market rate leases and other long-term use agreements** – General Services Department Accounting staff has drafted these procedures based on staff's experience on how to best perform these billing and collection functions. They are being used first for administration of leases for properties that are managed by General Services. Once the procedures are complete and tested so that any necessary adjustments based on practical experience have been identified, staff will present the procedures to other departments for use in administering the leases for which they are responsible. (Recommendation 08-04:#12)
- c. **Draft Amendments to Council Policies** – Proposed revisions to Council Policy 7-1 on below-market leases have been drafted, along with accompanying implementation guidelines to address the Auditor's recommendations regarding such agreements. The recommendations focused on clarification of when the policy should be applied to CBO operators, enforcement of lease provisions for non-compliance, centralized implementation and monitoring, and an approval/renewal process of CBO leases and other long-term use agreements. As mentioned above, these proposed revisions will be presented to Council along with proposed Municipal Code revisions within 60-90 days. (Recommendation 08-04:#9, #13, #17)

5. Council Referral – Benchmarking & Detailed Budget

On June 16, the Council directed the "City Manager to return to Council with a benchmarking plan for Real Estate Services and a detailed budget." In an effort to establish benchmarks, staff contacted other jurisdictions with substantial real estate asset management operations, as well as private sector real estate firms.

We found agreement on a number of common practices:

- The portfolio approach to asset management is being adopted by many cities. Having detailed information on each property in the portfolio, typically through a database, is a common best practice.
- It is important to have a clear strategic plan and vision for asset management activities that reflects a collaborative approach among all City departments.
- Most jurisdictions use a combination of internal staff and real estate brokers to provide services.

There are also areas which vary widely among those surveyed:

- Performance measures, if used at all, tend to reflect the asset management strategy of each city. In San Diego, for example, considerable ongoing revenue is generated through the use of ground leases with private entities that operate a business on City-owned land. Jacksonville, on the other hand, focuses more on sales of surplus property. As a result, performance benchmarking is better compared to performance in San Jose over time, based on best practice management of the portfolio. Staff is currently finalizing measures to be used for RESAM, with overarching measures to be reported to Council through the budget document.
- Centralized management of real estate assets is used in some cases, while others are decentralized with common standards. There was no agreement on which approach is more effective.

A detailed budget for non-personal expenditures was provided to the Community & Economic Development Committee and to the Council as part of the consideration of the revised Competition Policy and new Service Delivery Evaluation Policy. A brief review of that summary is provided below:

■ Professional Services	\$250,000
Includes broker services, consultant services for golf course study (see below), and appraisal services	
■ Marketing & Outreach	50,000
Expenses related to community outreach for property sales	
■ Property Maintenance	105,000
Maintenance expenses for all City-owned property	
■ Database Development	130,000
Cost of software and temporary data entry services	
■ Other Non-personal	30,000
Training, equipment, and supplies related to the program	
TOTAL	<u>\$565,000</u>

An additional \$35,000 is budgeted in other funds for property maintenance activities. In addition, non-personal expenditures include \$1,852,107 for payment of leases, all of which is within the General Fund. The personal services budget for Real Estate Services & Asset Management totals \$1,160,678, of which \$562,755 is budgeted within the General Fund. This budget covers 10.0 FTE.

6. Council Referral – Golf Course Study

On June 16, as part of the Mayor’s Budget Message, the Council directed the City Manager “to develop a plan for the golf program that would eliminate General Fund support and allow the courses to be self sustaining.” This activity was directed to be funded by contractual services funding in the General Services Asset Management program.

Staff has worked with Parks, Recreation, and Neighborhood Services to develop a scope of services for a consultant to work with staff on this study. The work plan for the study will

analyze alternative uses, or possible sale, of one or more of the golf courses. The assessment will address all three golf courses – Los Lagos, Rancho del Pueblo, and San Jose Municipal Golf Course. Title research to identify any encumbrances and restrictions on the properties is nearly complete.

7. Other Activities

A number of other activities have been completed or initiated during 2009. Notable activities include:

- Staff engaged a property management firm to manage the condominium of the former Independent Police Auditor. The property has been rented, and staff will continue to evaluate whether to continue renting or to sell.
- A number of property acquisition activities continue, most notably related to the planned Southeast Branch Library and the Three Creeks Trail.
- Staff is negotiating an agreement with Hawgs Seafood on Paseo de San Antonio to extend its lease on a month-to-month basis after it expired in January. Staff has engaged a broker to explore other options for the site to bring the City's returns closer to a market rate level.
- In collaboration with the City Manager's Office and PRNS, General Services met with representatives of the San José Charter School Consortium to familiarize staff with the group's goals and objectives, and to familiarize staff with Charter School operations. Staff was informed of the Charter School's funding source and its incubation model. Staff provided the Group information regarding use of park land for construction; the City's re-use policy, and also provided a list of surplus property options for Charter School use. The consortium has provided a prioritized list to the City and discussions continue on these sites.

2010 WORK PLAN ACTIVITIES

Each of the projects identified in the status section above involve ongoing elements of work, and that work will continue in 2010. Listed below are additional efforts to be undertaken during the coming calendar year.

1. Assessment of All City-owned Properties and Leases

Staff developed a methodology (included as Attachment B) for the review of all City real estate holdings. Properties will be reviewed on a rotating 5 year cycle, with the goal of ensuring that current uses support the cost-effective delivery of City services.

Staff has begun the assessment, starting with City-owned properties that are currently being leased. As mentioned above, staff identified, among other elements, the current status of these leases/agreements, key terms, rental payment requirements, and the responsibility for monitoring them. This information will be useful in the effort of centrally monitoring lease/agreement data for market rate comparison, size, term of lease, and connection to City services.

Staff is currently working on bringing current all expired leases, rental payments, insurance certificates, and other required reporting documents. Staff is also working on eight (8) new leases, including additional telecommunications sites, a lease of former Fire Station 25, and leases mentioned above for the ESD Biogas and Hawgs Seafood sites, and renewing several leases that have already expired or will expire by the end of the fiscal year.

2. Additional Audit Recommendation Follow-Up

In addition to the tasks described in the Current Status of Work Efforts section (lease assessment, procedure development, and draft ordinance and policy revisions), staff has begun identifying possible software solutions to develop a centralized database, which would include features to address accounts payable and receivable and to provide access to property information to City staff and the public. Interns with the work2future program are performing data entry and research related to properties now in order to prepare data to be transferred into a database once one is in place.

3. Significant Properties

Staff proposes to add the Hayes Mansion & Conference Center to the list of properties to be analyzed for potential marketing for sale or lease. Similar to the golf course study, the initial focus of analysis will be to determine what options are available to the City to reduce or eliminate the General Fund subsidy of debt service payments for the property. Options to be reviewed will range from exploring possible changes to the existing agreement with Dolce International and retaining their management of the facility to selling the facility for different uses.

Staff is reviewing budget revenue estimates for FY 2010-2011 as part of the budget process. Projections will be made based on reasonable expectations for sales as well as a projection of ongoing lease activity. Depending on sales completed within the current fiscal year, it may be possible to increase the estimate for sales from the \$1.8 million level in the current year's budget. Any change to revenue estimates will be presented as part of the 2010-2011 Proposed Operating Budget.

If you have questions regarding the items in this memo, please contact Matt Morley, Deputy Director, at 975-7240.


Peter Jensen
Director of General Services

Attachments:

- Market Rate Lease Comparison
- Property Review Methodology

Below Market Rate Leases
Attachment A

Lessee Name	Property Address	Lessee Contact	Current Annualized Rent	Additional Rents (Percentage)	Est. FMV Annual Rent
ACT for Mental Health	441 Park Ave. San Jose, CA 95110	Wanda Alexander, Exec Dir. 441 Park Ave. San Jose, CA 95110 T (408) 287-2640 F (408) 287-7428	\$ 12.00	None	\$ 30,000
African-American Community Service Agency	304 N 6th St. San Jose, CA 95112	Joanna Ferris, Exec Dir. 304 N 6th St., San Jose, CA 95110 T (408) 292-3157 / 292-3158	\$ 1,200.00	None	\$ 87,961
Alviso Family Health Center	1621 Gold St. San Jose, Ca 95002	Reymundo C. Espinoza, CEO Carrie Chavez is Exec. Asst. 55 E. Julian St. San Jose, CA 95112 T 408-918-2682	\$ 1.00	None	\$ 21,600
American G.I. Forum of San Jose	765 Story Rd. San Jose, CA 95122	Letelia Rodriguez or Violet Perez 765 Story Rd. San Jose, CA 95122 (T) 408-288-9470 (F) 288-9473	\$ 3.00	None	\$ 40,183
Bellarmine College Preparatory	Hedding Street overpass (adjacent address is: 960 W Hedding St San Jose, CA 95126)	William S. Muller, Pres. Attn: Business Mgr 850 Elm St. San Jose, CA 95126 T (408) 294-9224 F (408) 294-1894	\$ -	None	\$ 73,703
Jubilee Christian Ctr.	175 Nortech Parkway San Jose, CA 95134	Judy Kirschenman/Michelle Bernal ext 537 cell 925-640-9987 175 Nortech Pkwy. San Jose, CA 95134 T (408) 262-0900 F (408) 942-4547	\$ 4,380.00	None	\$ 140,088
Mexican Heritage Corporation	1700 Alum Rock Ave. San Jose, CA 95116	Marcela Davison Aviles President & CEO 1700 Alum Rock Ave. San Jose, CA 95116 T (408) 928-5576 F (408) 928-5550	\$ 8,004.00	None	\$ 44,040
Our City Forest	151 W Mission St. San Jose, CA 95110	Rhonda Berry 151 W Mission St. San Jose, CA 95110 T (408) 998-7337 F (408) 998-1078	\$ 12.00	None	\$ 95,796
San Jose Conservation Corps	2650 Senter Rd. San Jose, CA 95111	Robert J. Hennessy 2650 A Senter Rd. San Jose, CA 95111 T (408) 283-7171 F (408) 288-6521	\$ 12.00	Community Service by Lessee	\$ 88,443
San Jose Multicultural Artists Guild	1700 Alum Rock Ave. San Jose, CA 95116	Arlene Sagun Managing Director 1700 Alum Rock Ave. San Jose, CA 95116 T (408)272-9924 F (408) 928-5597 sjmagtheatre@hotmail.com	\$ 1,572.00	None	\$ 8,760
San Jose Parents Participating Nursery School	2180 Radio Ave. San Jose, CA 95125	President 2180 Radio Ave. San Jose, CA 95125 T (408) 265-3202	\$ -	None	\$ 43,200
Santa Clara Valley Rifle Club	1580 S 10th St. San Jose, 95112	Than Hendricks SC Valley Rifle Club, Inc. PO Box 730665 San Jose, CA 95173-0665 T (650) 855-6486	\$ 12.00	10% of net revenue, payable Aug. 15	\$ 21,033
Teatro Vision	1700 Alum Rock Ave., Ste 265 San Jose, CA 95116	Jess Morales Operations Manager T (408) 928-5587 F (408) 928-5589 jess@teatrovision.org	\$ 3,612.00	None	\$ 20,088
YU-AI KAI Japanese American Community Senior Service	110 E. Jackson St. San Jose, CA 95112	Wesley Kazuo Mukoyama Executive Director 588 N. Fourth Street San Jose, CA 95112 T (408) 294-2505 F (408) 294-0343 wmukoyama@yuaiikai.org	\$ 12.00	None	\$ 72,690

ATTACHMENT B

GENERAL SERVICES DEPARTMENT REAL ESTATE SERVICE & ASSET MANAGEMENT DIVISION CITY-OWNED PROPERTY REVIEW PROCESS GUIDELINES

OVERVIEW

In accordance to the Asset Management Principles, all City real estate holdings are to be periodically reviewed to ensure that current uses support the cost-effective delivery of City services to the community.

On an annual basis, staff will report to the City Council the following:

- Status of owned and leased properties, including information on the estimated fair market value of properties leased at below-market rate.
- Review of current uses, including analysis of alternative uses, or sale of properties, that can better support City services.

ANALYSIS

Real Estate Services & Asset Management (RESAM) Division, in coordination with other City Departments, will maintain the property inventory and conduct an assessment of all current City real property holdings.

Based on the current inventory, RESAM will review approximately 200 properties each year. Properties that are currently leased whose leases will expire within the next 18 months should be included in the current year's review. A review process guideline and property review schedule has been developed to ensure review process is completed in a timely manner.

PROCESS

1. CITY PROPERTY INVENTORY: RESAM, with coordination with other City Departments, will maintain the inventory of City-owned properties. The inventory will include the following information:

- a. Property Classification
 - Current City Use (ie. City Hall, Fire Stations, Police Stations)
 - Leased at Market Rate
 - Leased at Below Market Rate
 - Improved with no current use
 - Unimproved with no current use
 - Other
- b. APN
- c. Property Name
- d. Property Location/Address
- e. Property Type/Description (ie. Parking, Vacant Land, Fire Station, etc.)
- f. City Council District
- g. Services provided at the facility/Current use of facility
- h. Property Size in Sq Ft
- i. Property Size in Acres
- j. Valuation Amount
- k. Valuation Method
 - Appraisal
 - Purchase Price
 - Internal Evaluations/Calculation
 - Other
- l. Lease Information
 - Type of Lessee (ie. CBO, Sublease, Private)
 - Name of Lessee

- Current Use
 - Term of Lease
 - Lease Commence Date
 - Base Rent Amount
 - CAM (if any)
- m. Number of buildings on the site
 - n. Square footage of buildings on site
 - o. Listing of restrictions, covenants, or other limiting attributes
 - p. Developable or Undevelopable (Y/N)
 - q. Any planned future use, including long term plans for property (i.e., Greenprint)
 - r. Estimated land and improvement value
 - s. Fair Market Value

2. ANNUAL REVIEW OF CITY REAL PROPERTY HOLDINGS: Based on the information gathered to maintain the property inventory and in coordination with other City Departments, RESAM Division will annually review approximately one-fifth of the City's current real property holdings (with all properties to be reviewed no less often than every five years) with regard to the following:

- a. If the current use is appropriate and necessary;
- b. If the property could be used for another City purpose;
- c. If the property appears to be surplus to the City's needs; and
- d. Whether there is evidence of potential interest by anyone in purchasing the property.

These items will be addressed through the following steps:

- Verifying the current use of the property,
- Assessing if the current use still supports the City's cost-effective service delivery (i.e. value the property brings to the performance of the City's mission and core services)
- Analyzing whether alternative uses of the property, including disposition of the property, would better support the cost-effective delivery of City services than the current use
- Assessing the revenue-generating potential of the property by:
 - Comparing the dollar amount the City could potentially generate from renting leasable property to the actual dollar amount being generated from current property agreements
 - Measuring the net dollar amount generated from selling or leasing the property and comparing it to the total cost to maintain and manage the property.
- Identifying potential interest from adjacent property owners

3. ANNUAL REPORT: Following the review, RESAM will prepare a written report and present it to the Public Safety, Finance, and Strategic Support Committee in January of each year, with a cross-reference for subsequent Council action. The report will contain findings from the property review and also recommendations as to whether any City property should be declared surplus by the City Council.

In addition to the information defined in items 1 and 2, properties that are recommended to be declared surplus should also include the following:

- a. Description of how the property was acquired
- b. Date and value of all and previous appraisals (if any)
- c. Type of appraisal, if needed
- d. Estimated value prior to an appraisal
- e. General marketability of the property