



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Peter Jensen
Katy Allen

SUBJECT: SALE OF CITY OWNED PROPERTY **DATE:** May 23, 2006

Approved

/s/

Date 05/30/06

BACKGROUND

This memorandum is prepared in response to the Mayor's March Budget Message for 2006-2007 which directed the Administration to evaluate all City-owned land available for sale and respond with a Manager's Budget Addendum. City-owned property is currently in excess of 900 properties. These properties range from small road widening project remnants to large parkland properties. A preliminary analysis of city-owned properties identified 50 with the potential to be declared surplus. These properties range in size from 1,200 square feet, which is not independently developable, to over 440,000 square feet, which has the potential for housing or commercial development. Many of the properties require detailed research to determine potential use, value, encumbrances, actual size and marketability. Staffing reductions during the previous four years have severely limited the City's ability to actively research and market surplus property sales. Even with the current limited staffing levels, \$150,000 to \$700,000 per year in property sales has been generated.

ANALYSIS

A preliminary analysis of the 900 city-owned properties determined that approximately 850 are utilized for city services such as public facilities and parks, trails, and riparian corridors. These are not marketable because of their current use and/or because they may be encumbered with public service easements or other restrictions that reduce their marketability. This analysis is based on the current city-owned property inventory, and it is important to note that this inventory is updated regularly as a result of relinquishments from the state, remainders and exceptions from road-widening, capital projects, street vacations, relocations of public facilities and property returned to the City as surplus when projects are not implemented.

The remaining 50 city-owned properties have been identified as having the potential to be declared surplus. These 50 properties have been broken into 2 categories including:

1. Properties that are smaller and can be sold only to the adjoining property owner, and
2. Properties that are large and can be developed into housing or commercial uses. Included in this category would be the old City Hall and the "E" parking lot.

City-owned properties currently in sales negotiation or under contract for final sales have been excluded from this list. For example, the parcels comprising the Main Corporation Yard property at 6th and Taylor Streets, have been excluded as the sale of this property is imminent. Most of the proceeds from this transaction have been programmed in to the construction financing for the Central Service Yard, Phase II expansion project.

The sale of city property is managed with a very systematic process. To facilitate this process, staff developed the Property Disposition and Acquisition Committee (PDAC). The purpose of this committee is to serve as a city-wide clearing house for real property transactions. This committee is comprised of members from General Services, Public Works, Library, PRNS, Environmental Services, Police and Fire Departments, Housing, Transportation, PBCE, City Attorney's Office, Redevelopment Agency and the City Managers Office. Staff present potential surplus parcels monthly to the PDAC. Descriptions of the parcels are then circulated to every department to determine if a desired city use exists. If no city use is determined, notices regarding the potential surplus parcels are mailed to all other government and quasi-government agencies as well as low and moderate income housing developers. If no interest is expressed by any of these parties, staff prepares the parcels for auction, contacts all interested parties on the bidders list by mail and recommends that Council declare the parcels surplus to the needs of the city consistent with the procedures outlined in Chapter 4.20 of the San Jose Municipal Code.

The 50 city-owned properties that have been identified as having the potential to be declared surplus, have an order of magnitude value in excess of \$67,000,000 based on estimates developed by staff. The majority of this value is comprised of the estimates for the old City Hall property and the "E" parking lot.

Included in the 2006-2007 Proposed Operating Budget is a recommendation to consolidate all property management functions in the Public Works Department. This consolidation involves the transfer of two Real Property Agents, related non-personal/equipment, and the budget for all leased spaces (\$1.9 million) from the General Services Department to Public Works. The Public Works Department has the supervisory and administrative structure to support these operations and should provide for a stronger, better-supported unit. Property Management staff will continue to monitor the inventory of surplus property and bring forward recommendations to sell property whenever possible.

COORDINATION

This MBA has been coordinated with the City Attorney's Office.

/s/
Peter Jensen
Director of General Services

/s/
Katy Allen
Public Works Director