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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** April 9, 2009

**IBA Report Number:** 09-32

**City Council Meeting Date:** April 14, 2009

**Item Numbers:** 330 & RDA #2

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# Sale of City Owned Property to the San Diego Redevelopment Agency

On Tuesday, April 14, 2009, the City Council and Redevelopment Agency will be asked to consider the sale of two City owned properties located at the intersection of El Cajon Boulevard and 40<sup>th</sup> Street. If approved, \$1,383,550 from the sale of the two properties will be deposited with the City from the Redevelopment Agency.

In May 2001, the City Council approved entering into a Cooperative Agreement with the State of California to transfer State Routes 209 (Rosecrans Street) and 274 (Balboa Avenue) to the City. As a result of the transfer the City assumed all maintenance, operational, and liability costs associated with the roadways at an estimated annual cost of \$1.0 million. Prior to the transfer, the City negotiated with the State to contribute seven excess parcels of land in the I-15/40<sup>th</sup> Street area (valued at \$2.5 million in 2001) and \$8.1 million in a lump cash payment to offset the costs associated with bringing the roads up to City standards (See Attachment A - 2001 City Manager's Report).

Since 2001, two of the seven parcels have been conveyed to the Redevelopment Agency and subsequently developed. Based on information provided in staff's March 4, 2009 report to the Redevelopment Agency, the City and the Agency have been in negotiations to purchase the remaining five properties.

The sale of City property to public agencies is governed by San Diego Municipal Code §22.0907 which states:

“Subject to the provisions of Section 219 of the Charter of San Diego, whenever the Council shall find that lands belonging to the City are required for public purposes, the said Council may, by resolution, authorize the sale of any of said lands to any political subdivision, or public agency, without advertising for bids

and without regard for any of the provisions of Section 22.0902; ***provided, however, that the sale shall be at such prices and upon such terms as the Council shall deem to be fair and equitable and in the public interest.***”

The IBA has reviewed the reports submitted by the City’s Real Estate Assets Department (READ) and the Redevelopment Agency and based on the information provided we have included additional information and questions in this report that we recommend the City Council/Redevelopment Agency consider prior to making a decision on this item. This is in an abundance of caution ensuring that City Council/Redevelopment Agency have been provided all pertinent information in relation to fulfilling the criteria established in San Diego Municipal Code §22.0907. This is especially important considering that City Council Members will be voting as both representatives of the City by sitting as the City Council and as representatives of the Redevelopment Agency.

## FISCAL/POLICY DISCUSSION

The following sections provide additional information and questions that the IBA recommends that the City Council/Redevelopment Agency consider prior to making a decision on this item.

### Appraisals

In the Redevelopment Agency’s April 8, 2009 Report (Report RA-09-04) staff includes information on the two appraisals that were completed by the City and the Agency in 2007. The City’s appraisal yielded a \$90.00 per square foot price and the Agency’s was \$70.00 per square. Based on conversations with Real Estate Asset Department’s (READ) staff, the City’s proposal was done at the height of the real estate market and neither of the appraisals reflects the environmental remediation costs. Based on the environmental remediation expenses the City agreed to a price of \$67.00 per square foot. Although a more current appraisal has not been completed, READ staff has done a comparison of like properties in the area and with the combination of the environmental remediation expenses and the economic climate, the \$67.00 per square foot is “satisfactory”. In addition, READ staff has recently contacted local Commercial Real Estate brokers to gauge what similar properties are selling for and they have indicated a range of \$50.00 - \$80.00 per square foot. The extreme range is due to the current economic climate.

On April 14, 2008 the City Heights Project Area Committee voted to recommend the purchase of the two parcels ***following the completion of a new appraisal***. However, READ’s February 19, 2009 report states that under San Diego Municipal Code §22.0907 the sale of property for public need does not require a current appraisal. Based on the information provided in the Redevelopment Agency’s April 8, 2009 report, a new appraisal was not completed as requested by the City Heights Project Area Committee. The Council may want to discuss this matter with staff and clarify if the decision to not undertake a new appraisal was conveyed to the City Heights Project Area Committee.

It is also important to note that although the sale of public property is governed by San Diego Municipal Code §22.0907, which does not require a current appraisal to be completed, the City Council Policy on the disposition of City-owned Real Property (Council Policy 700-10) requires that a sale price be based on an appraisal that is less than six months old. As discussed above, both the City's and the Redevelopment Agency's appraisals were completed in 2007.

**Sale of the Property**

As the City Council considers the disposition of the five remaining parcels it is important to revisit the original intent of the State transferring the properties to the City. In the City Manager's May 16, 2001 Report to the City Council on the original agreement with the State (Report No. 01-098), staff stated that a primary condition of the City assuming responsibility for Balboa Avenue and Rosecrans was that "Caltrans either bring the roads up to City standards, or provide the funding to do so." As a result of the negotiations, Caltrans provided the City with an \$8.1 million cash transfer and the seven excess parcels (Estimated 2001 value of \$2.5 million) to fund the following improvements:

<b>Improvements to SR-274 (Balboa Avenue)</b>	
Repair existing sidewalk and install new sidewalk where required	\$3,400,000
Landscape and hardscape existing medians and new median construction	\$3,300,000
Widen street to accommodate bike lanes	\$1,350,000
Install new traffic signals and modify existing signals	\$260,000
Install new street lights	\$500,000
<b>Total:</b>	<b>\$8,810,000</b>
<b>Improvements to SR-274 (Rosecrans Street)</b>	
Repair existing sidewalk, curb, and gutter and accommodate bike lanes	\$1,600,000
Upgrade and modify traffic signals	\$12,000
Upgrade street lights to HPS luminaries	\$17,000
Interconnect traffic signals	\$700,000
Install bus stop concrete pads and benches	\$200,000
<b>Total:</b>	<b>\$2,529,000</b>

Based on conversations that the IBA has had with Engineering & Capital Projects Department - Transportation Division staff, the City is continuing to work on improvements to both roads. In addition, staff has stated that the initial list presented in 2001 has evolved based on input from the communities and Council Districts that these roads are in. The funding received from the sale of the properties will be used to help

offset the costs of improvements. If the City is not able to cover the costs of the improvements through the sale of the five properties and any remaining cash from the \$8.1 million lump payment, then the City will need to identify additional funding sources to complete the improvements.

City Council discussion on the use of proceeds from Land Sales

On January 6, 2009 the City Council approved the sale of City owned property in Del Mar Heights. The Council approved the sale of the property with the caveat that a discussion would be held at the Budget & Finance Committee on the use of asset proceeds and that any proceeds from the sale of the property would be held until a comprehensive plan was brought to the Council. It is unclear if the Council intended this action to be only for that specific land sale or all future sales.

**CONCLUSION**

Our office has reviewed the reports submitted by the City’s Real Estate Assets department and the Redevelopment Agency. In this report we have included additional information and questions that we recommend the City Council/Redevelopment Agency consider prior to making a decision on this item. This is in an abundance of caution ensuring that City Council/Redevelopment Agency has been provided all pertinent information in relation to meeting the criteria established in San Diego Municipal Code §22.0907.

**[SIGNED]**

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Jeffrey Sturak  
Fiscal & Policy Analyst

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APPROVED: Andrea Tevlin  
Independent Budget Analyst

Attachment A