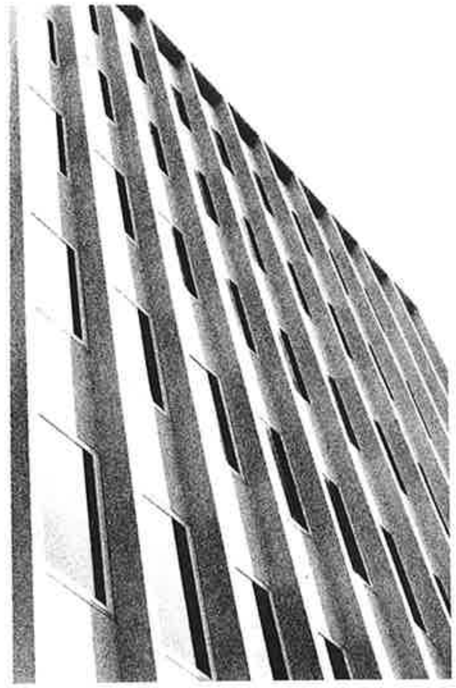
Formation of a sale and lease revenue development group to maximize revenue from underutilized public agency property



by W. Dennis Carroll, SR/WA

Both lease and sale projects are in progress. Three examples given in this article have the potential of generating ten million dollars over the next ten years.

W. Dennis Carroll, SR/WA is a Senior Real Property Agent with the County of San Diego, California. Carroll, Chairman of the International Property Management Committee, was selected as the San Diego Chapter 11 Professional of the Year for 1984. A Past President for Chapter 11, he has had extensive experience in management/leasing of San Diego County property since 1967 and currently has an active role in the County's Sale and Lease Revenue Development Program.

Government agencies struggling to maintain services in the face of increasing fixed expenditures are faced with the necessity of seeking new, alternative funding sources to property tax revenues. This is particularly true in the case where the electorate has approved a tax restrictive referendum or initiative, such as California's Proposition 13, which became effective in 1978. It effectively reduced real property tax revenues available to local agencies by approximately 50%, by returning property tax assessments to their 1975 level. What's more, annual property tax assessments cannot be increased more than 2% annually, unless a property is sold. Then, the property will be reassessed at the sale price and taxed at 1% of that figure. All local agencies previously deriving most of their revenue from the property tax base have had to make drastic cuts in their programs.

Revenue generation program

The County of San Diego, California, in an effort to generate revenues outside of property taxes for the maintenance and possible expansion of essential programs has struck an innovative approach to revenue production by soliciting private development of underutilized and surplus County-owned properties.

At the suggestion of a member of the Board of Supervisors (the County's governing body) the Board directed County staff to identify County properties, which were either "surplus to County needs" or "underutilized." Twenty-four properties were identified for their revenue producing potential. After the list was accepted by the Board, the Board established a "Sale and Lease Revenue Development Subcommittee" (SAL Committee) made up of two members of the Board. They were given the responsibility of establishing and overseeing a program of . . . "maximizing revenues from surplus and/or underutilized County properties."

To provide staff support, the SAL Committee established the Sale and Lease Revenue Development Group, referred to as the SAL Group. Through a process of evolution, the SAL Group became a part of a "Special Projects" unit within the Chief Administrative Office. Direction was provided by a project manager, administrator from the Chief Administrative Office staff with the political awareness necessary to operate in close contact with elected officials, community groups and public agencies and the expertise and experience needed to provide direction to a revenue development group. Staff now consists of two real property agents, two planners, an economist and clerical personnel.

The SAL Group, under the direction of the SAL Committee, was charged with the responsibility of producing funds to supplement tax revenue by promoting private development of underutilized and surplus public lands. No public funds were to be utilized or committed and private developers were required to provide for joint use (public and private use) whenever appropriate. High priority was given to work done on SAL projects by other County departments, such as the attorneys in County Counsel's office, so as to eliminate time constraints inherent in the bureaucratic process. In addition, innovative approaches to development of revenues and a "fast-track" procedure for the processing of projects were encouraged by the Board of Supervisors.

The SAL program is anticipated to operate for a period of three to five years or until all proposed developments come "on-line" and the routine management of activities can be handled through the County's Real Property Division. Funding comes under the Chief Administrator's Department (C.A.O.) and since the County Charter prohibits "interference" by members of the Board of Supervisors or their staff, all directions from the SAL Committee must come through the C.A.O.'s Office.

The inventory of 24 "underutilized" properties was reviewed by the SAL Group and priorities were assigned to the various properties in order of their revenue generating potential and demand for development. Five properties were then selected for development and assigned as active projects to the SAL Group. Three of those projects will be discussed in order to show the potential of a revenue development program.

Policy guidelines

One of the first tasks undertaken by the SAL Group was modification of Board of Supervisors Policy F34, "Revenue Leasing of County Property." Board policies are official guidelines established by the County's legislators to guide County staff in day to day activity. Deviation from such established policies requires Board action to waive a policy for good cause. F34 called in part for the *sale* of property for which . . . "no existing or proposed public use is known."

Figure 1. Harbor Square

F34 also provided that . . . "Speculation regarding appreciation in value or the securing of income through operation of properties for private purposes are not considered an appropriate County function."

Although the City of San Diego has "Pueblo Lands" and the State and Federal Governments have public domain lands, all of which can be used to generate revenue, the Counties in the State of California have only lands acquired for specific public use. Since no law specifically prohibits generation of revenue from private use of County land, Policy F34 was modified to make revenue generation appropriate, and the SAL Group then zeroes in on properties with the highest revenue producing potential.

SAL projects

Both lease and sale projects are currently in process. The following three major projects have the potential of generating annual revenues during the next 10 years in excess of the ten million dollars.

(1) Harbor Square

A joint, mixed-use facility being proposed for development by private funds on parking lots totalling approximately 10 acres, adjacent to the County Administration Center (CAC). The site overlooks San Diego Harbor in downtown San Diego.

(2) Vauclain Point

A multiple residential zoned property on approximately 12 acres of land, located in the Hillcrest area of San Diego. This property, on a knoll with slopes on three sides is partially occupied by an unused and outdated tuberculosis hospital. Approximately six acres are suitable for development.

(3) Edgemoor

A major 375 acre, multiple use, long term development on County-owned land in the city of Santee. (Edgemoor Master Plan Development). Edgemoor is a former County Poor Farm which is currently an undeveloped block of land in the center of the newly incorporated (1980) city of Santee, California.

Harbor Square Development. Costs for this project are expected to exceed one hundred twenty million dollars. Figure #1 shows the CAC property before development. When completed, it will generate rent to the County totaling approximately four million dollars annually. The County's land is valued at approximately thirty-three million dollars. In this project, the County and the developer share in the gross operating profits on the basis of the following formula: Overage Rent = Gross Sales x specified percentage rates - Base Rent. Included within the multiple uses, as shown in Figure #2, are: one 405 room hotel and a retail center catering to public and tourist use on the south parking lot; and a "World Trade Center" to be housed in two office and commercial structures on the north parking lot. The total project will produce approximately 1,163,000 sq. ft. of usable area, which includes 500,000 sq. ft. of parking, 60,000 sq. ft. of retail and restaurant use, a 307,000 sq. ft. hotel and 296,000 sq. ft. of office space. There will be approximately 60% open space which will be landscaped to provide a park-like atmosphere and an amphitheater for concerts and public gatherings. In addition, the developer has indicated a willingness to work with the Port of San Diego

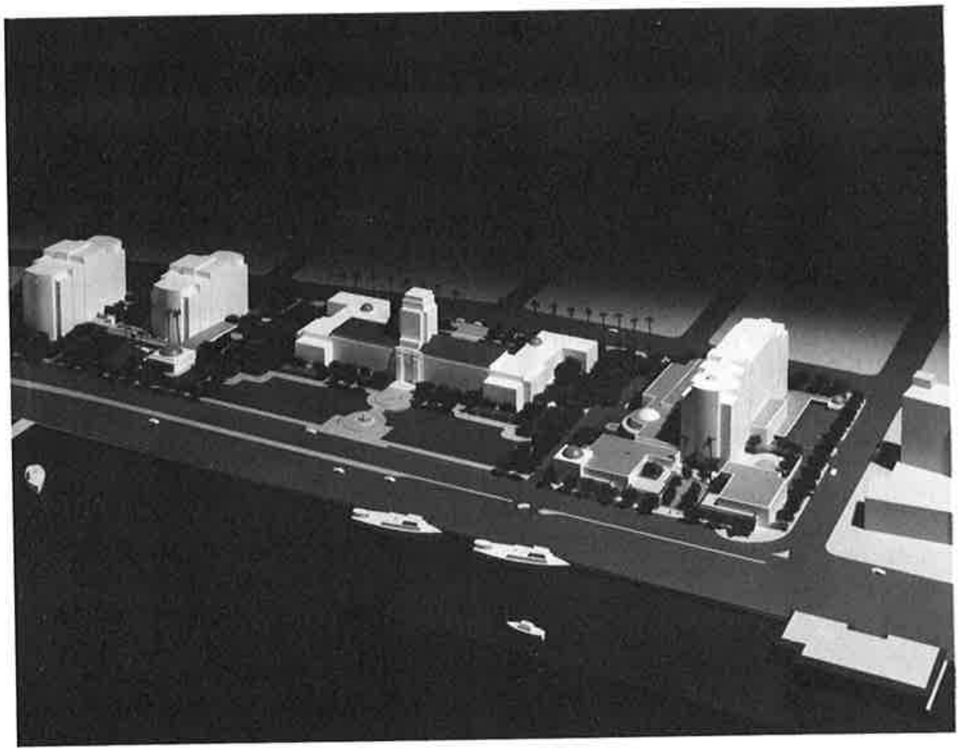


Figure 2. Vauclain Point

to develop an off-site pedestrian mall area to enhance the project and coincide with the Master Plan of the Port District. Plans are also being considered to extend the San Diego Trolley Line from the downtown area, past the project and on to Lindbergh Field International Airport and the Point Loma area of the city. The total effort will enhance harborside development and contribute to the success of the project.

Vauclain Point. It is expected that this project can be developed with approximately 290 residential condominium or apartment units, under a Planned Residential Development (P.R.D.) permit. The property was previously offered for lease in 1982 with option to purchase, but without success.

Subsequent down-zoning action by the City of San Diego has reduced the development potential. The County would now sell the land outright. The County's revenue from this sale is anticipated to exceed $5,000,000.

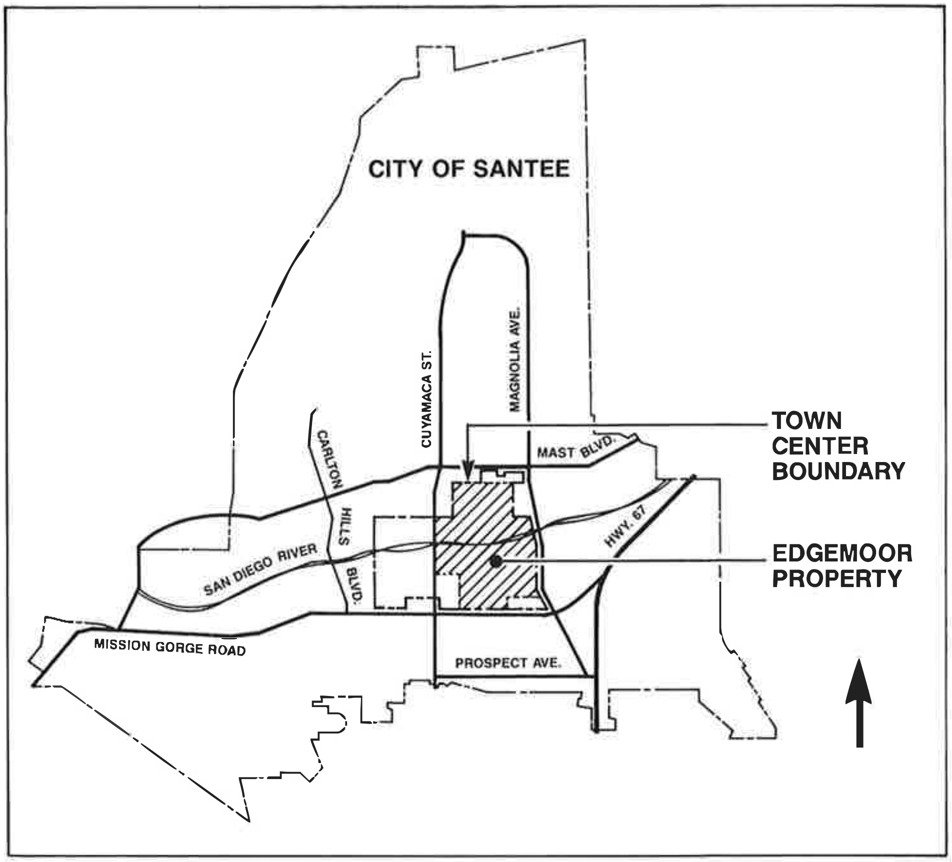


Figure 3. Edgemoor

Edgemoor. Edgemoor was included in the SAL program for two reasons. Number one, over 300 acres of the property is completely undeveloped and number two, it lies in the center of the new city of Santee, California which was incorporated in December of 1980.

Edgemoor was originally acquired by the County for use as a "poor farm" in the 1920's. All that now remains of the original development is a geriatric and mental health hospital on about 25 acres. Over the years at least three studies have been made in an attempt to decide what to do with the property. In 1979, the Board of Supervisors approved a conceptual "Master Plan" for Edgemoor. The plan provided for the establishment of a fund for Edgemoor development. Lease revenues from interim leases deposited in that fund now total $160,000.

The goal of the SAL program is to develop revenue for the County from the proceeds of sales or leases of portions of Edgemoor earmarked for development.

According to California law a new city must develop and approve a General Plan during the early years after incorporation. Santee's General Plan was approved in August of 1984. All areas of the city except one were designated for specific land uses from open space to industrial. The one portion without a specific use designation is a 700 acre area in the center of the city. That area has been designated as the "Town Center."

The Town Center, which includes Edgemoor (see Figure #3) was reserved for further study and the development of a specific plan. That plan will establish: 1) Specific uses within general use areas; 2) Civic center/cultural center development; 3) Commercial/industrial/residential areas; 4) Recreation/open space/flood control development; 5) Controlled traffic circulation; and 6) absorbtion rate limitations to control the rate of development. Of the 700 acres, within the Town Center, fully 600 acres are currently undeveloped or have "temporary" uses including sand mining and grazing.

The reason for the Town Center designation was to allow exploitation of the unique opportunity to develop an overall plan for what the city will be in the future, a city planner's dream come true. The new development in the Town Center will create a predetermined identity for the city. The County's SAL staff is helping to create and looking forward to ultimately benefiting from the Town Center plan. It is anticipated that revenues to the County after a twenty-year development period could exceed eight to ten million annually in today's dollars.

In general, state law excludes the County from the necessity of abiding by city planning requirements when developing land for a public use. That privilege does not exist, however, when the County has land available for private development. To ensure that the County would have some influence in preparing the Town Center Plan, specifically for Edgemoor, SAL staff prepared a Memorandum of Agreement (MOA) for approval by both the City Council and the Board of Supervisors. That MOA commits both agencies and their various consultants to mutual cooperation in the planning effort.

As a result of on-going meetings, workshops, and planning sessions, a Town Center Plan is expected by mid-1985. The plan is expected to provide that Edgemoor development should include, residential (including senior citizen housing), commercial, civic and cultural development, mixed commercial/residential/office development and rec-

The uniqueness of the Sale and Lease Revenue Development approach to generating revenue is highlighted by the fact that no public funds are expended for construction.

reation and open space areas. Development will be designed around a livestream concept using the San Diego River while preserving the river in a natural setting. The river, like most streams in Southern California, has diminished flow during the dry season. There is, however, an opportunity for development of recreational lakes within the flood plain. Development of lakes on the property could provide interim revenue from the mining of sand.

Uniqueness of approach

The uniqueness of the Sale and Lease Revenue Development approach to generating revenue for the County is highlighted by the fact that no public funds are expended for construction. In addition, revenue to the County is long-term rising into the multiple millions of dollars as projects come on line. The SAL program, after an initial appropriation for "seed money," has been funded mainly by revenue generated by SAL projects. The structure of the SAL Group allows for expediency of action, sharing of project effort on selected projects with the highest revenue producing potential.

It is the aim of the SAL Group to operate on an equal footing with private real estate developers. Negotiations and consulting are done with corporations and other agency administrators. It is therefore, essential that the SAL Group not be burdened by the time consuming necessity of following the usual bureaucratic chain of command, or be assigned any projects that do not have the potential for generating new revenues.

Much of what is being done under the SAL program, as well as what other public agencies are doing to supplement tax revenues, represents a trend toward more creative management of public assets. Even so the program is not without detractors in the public as well as the private sector who contend that public agencies should not compete with private developers. Obviously, we believe the benefits to all segments of society far outweight certain philosophical and political beliefs.

Interestingly enough, the California legislature has enacted several statutes recognizing the revenue needs of the public sector and approving the development of public/private partnerships. Section 25515 et seq of the California Government Code recognizes that . . . "residential, commercial, industrial and cultural development of County owned property for revenue development is a valid public purpose." It further provides for County approval of such projects under leases with a term of up to 99 years and with no competitive bid if approved by a 4/5 vote of the Board of Supervisors and if a multiple proposal solicitation procedure is used to choose a developer. In addition, a county may participate as a principle party in such developments on county property as a public works project. A California county may also sell or purchase an interest in real estate for the purpose of entering a public/private partnership.

The SAL program may eventually evolve into something no longer recognizable as a revenue development program. It may fade or be merged into a parallel bureaucratic effort to manage public property without the benefit of special attention from the Board of Supervisors. Whatever happens, though, it will have awakened many of us to the realization that creativity in management of public real property assets is not only proper, but essential to the ongoing benefit of the general public. And, after all, the noblest motive is the public good.