



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** January 15, 2008

**TO:** Mayor and Councilmembers

**FROM:** Engineering Division, Public Works Department

**SUBJECT:** Finance Options To Repay Lease Revenues To The Santa Barbara Association Of Governments For 319 West Haley Street

**RECOMMENDATION:** That Council:

- A. Receive a report of financing options to repay the Santa Barbara County Association of Governments (SBCAG) for their share of the parking lot lease revenue and interest for the City property commonly known as 319 West Haley Street; and
- B. Approve staff's recommendation to repay SBCAG with \$233,582 from Streets Fund Reserves and \$59,249 from General Fund Reserves, for a total of \$292,831 and appropriate these amounts from the respective reserve accounts to the respective Fiscal Year 2008 budgets.

**EXECUTIVE SUMMARY:**

SBCAG has formally requested repayment of its share of the purchase price and parking lot lease revenue, with interest, for the City-owned property at 319 West Haley Street, Santa Barbara County Assessor's Parcel Number 037-192-012 (Property), as allowed per the 1991 agreement between the City and SBCAG. SBCAG indicated that the immediate repayment of \$292,831 in parking revenue and interest would facilitate completion of design of the Highway 101 Union Pacific Railroad Bridge at Cabrillo Boulevard, which is part of the Highway 101 Widening Project. The repayment of SBCAG's contribution of \$573,057 for the purchase of the Property could be deferred until the end of Fiscal Year 2008.

At a prior Council session, Council expressed their desire to retain the property and directed staff to meet with the Finance Committee. The Finance Committee recommended that the repayment of the parking lot lease revenue and interest come from Streets or Measure D Funds/Reserves to the maximum extent possible. They also recommended further discussion on the repayment of the SBCAG purchase contribution and the disposition of the Property take place during a future Council Session.

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REVIEWED BY: \_\_\_\_\_ Finance \_\_\_\_\_ Attorney

Agenda Item No. \_\_\_\_\_

**BACKGROUND:**

The Property (Attachment 1) was acquired pursuant to a Purchase and Sale Agreement and Joint Escrow Instructions (Agreement No. 15,451) with Richard and Devon Godkin, approved on May 22, 1990. The City and SBCAG acquired the property, in case any portion was needed for a project planned by SBCAG, for alteration of the Haley Street and Castillo Street interchange at Highway 101 at that time. SBCAG later removed this project from its list, and there is no future project planned by SBCAG at this location.

The purchase price and associated costs that the City paid to acquire the property was \$850,000. On March 5, 1991, Council approved Agreement No. 15,909 (Agreement) with SBCAG, which provided for partial reimbursement by SBCAG to the City in the amount of \$573,057, subject to certain conditions and using Measure D Funds.

At the time of its purchase, the Property contained an existing parking lot leased by the Haley Land Company for use by its tenants occupying the adjacent office building at 315 West Haley Street. The Property was purchased subject to said leasehold interest. On October 10, 2007, the Haley Land Company assigned its leasehold to Work Training Programs, Inc. (WTP, Inc.). The existing lease of the parking lot provides a right of first refusal by WTP, Inc., for purchase of the Property, if it is offered for sale. The lease for the parking lot and the lease for the building expire in 2035, provided WTP, Inc. exercises its option to extend the original term of the lease, as set forth in the lease agreement.

If the Property is not being used for a transportation improvement project, the Agreement provides for the City's repayment of SBCAG's contribution (originally in the amount of \$573,057), "together with one half of any difference between such contribution and the actual net sales price received upon such sale," or, if not sold, "together with one half of any difference between such contribution and the fair market value...as established by an appraisal," and that "any net revenue derived by any said lease of any portion of the real property for which this contribution is obtained from the Authority shall be divided equally between City and Authority."

**DISCUSSION:**

On June 19, 2007, Council received a report by staff seeking approval to initiate steps for disposal of the Property. At that meeting, Council expressed its desire to retain ownership of the Property in the event it may be needed for other potential public uses in the future. Consequently, Council deferred action to allow staff to obtain additional information for subsequent review and recommendation by the Finance Committee.

SBCAG has identified other City transportation projects (for example, completion of the design for the Highway 101 Union Pacific Railroad Bridge reconstruction over Cabrillo Boulevard) it could support with these funds and is requesting that the City repay their unpaid share of the parking lot lease revenue, with interest. City records indicate that at the end of 2006, SBCAG was entitled to its portion of the lease revenue collected by the City from 1990 through 2006, in the amount of \$223,697. Additionally, SBCAG has requested interest in the amount of \$69,134 for a total of \$292,831. These revenues have gone to the General Fund. Since January 2007, SBCAG has received its share of revenue collected by the City on a monthly basis.

SBCAG has also requested that the City reimburse its portion of the original acquisition costs, as stipulated in the agreement by the end of Fiscal Year 2008. Attachment 2 identifies approximate funds that we owe SBCAG if the property is not sold. Since the current appraised fair market value is less than the purchase price, the Agreement stipulates that SBCAG share in the loss.

As suggested by Council on June 19, 2007, the Property has been appraised in order to establish its fair market value. An opinion by Stephen G. Schott, MAI, sets the value of the Property at \$640,000. The Property has also had a sound study and a Phase I HazMat study performed for evaluation by the City. The sound study identified ambient noise levels above that required for residential use, which cannot reasonably, easily or economically be mitigated by construction methods. The Phase I HazMat Study identified the presence of an automobile repair shop and aboveground oil storage tank on the triangular unused "housing" portion many years ago. A Phase II HazMat study is currently underway to evaluate the potential presence of any hazmat materials that might exist on the Property and warrant remedial action by the City.

#### **FINANCE COMMITTEE DISCUSSION:**

Staff met with the Finance Committee on December 11, 2007 to present three options for the Property and to discuss funding sources to repay SBCAG. Those options were:

#### **Option No. 1: Retain the Property for Possible Future Use**

If Council desires to keep and land-bank the Property for a possible future public use, approximately \$760,888 would be required to reimburse SBCAG for its share of its appraised market value and leased parking revenue, with shares adjusted as shown on Attachment 2. Funding would likely come from the Streets or Measure D Fund/Reserves.

Redevelopment Agency staff has evaluated the project site and does not think that the purchase of the property has any merit. The required public access shared with the existing parking lot lease area, its location adjacent to Highway 101, and its high noise levels that cannot be mitigated economically, make this property undesirable for a housing site or other eligible RDA project.

### **Option No. 2: Sell a Portion of the Property**

The appraisal noted that the only portion of the Property that had any significant current value was the parking lot due to the revenue stream it generates for the City. However, WTP, Inc. has the right of first refusal to buy the entire parcel (both portions). The housing portion was appraised at a nominal value because of the remaining term of the parking lot lease. Its future utility and value would be pure speculation because it would be land-locked as a separate parcel, and access is dependent on approval to use the parking lot during the remaining lease. The City is not required to sell the entire parcel to WTP, Inc., or to any other interested party, and could retain the housing portion for any future traffic improvement project.

### **Option No. 3: Sell the Entire Property**

Based upon the current need for projects funded by the Streets and Measure D funding, and the potential impact to the General Fund, staff still recommends that the Property be declared excess and made available for sale to WTP, Inc., in the amount of \$640,000, in accordance with its right of first refusal set forth in its parking lot lease. If WTP, Inc. does not wish to purchase the property, the Property will be offered for sale to other potentially interested public agencies and parties in accordance with applicable laws and guidelines.

At this point in time, there is no need for Council to make a decision regarding disposition of the Property. A subsequent Council session will address the Property's disposition after additional review and consideration of the available options. The immediate need is to identify the funding source for repayment of SBCAG's share of the combined leased parking revenue and interest in the amount of \$292,831.

**RECOMMENDATION:**

The Finance Committee recommended that the City reimburse SBCAG for the parking lease revenue and interest, to the maximum extent possible from the Streets and Measure D Funds/Reserves. Since a separate Streets Fund was not established until Fiscal Year 2004 and streets operations were part of the General Fund until that time, the Streets Fund could pay the parking revenue and interest through Fiscal Year 2003. Thereafter, since the parking revenue continued to go to the General Fund, the General Fund will pay the parking revenue and interest for Fiscal Year 2004 through Fiscal Year 2006 (SBCAG has received its share of the revenue from Fiscal Year 2007 and onward). This amounts to \$233,582 from the Streets, and \$59,249 from the General Fund. Staff recommends that these amounts be appropriated from the respective reserve accounts to the respective fiscal year 2008 operating budgets to fund the payment to SBCAG.

The Finance Committee also recommended that a subsequent Council session determine the disposition of the Property and funding of the repayment to SBCAG of the \$573,057 purchase funds.

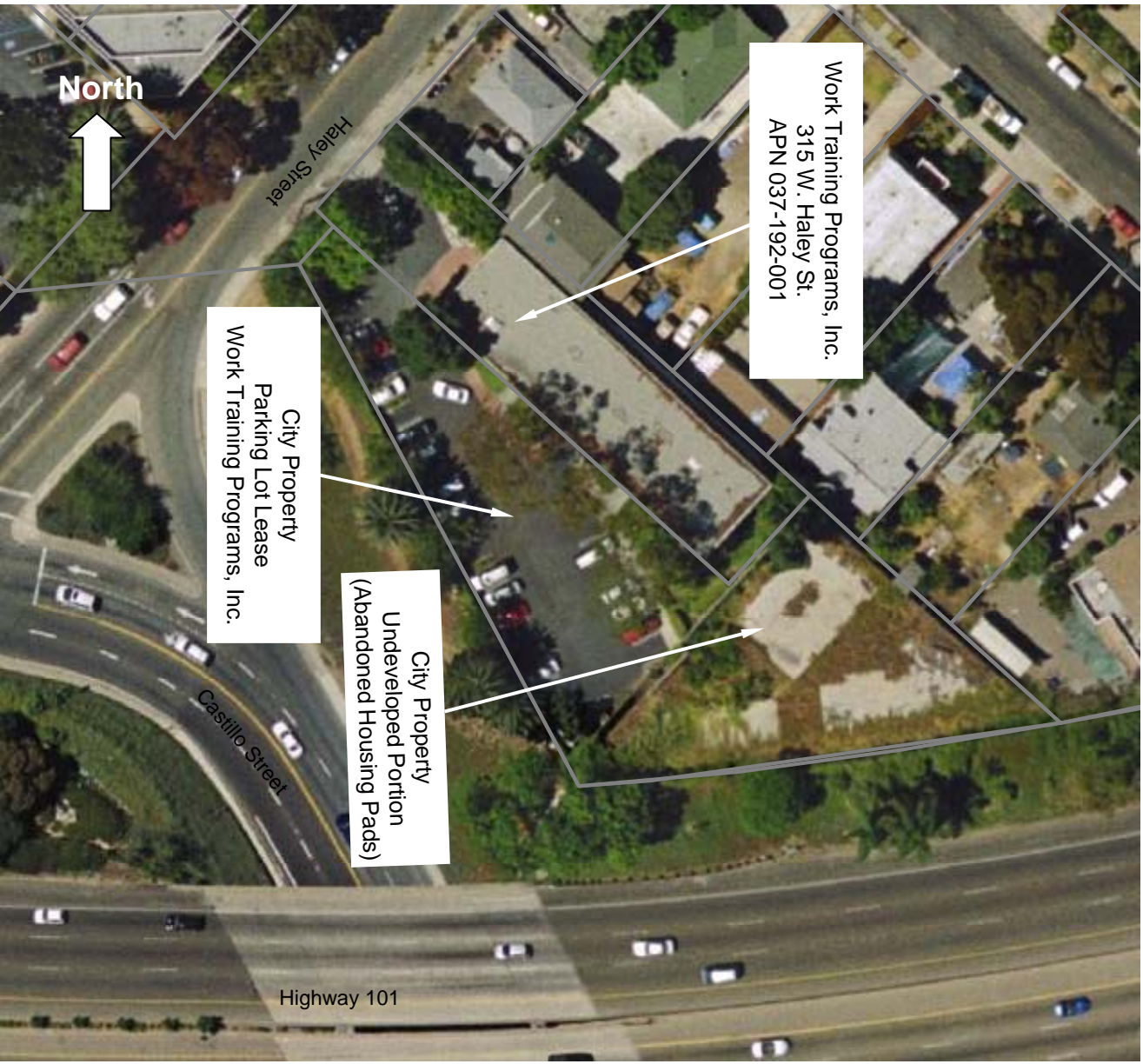
**ATTACHMENTS:**     1. Vicinity Map  
                          2. Funds due SBCAG worksheet

**PREPARED BY:**     Homer F. Smith II, Principal Engineer/DI/kts

**SUBMITTED BY:**   Paul Casey, Acting Public Works Director

**APPROVED BY:**     City Administrator's Office

# ATTACHMENT 1



**VICINITY MAP**  
**City Property**  
**319 West Hayley Street**  
**APN 037-192-012**

**319 West Haley Street**

**Purchase Price (May 1990) \$850,000**

- **SBCAG Contribution to purchase \$573,057**
- **City Contribution to purchase \$276,943**

**Property appraisal (10/11/07) \$640,000**

**Per Agreement, SBCAG due 1/2 difference between contribution and appraised fair market value (\$850K – \$640K = \$-210K) -\$105,000**

**Parking lease revenue due SBCAG \$223,697 + Int.**

- **Interest from 1991 to 2006 est. \$69,134**
- **Total parking lease + est. int. = \$292,831**

**Total owed SBCAG (\$573K - \$105K + \$293) = \$760,888**

**Other:**

- **RDA has no interest in the parcel at this time**
- **There are no approved projects for the site**

**Unknowns**

- **HazMat remediation (if discovered in Ph II study)**