



CITY OF NEWPORT BEACH FINANCE COMMITTEE STAFF REPORT

Agenda Item No. 5A
October 10, 2019

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Seimone Jurjis, Community Development Director
949-644-3200, sjurjis@newportbeachca.gov

SUBJECT: USE OF CITY PROPERTY AT LESS THAN FAIR MARKET VALUE

SUMMARY:

The Finance Committee is charged with a variety of tasks including, but not limited to, reviewing and monitoring issues that may affect the financial status of the City of Newport Beach ("City"), and making recommendations to the City Council regarding amendments to financial policies. The purpose of this presentation is to review agreements for use of City-owned real property, which have rents set at less than open fair market value.

At the March 14, 2019, Finance Committee meeting, Council Member Brenner requested a report regarding the value of the properties rented for charitable purposes and expressed a desire to see a Finance Policy on how often the City should conduct a market analysis of the leased properties. Chair O'Neill recommended an item be placed on a future agenda to discuss a potential F-Policy update and requested a discussion with Community Development Department staff.

RECOMMENDED ACTION:

Review the list of properties and agreements with less than open fair market value rent, and provide input to staff.

DISCUSSION:

The City owns or holds in trust a portfolio of real property assets, both income and non-income producing. The income producing properties vary in use and include residential developments, restaurants, yacht basins, commercial marinas, office space, tidelands, and telecommunications sites. The non-income producing properties in the portfolio include parks, open space, beaches, and municipal use properties like fire stations and libraries.

The real property portfolio is managed pursuant to City Council Policy F-7, Income Property (“Policy”) (Attachment A), which requires third parties using City-owned real property to be charged fair market value (“FMV”) rent. The Policy considers circumstances in which a property may be used for charitable or other public uses, and collecting FMV rent is not feasible or would outweigh other benefits. In such instances, the City Council shall make certain findings, outlined in the Policy, Section F, numbers 1 through 7.

FMVs are based on a number of different factors that are different for each property. They include but are not limited to the zoning, location, parking availability, similar comparable properties, age of improvements, or revenue generation. The FMV of a property is established by a certified appraiser with expertise or knowledge of the type property being appraised.

For discussion purposes, City staff obtained an appraisal report from an MAI (Member Appraisal Institute) certified appraiser for the Boys’ and Girls’ Club (“BGC”) property at Eastbluff Park, 2555 Vista Del Oro (Attachment B). The BGC holds a long-term lease from the City. They pay no monthly rent, but the FMV of the lease has been appraised at \$55,800 per year. This is significantly less than the FMV that would be calculated for an equivalent office building. The reason for the difference in FMV is the BGC property is zoned Parks and Recreation (PR). PR zoned properties are limited in their use and, hence, have a lower FMV than a property zoned for commercial office use. The BGC originally leased the property from the City in 1971, constructed the building and gymnasium, and in exchange for a \$1.00 per year lease, operated a boys’ club (later updated to include girls) with the facility also serving as a community center available for programming by the City’s Recreation and Senior Services Department. The City Council approved a new lease in 1998, with rent and use terms similar to the previous agreements – including the less than FMV rent, as the facility was continuing to provide a service to the community.

Properties Below Fair Market Value

An inventory of existing agreements for use of City-owned or managed real property, with rent set at less than FMV is provided as Attachment C. The document estimates the equivalent FMV rent for each property. This was established based on existing appraisal reports, or if an appraisal report was not applicable then staff provided an estimate.

Staff requests the Committee review the information presented, and provide input and direction to staff.

Prepared and Submitted by:

/s/ Seimone Jurjis

Seimone Jurjis

Community Development Director

Attachments:

- A. City Council Policy F-7, Income Property
- B. Appraisal Report, Market Rental Value Study for Newport Beach Boys and Girls Club Facility, prepared by R.P. Laurain & Associates, Inc., dated April 23, 2019
- C. Real Property Inventory of Below Fair Market Value Rent