



Inter-Departmental Communication

Office of the City Auditor

Date: April 12, 2010

To: Deb Hermann, Chair, Finance and Audit Committee

From: Gary L. White, City Auditor

Subject: Surplus City-Owned Real Property

You asked about the status of the sale of surplus city-owned real property during the General Services Department's presentation at the February 25, 2010 Business Session. We recently completed some work on this process. What we learned is provided below.

Summary

The General Services Department has created an inventory of city-owned real property and identified properties it believes are no longer needed for public use. It estimates there are about 200 city-owned properties worth approximately \$45 million that could be declared surplus and sold.¹ The city has developed a process to handle the sale of surplus real property, involving operating departments and the City Council, detailed in an administrative regulation. General Services used this process most recently to identify nine properties for the City Council to consider surplus. Ordinance 100161, declaring these properties surplus and authorizing General Services to sell them, was passed on March 11, 2010.

Work Performed

We interviewed General Services Department staff, reviewed documents and data they provided, and watched presentations they made to the Planning and Zoning Committee and at a City Council business session. We reviewed the city charter and the city's administrative regulation 3-07 which outlines the process for selling city-owned real estate no longer needed for public use.² We also reviewed the request for bids the city issued in December 2009 to try to sell retired fire station #35 at 5005 Swope Parkway. The scope of work performed does not constitute an audit under Government Auditing Standards.

¹ The City Auditor's Office did not verify these estimates.

² AR 3-07 went into effect on January 7, 2009. It covers the sale of city-owned real property with the exception of Parks and Recreation property.

Background

The General Services Department, formed in 2007, is responsible for city-owned property management. The department compiled an inventory of city-owned real property and identified potentially surplus properties the city could consider selling. General Services estimates there are about 200 city-owned properties worth approximately \$45 million that could be declared surplus and sold. General Services staff told us that the city has sold only one property since 2007.³

The process for declaring city-owned real property as surplus begins with General Services identifying property that appears to no longer be needed for public use, asking all department directors for feedback on the city's need to retain the property, and getting approval to sell the property from the controlling department.⁴ General Services periodically prepares a report containing information about several potentially surplus properties, which they send to all department directors. They request the department directors review the information and sign off on a statement that their department has no need for the properties. If a department director does not think a property should be sold, General Services requests a brief statement describing the director's objection(s).

AR 3-07 allows General Services to continue the process to dispose of the property if they have not received an objection within two weeks of sending the report to the department directors. However, General Services must receive approval from the controlling department before proceeding. If there are no objections, General Services prepares an ordinance to take to the City Council to declare the property surplus and authorize General Services to put the property up for sale. If the ordinance passes, staff prepares a request for bid or a request for proposal. The request for proposal or bid will state a minimum bid, which is the sum of the appraised value of the property and administrative costs of selling it.⁵ Bids or proposals will be evaluated against the minimum bid. If several bids are received, the city will consider its favored use in the evaluation of the bids.

While AR 3-07 does not require it, General Services staff said their practice will be to take the bids or proposals back to the City Council to decide which bidder or proposer the property will be sold to based on the bid amount and the proposed use of the property. AR 3-07 states the director of general services will consult with the finance director to determine the proper dispersal of the proceeds from the sale. General Services staff has said that sale proceeds will either be deposited into the general fund or remitted back to the controlling enterprise department.

³ Resolution 070295, adopted March 15, 2007, authorized the director of city development to offer the property for sale. The General Services Department completed the sale in December 2008.

⁴ AR 3-07 defines the controlling department as the department for whom the property was acquired and/or for whose benefit the property is currently being held.

⁵ If staff estimates the property is worth less than \$5,000, an appraisal is not required.

Results

In 2009, General Services staff prepared two reports listing city-owned properties they believed were surplus, and sent the lists to department directors to review. General Services' first report included 15 properties they considered to be surplus. Staff said only 2 of the 15 properties were considered surplus after the department directors reviewed the list. In October 2009, General Services presented those two properties to the City Council to declare them surplus and give General Services authority to put them up for sale. Ordinance 090869, passed October 22, 2009, authorized General Services to offer two properties for sale – retired fire station #35 at 5005 Swope Parkway and a vacant property at 4520 Benton Boulevard.

General Services sent a second report to department directors on September 28, 2009, which listed ten potentially surplus properties. After department directors reviewed the list and controlling departments agreed the properties could be sold, General Services staff presented nine of the properties to the City Council to be declared surplus. Ordinance 100161, passed March 11, 2010, authorized General Services to offer these nine properties for sale.

General Services has not sold any property since AR 3-07 became effective in January 2009. In December 2009, the city issued an invitation for bid to sell the retired fire station #35 at 5005 Swope Parkway. Staff told us this was the first property offered for sale since General Services was made responsible for managing city-owned real property. When the city received no bids for the property, General Services reissued the invitation for bid. The second invitation for bid also did not result in any bids. General Services told us the city manager directed them to consider any offers, even if they were below the appraised value. As of March 16, 2010, the city had not received any offers to buy the property.

If you have any questions, please contact me at 513-3320.

cc: Mayor Mark Funkhouser
Members of the City Council
Troy Schulte, Acting City Manager
Gerald Smith, Director of General Services