



CITY OF SAN MATEO

City Hall
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Agenda Report

Agenda Number: 2

Section Name: {{section.name}}

File ID: {{item.tracking_number}}

TO: City Council

FROM: Drew Corbett, City Manager

PREPARED BY: City Manager's Office

MEETING DATE: May 04, 2020

SUBJECT:

Disposition of the Property Jointly Owned by the City Attorney and the City of San Mateo

RECOMMENDATION:

Direct the City Attorney to proceed with the sale of the property jointly owned by the City Attorney and the City of San Mateo to a third party, with the proceeds being split between the City Attorney and the City of San Mateo based on the original agreement, as modified as requested by the City Attorney.

BACKGROUND:

When current City Attorney Shawn Mason (Mason) was hired in 2003, the City Council agreed to an equity sharing agreement. Under the agreement, which is included as Attachment 1, Mason funded 47.4% of the purchase price of a home in San Mateo, and the City agreed to fund the remaining 52.6%. The agreement provides for a number of ways by which it can be terminated. One of these is the failure of Mason to occupy the property as his principal place of residence for a period of 90 consecutive days. Mason has moved out of the home as of April 8, 2020, and as such, under this term of the agreement, the agreement shall be terminated on July 7. The agreement also provides for Mason to have the option to purchase the property within 120 days of the date of termination. Should Mason opt to waive his right to purchase the property, the City then has the option to purchase the property. Should the City opt to purchase the property, it would need to purchase Mason's 47.4% interest in the property. Mason has informed the City Manager in a letter (Attachment 2) that he is not interested in purchasing the property.

Based on the agreement, because Mason has waived his purchase option, the City has 30 days from the date of the letter (April 30, 2020) to determine if it wants to purchase Mason's interest in the property and retain the property for its purposes or whether it wants to sell the property and split the proceeds with Mason based on the original funding split. Because the property is an asset that is accounted for in the City's financial records (Property and Liability Insurance Fund), it is appraised annually. The most recent appraisal from June 2019 established the fair market value at \$1.78 million.

The agreement describes the relative initial capital contributions made by Mason and the City. The equity share of each party is calculated based upon the initial capital contribution made by the parties toward the purchase price of the home (\$865,000). The agreement provides that the parties acknowledge that the property was being purchased with some deficiencies and that Mason would pay \$10,000 toward correcting the deficiency. This \$10,000 was then applied to the Mason's initial contribution to calculate his equity share of 47.4%.

The deficiency in the home was based upon an inspection performed at the time the home was purchased of a fireplace chimney that needed repair. Mason chose not to use the fireplace over the last 17 years, and it was not repaired. (The chimney was recently inspected in preparation for sale and the inspector noted that repairs could be accomplished for less than \$900.) As a result, Mason requests that the Council approve recalculation of the equity share to remove the \$10,000

capital contribution that was not made. This will result in an increase in the City's equity share from 52.6% to 53.22% and a corresponding decrease in the Mason's share from 47.4% to 46.78%.

Because the City does not own and maintain other residential properties, it is recommended that the City Council waive its option to purchase the property and instead agree to sell the property and split the sale proceeds between Mason (46.78%) and the City (53.22%). If the City Council agrees to sell the property, Mason requests the following from Council:

- 1) Approve the sale of the home by a realtor and approve the retention of Mason's realtor, Sam Hesslegren of KW Peninsula Estates, for this purpose;
- 2) Agree upon \$1.8 million as the fair market value for the property. Establishing this amount will hopefully avoid having to seek re-appraisal of the property and Council approval of a different fair market value should market conditions change.
- 3) Agree to modify the equity shares of the parties by increasing the City's share to 53.22% and reducing Mason's share to 46.78%.

BUDGET IMPACT:

Should Council opt to sell the property and assuming it sells at fair market value, the City's gross share of the sale proceeds would be approximately \$957,960. These funds would remain in the Property and Liability Insurance Fund and could be used to reduce annual General Fund contributions to this Fund to cover the cost of claims and insurance. Should Council opt to retain the property as an asset of the City, it would need to purchase Mason's 46.78% interest in the property, which would be \$842,040.

ENVIRONMENTAL DETERMINATION:

This action is not a project subject to CEQA, because it is an organizational or administrative activity that will not result in direct or indirect physical changes in the environment. (CEQA Guidelines Section 15378(b)(5).)

NOTICE PROVIDED

All meeting noticing requirements were met.

ATTACHMENTS

Att 1 - Equity Sharing Agreement

Att 2 - Letter from Mason to Corbett

STAFF CONTACT

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