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P-381.1

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

This letter provides the information you requested on the Department of Parks and Recreation's (DPR) Candlestick Point State Recreation Area parking lease. We gathered this information during our current review of the DPR's property management practices.

The Department of General Services' Office of Real Estate Services (ORES) awarded the present parking lease at Candlestick Point State Recreation Area in accordance with the provisions of the State Administrative Manual. In addition, the lessee is reporting and remitting the correct amount of revenue to the State. However, the lessee is using property that is not included in the new lease and that is not covered by insurance. As a result of our review, the ORES land agent stated that he is amending the lease to incorporate additional parcels into the parking lease and to update the insurance coverage for the property.

Background

Government Code Section 14670 allows the Director of the Department of General Services (DGS), with the consent of the agency concerned, to lease state property if the director deems it is in the best interest of the State to do so. Under the terms of an interagency agreement in effect until June 30, 1984, the DGS's Office of Real Estate Services (ORES) is responsible for negotiating the terms of and executing lease agreements for the use of some property belonging to the Department of Parks and Recreation (DPR). The ORES is also responsible for enforcing the terms of the lease, collecting delinquent rents, and at the request of the DPR, providing maintenance on the property. Property managed by the ORES includes certain parcels in Candlestick Point State Recreation Area (SRA) that are being used to provide parking for sports events held in the Candlestick Park Stadium.

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The individual who holds the current parking lease at Candlestick Point SRA also held the parking lease from April 1, 1976, through July 31, 1982. The lessee is operating under a new business name in the new lease period. The current parking lease took effect on August 1, 1982, and expires on July 31, 1985. The property under lease may be used for parking during all scheduled San Francisco Giants and San Francisco Forty-Niners games and all other activities generating parking on the leased premises. The lessee submits all revenue reports and lease payments to the DPR's accounting office. The DPR's accounting office contacts the ORES in case of delinquent rents so that an ORES land agent can collect the delinquent rent.

We reviewed the method that the ORES used to conduct competitive bidding for the new parking lease to determine whether the ORES carried out the bidding process as required by the State Administrative Manual. We also reviewed the parking lease to determine the payment terms, the restrictions on the use of the land, and the actual property included in the lease. In addition, we reviewed the DPR's accounting records for July 1, 1983, to December 31, 1983, to determine whether the lessee complied with the rental payment terms. Finally, we reviewed the results of the audit addressing the financial aspects of the lease performed by the Department of General Service's Office of Program and Compliance Evaluation. We also examined the aerial photographs that the ORES uses to monitor the lessee's parking reports. We have discussed the contents of this letter with officials from the DPR and the ORES.

The ORES Followed State
Contracting Requirements in
Awarding the New Parking Lease

The ORES began the competitive bidding process on a new parking lease at Candlestick Point SRA in June 1982. The new parking lease was signed on August 1, 1982. The previous lease, in effect from April 1, 1976, to March 31, 1981, had been carried over on a month-to-month basis until July 31, 1982, as provided for in the lease. The previous lease required the lessee to pay the State an annual rental of \$30,000 plus 60 percent of the gross receipts over \$80,000 each year less the San Francisco parking tax. A senior ORES land agent stated that the ORES continued the parking lease until the DPR decided which property would be available for parking and which property would be developed for the state park.

Eleven interested parties responded to the advertisement for the new parking lease at Candlestick Point SRA. Only five of the parties submitted bids. The bids would compensate the State from 50 percent to

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91.6 percent of the gross revenues less the 15 percent San Francisco parking tax. The ORES awarded the new parking lease to the bidder offering the highest rental payment to the State, in this case, 91.6 percent of the adjusted gross income. This bidder turned out to be the holder of the previous parking lease, although the new lease is under a new business name. In conducting the bidding process, the ORES adhered to the requirements of the State Administrative Manual.

The Lessee at Candlestick
Point State Recreation Area
Is Complying With the
Terms of the New Parking Lease

Our review of the lessee's reports and the DPR's accounting records showed that the lessee complied with the reporting requirements of the lease. However, the lessee did not submit the lease payments by the required date during the period of our review, July 1, 1983, to December 31, 1983. A senior ORES land agent stated that the DPR's accounting office notifies the ORES when the lease payment is overdue by at least one month. By that time, the lessee has usually made the lease payment. The lessee's average payment between July 1983 and December 1983 was approximately \$27,800 per month. The lessee made these payments from 4 to 34 days late. He made most of the payments within 15 days of the due date.

In July 1983, the ORES requested that the Department of General Services audit the lessee's financial records to determine if the lessee was complying with the financial terms of the parking lease. The audit, performed in November 1983, included a count of the number of cars parked on a chosen day. To count the cars, the auditor used aerial photographs of the parking lot taken on the opening day of the 1983 regular football season. (The ORES, which requested the aerial photographs, did not tell the lessee that the photographs would be taken.) The photographs showed the entire parking area at two times during the day. The auditor counted the cars shown in the photographs and then compared his count to the number that the lessee reported to the ORES. The Department of General Services' audit report indicates that the lessee complied with the financial terms of the parking lease and had sufficient accounting controls to ensure that the correct amount of revenue was reported and remitted to the State.

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The Lessee Has Been Using
State Property Not Included
in the Current Parking Lease

We examined the aerial photographs mentioned above as well as other aerial photographs taken during the period of the parking lease. We found that the lessee has been using state property that was not covered by the terms of the parking lease. Moreover, we found no evidence in the lease file that this property was covered by insurance from August 1, 1982, to December 31, 1983. There was also no evidence of insurance coverage for the current year, 1984.

Certain parcels of land that had been included in the previous parking lease, in effect from April 1, 1976, to July 31, 1982, were excluded from the current lease. In preparing the new parking lease, the DPR instructed the ORES to exclude these parcels because the property was scheduled to be landscaped. By a verbal agreement with the lessee, the DPR allowed the lessee to use these parcels for parking until the landscaping begins. (As of May 16, 1984, the property had not been landscaped.) The lessee pays for the use of this property based on the payment terms in the parking lease. Consequently, the DPR receives income from the use of the property.

The DPR's regional land agent told us that the lessee was allowed to use the property to handle overflow parking during popular sports events. The ORES land agent also said that, according to the Government Code, some of the property could not be written into the lease without the consent of the DPR. The DPR expects the landscaping to begin early this summer.

The lessee is also using other property that was not included in the previous lease. This property, which is adjacent to the presently leased property, was owned by the City and County of San Francisco and was transferred to the State in January 1984. However, the ORES did not amend the parking lease in January to include this property in the state lease. Through a lease with the City and County of San Francisco, the lessee had been using this property for parking before the transfer of ownership in January 1984.

Although the lessee has been using property for parking that is not included in the parking lease, our examination revealed that the lessee has reported and remitted the revenue earned and due the State from all of the property used for parking. In addition, as a result of our review, the ORES land agent stated that he is amending the current

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parking lease to include all property now being used for parking, except for the property scheduled for landscaping. Finally, the ORES land agent stated that the lessee now has a comprehensive business insurance policy to cover all of his parking facilities for the current year. At the time of our review, the ORES land agent had not yet received a certificate of insurance from the lessee's insurance company.

Sincerely,



for THOMAS W. HAYES
Auditor General