OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: July 6, 2007 **IBA Report Number:** 07-67

Land Use & Housing Committee Date: July 11, 2007

Item Number: 2

Subject: Revisions to Council Policy 700-10, Disposition of City-Owned Property

OVERVIEW

The Land Use & Housing Committee will be reviewing proposed changes to Council Policy 700-10, Disposition of City-Owned Property, at their July 11, 2007 meeting. It has been previously noted that the policies on the sale and leasing of City-owned property are woefully outdated. The Real Estate Assets Department has commissioned and received a study on Best Practices Methodology by Grubb & Ellis ("Grubb & Ellis study") with the goal of developing a new business model. The report noted that "the organization lacked the authority to manage its portfolio, and instead made small individual transactions to provide services as best it could." The revised policy is the first step in improving the City's portfolio performance and management.

It should be noted that this policy will not change current leasing practices for Balboa Park, Mission Bay, and/or Nonprofit organizations, as they are governed by their own policies:

- Balboa Park Uses and Occupancy (Council Policy 700-04)
- Mission Bay Park Policies (Council Policy 700-08)
- Disposition of City Property to Nonprofit Organizations (Council Policy 700-12)

As discussed during the June 13, 2007 LU&H Committee meeting, these specialized leasing policies will undergo review in the near future and possible revisions will be brought forward to the appropriate stakeholders, affected community groups, the LU&H Committee and the City Council.

FISCAL/POLICY DISCUSSION

Most changes to Council Policy 700-10 were prompted by the Grubb & Ellis study. A cornerstone recommendation of the Grubb & Ellis study is the development of a comprehensive portfolio plan that will be presented and approved by the City Council on an annual basis. This plan, once developed and approved, will enable batched approval of transactions and the authority to execute transactions within defined parameters. The Real Estate Assets Department will obtain pre-approval by the City Council to dispose of excess properties within certain parameters and sale terms, using a variety of sale methods at the option of the Mayor. It is important to note that the City Council retains its ability to review and approve each land sale, and will not delegate its responsibilities in this area. The City Council previously authorized the sale of seventeen parcels, utilizing this concept, at its meeting on May 21, 2007. For these parcels, a variety of sale methods are listed in the resolution. Upon reading the revised policy, it is our understanding from the language as written that the *specific* method of sale would be contained in the enabling resolution. If is intended that multiple avenues of sale be available at the discretion of the Mayor, language in the policy should be clarified to indicate that "possible methods of sale for all properties will be contained in the resolution authorizing their sale."

Council Policy 700-10 will change significantly. This seems appropriate; since it is well-documented that the old policy was ineffective. Although the revised policy makes reference to the portfolio plan, the term is not defined in the policy. The policy permits certain transactions to be executed by the Mayor, if it meets the terms of a Council-approved portfolio plan. Since a portfolio plan does not currently exist, it seems that each of these transactions would require City Council approval in order to be executed. The portfolio plan should be defined in the context of the revised policy.

Although approval of the portfolio plan is not necessary for the Council Policy to be approved, the IBA has concerns about the timing of when the overall portfolio plan will be developed and presented to Council. Without this, it would seem that individual "batched" transactions would occur, and Council may be unable to determine if these transactions meet the overall goals of the plan. It is acknowledged that development of the portfolio plan is a large endeavor and will take time to complete. It is recommended that the Real Estate Assets Department develop a time frame for its development and determine when it is expected that City Council approval of the portfolio plan will be requested.

Another proposed change to Council Policy 700-10 appears to eliminate a review process by various commissions and committees. The process was previously required in order to determine the ability to utilize City-owned land for future public facility needs, before land was deemed excess and marketed for sale. The revised policy attempts to streamline this process, but concerns have been expressed as to whether adequate review by all

concerned City departments, agencies and other government entities will take place. The Mayor's staff has indicated that this type of review will occur, and acknowledges that future needs by City departments and agencies and/or other public uses will be considered before disposition of each property is pursued. Information related to the review process should be shared at the time Council approval is sought for each sale.

CONCLUSION

Significant changes to Council Policy 700-10 have been proposed, and actual implementation is necessary to determine if these changes will be as effective and efficient as planned. The IBA suggests that a review be conducted to assess the policy's effectiveness, following a year of implementation. Possible changes or enhancements due to unforeseen consequences could be implemented at that time.

The portfolio plan is referred to in the revised Council Policy 700-10, but is not defined in the context of the policy. The IBA recommends that additional language be included in the policy to define the portfolio plan.

Although approval of the portfolio plan is not necessary for the Council Policy to be approved, the IBA has concerns about the timing of when the overall portfolio plan will be developed and presented to Council. It is recommended that the Real Estate Assets Department develop a time frame for its development and determine when City Council approval is expected.

In addition, the IBA recommends that information related to the review process of excess City land by various City departments and agencies should be shared at the time Council approval is sought for each land sale.

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