
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: September 4, 2008

IBA Report Number: 08-93

City Council Docket Date: September 8, 2008

Item Numbers: 201

Revised Council Policy 700-10, Disposition of City-owned Real Property

OVERVIEW

On Monday, September 8, 2008 the City Council will consider approving revisions to City Council Policy 700-10. If approved, the recommended revisions would significantly change the current Council Policy and provide a framework to manage the City's real estate assets. However, it should be noted that the suggested revisions to Council Policy 700-10 will not change leasing practices for Balboa Park, Mission Bay, and/or Nonprofit Organizations, as they are governed by their own Council Policies.

In 2006, the Real Estate Assets Department engaged Grubb & Ellis Corporate Services to provide a study on the best practices methodology to achieve optimal performance from the City's assets. On January 31, 2007 Grubb & Ellis delivered the report to the City of San Diego. The report noted that the "Real Estate Assets Department of the City of San Diego is in need of a new business model. Until recently, it has functioned in a stewardship role, continuing to apply methods and policies to situations as they arose, without a clear plan." The revised policy before the City Council reflects many of the best practice suggestions from the Grubb & Ellis Report.

FISCAL/POLICY DISCUSSION

On July 11, 2007 the Real Estate Assets Department presented recommended revisions to Council Policy 700-10 to the Land Use & Housing (LU&H) Committee. The LU&H Committee approved the changes to Council Policy 700-10 but recommended including eight adjustments to the policy proposed by Councilmember Jim Madaffer and the Independent Budget Analyst. With one exception, the changes approved by the LU&H Committee have been included in the strike-out version presented to the City Council as suggested by the committee. The following table lists the changes recommended by the LU&H Committee and where they have been included in the final strike-out version of Council Policy 700-10.

	LU&H Committee’s Recommended Changes	5/21/08 Strike-Out Version Page & Section
1	Add language in the Policy that requires an economic analysis of lease vs. sale be presented to Council for each property. (See below for more information on this recommendation)	Page 5, Section C
2	Require additional City department review, including Planning, and Engineering and Capital Projects.	Page 4, Section B
3	Add language that includes City Council in the Government Clearance Process allowing preliminary review by Council staff to comment on “foreseeable use” of property.	Page 4, Section B
4	Clarify the method of sale language in the enabling resolution or add language that states “possible methods of sale” will be identified in the enabling resolution.	Page 6, Section D
5	Re-number or letter entire Policy for structural consistency.	Entire Document
6	Add a definition and description of the Portfolio Plan at the beginning of the Policy (including both lease and for sale), and add language about requiring an annual Portfolio Plan presentation to the full City Council. <ul style="list-style-type: none"> a) Suggested language: “The Real Estate Assets Department shall prepare and present to the City Council a comprehensive Portfolio Management Plan on an annual basis, with periodic reviews and as-needed updates at City Council Committee. The Portfolio Management Plan shall include an overall review of the City’s real estate portfolio (or inventory), an operating plan for corporate property, a disposition plan for surplus property, market research to support anticipated transactions and a request for authority to act within defined parameters (as described in this policy)” b) The Major elements of the portfolio plan are to include: <ul style="list-style-type: none"> • Property evaluation and characterization of real estate assets 	Page 2, Policy Section

	<ul style="list-style-type: none"> • Strategy for City occupied real estate • Investment portfolio plan (Leases to For Profit Tenants) • Review of Not-For Profit leases • Disposition Plan for surplus assets • Business Case development review • Legal document development and review 	
7	The addition of an exclusionary provision in Section F. “The City reserves the right to exclude from any listing agreement the name of any buyer whose interest in a purchase of the subject property has been made a part of the record prior to the execution of such agreement”.	Page 6, Section F
8	Require Council review in one year for effectiveness of Policy changes.	Page 2, Policy Review Section

Recommended revisions requiring clarification on intent and impacts to the City

For the following two revisions the IBA recommends that the City Council request additional information on the intent and impacts of the changes during the Council hearing:

- One of the approved LU&H revisions to Council Policy 700-10 was the requirement that an economic analysis be completed for **each** property to be sold. However, the language included in the final strike-out version states (below, in bold) that an economic analysis will occur for the type and location that would make a ground lease feasible. It is unclear if the language included in the final strike-out version limits the scope of properties requiring an economic impact prior to sale.

“City-owned properties that have been identified by the Mayor as candidate for sale will be presented to Council for approval to be sold. If a property **is of a type and location that would make a ground lease feasible**, an economic analysis of the benefits of lease vs. sale will be conducted.” **Page 5, Section C**

- In Section H, Rezoning, staff recommends including language that gives the City the option of rezoning City land in accordance with the General Plan or community plans other City Council direction **if a higher price will result**. Under the current Council Policy, the City must rezone the land prior to completion of the sales transaction. It is unclear who would decide to rezone or

not (Real Estate Assets or Development Services), and how this decision would be communicated to the City Council.

“Prior to completion of the sales transactions, City land shall be rezoned in accordance with the General Plan, existing community plans or other City Council direction **if a higher sale price will result.**” **Page 7, Section H**

CONCLUSION

Overall the IBA supports the recommended revisions by the Mayor and the LU&H Committee to Council Policy 700-10. However, we do recommend that the intent and impact of the revisions in the “Recommended revisions requiring clarification on intent and impacts to the City” section of this report be clarified at the City Council hearing. If approved, the recommended revisions would provide a framework to manage the City’s real estate assets using best practices methodology to achieve optimal performance.

[SIGNED]

Jeffrey Sturak
Fiscal & Policy Analyst

[SIGNED]

APPROVED: Andrea Tevlin
Independent Budget Analyst