

Proposed Response to Grand Jury Report:

“City of San Diego’s Real Estate Assets
Department Leasehold Management Has
Weaknesses”

IBA Report 17-10

SG&LU Committee, Item 6
March 15, 2017



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This Grand Jury report discusses issues related to the Real Estate Assets Department's leasehold management practices

- Filed by Grand Jury on December 13, 2016
- Includes 4 findings & 3 recommendations directed to the City Council
- IBA's Office worked collaboratively with the READ to develop a proposed Council response
- Response due to the Superior Court Presiding Judge by May 1, 2017

Prescribed Grand Jury Responses

- For each Finding:
 - Agree
 - Disagree wholly or partially
- For each Recommendation:
 - Has been implemented
 - Has not yet been implemented, but will be
 - Requires further analysis
 - Will not be implemented because it is not warranted or is not reasonable

Highlights of Finding 01

The lag in renewing expired leases does not allow the City to maximize its revenue potential on leased properties and prevents lessees from developing secure, long-term plans

Proposed Response: **Partially Disagree**

- Backlog does create potential for inefficient management, but READ works to mitigate this and to take into account additional considerations
- Over half of City leases are held by non-profit entities that provide services to the City or to City residents; these leases do not generate significant revenue. Leases that *do* generate revenue are prioritized over leases that do not
- Some leases are kept in hold-over or month-to-month status to allow the City flexibility in future operations – examples include Naval Training Center (NTC) property and DeAnza Cove

Highlights of Finding 02

READ's inability to bring the backlog of expired leases current demonstrates a lack of adequate resources.

Proposed Response: **Partially Disagree**

- READ added two positions in FY 2017 – an Associate Property Agent and a Property Agent
- These positions are now working on priority assets and reducing the number of agreements in holdover status
- READ believes it now has adequate resources to manage its lease portfolio

Highlights of Finding 03

A policy for time-sensitive issuance of RFPs would promote fairness and accountability

Proposed Response: ***Partially Disagree***

- Many factors impact prioritization of RFP issuances, and a standardized timeframe may not be realistic or efficient given the large variety of property types READ manages
- READ works towards the goals of both maximizing City revenue and providing future real estate needs for the City departments; these goals have different timelines associated with them
- Uses for leased properties can change – examples again include NTC property and DeAnza Cove – and appropriate timelines will vary depending on the changes in use



Highlights of Finding 04

Council Policy 700-10 is too rigid and needs revising, and Council Policy 700-12 is outdated, preventing READ officials from making sound leasing decisions that accurately reflect current economic conditions

Proposed Response: **Agree**

Highlights of Recommendation 07-01

Within fiscal year 2018, provide resources to the Real Estate Assets Department – either additional personnel or through outsourcing – to develop a proactive strategy for bringing held-over nonprofit and for-profit leases current

Proposed Response: ***The recommendation has been implemented***

- READ added staff in FY 2017, and is on track to reduce number of leases in hold-over status from 27% in FY 2016 to 25% in FY 2017, with a target of 20% for FY 2018
- A goal of 0% of leases in holdover status is unrealistic and limits the City's flexibility related to future needs

Highlights of Recommendation 07-02

Direct the Real Estate Assets Department to establish, within fiscal year 2018, a standard time frame for issuing RFPs on expiring leases

Proposed Response: ***The recommendation will not be implemented because it is not warranted***

- As noted in response to Finding 03, a standard timeframe is not realistic given the variety of property types managed by READ
- Many properties have unique circumstances that lead to site-specific timelines – hotels, parks, museums, etc
- READ did issue a portfolio management plan in 2016 that includes an overall strategy for City occupied real estate and a disposition plan for surplus properties

Highlights of Recommendation 07-03

Work within the Real Estate Assets Department to revise and update Council Policies 700-10 and 700-12 within fiscal year 2018

Proposed Response: ***The recommendation has not yet been implemented, but will be.***

- READ is in the process of updating these Council policies, and plans to present them to Council for consideration and adoption by June 30, 2017

Next Steps

We request that the Smart Growth & Land Use Committee provide feedback on the proposed response, in advance of it being considered by the full City Council