Hotline Report of the City's Lease with Barnes Tennis Center

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Conclusion 1

Numerous violations of lease, permitting, environmental requirements, and grant terms occurred.

Conclusion 2

No code enforcement on City-owned land has occurred, which has allowed violations to persist.

Conclusion 3

Lease amendments appear to be necessary, which could significantly increase revenue to the City.

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Hotline Report of the City's Lease with Barnes Tennis Center

Fraud Allegation

OCA received a Fraud Hotline allegation regarding the City's lease with the Barnes Tennis Center alleging that the lessee illegally graded an undeveloped area of the leasehold, covered it with gravel, and used it for parking.

Investigative Conclusions

Our investigation determined that the allegations of illegal grading and other violations were substantiated.

Conclusion 1: Numerous violations of lease, permitting, environmental requirements, and grant terms occurred.

- In 2024, the City ordered the lessee to immediately stop parking in an area that the lessee had illegally graded in violation of lease terms, permitting requirements, and environmental laws.

Exhibit 2: Neighbors Complained Using Signs About the Unpaved Parking Lot in 2023

Source: Image obtained from City site visit inspection report dated September 28, 2023.

- Despite this directive, we found that the lessee has been continuously using the area for parking since illegally grading the area in 2022.
- Nearly a year after the City's directive, the lessee sent a reply letter falsely asserting the area had been routinely used for parking since 1994 and proposing only to address required permits as part of new lease negotiations. The current lease expires on June 30, 2029.
- The eight contractual, regulatory, and other violations we identified include violations of:
  - San Diego Municipal Code;
  - Existing lease terms;
  - Conditional Use Permit;
  - Environmental Impact Report;
  - California Coastal Commission regulations and permit requirements;
  - State grant and funding agreement requirements;
  - Ocean Beach Community Plan; and
  - Stormwater Best Management Practices.

Exhibit 3: Before: Parcel A Was Not Used for Parking Prior to July 14, 2022

Source: OCA generated based on Google Earth image captured July 14, 2022.

Exhibit 5: Again: Parcel A Was Illegally Graded a Second Time Prior to June 20, 2023

Source: OCA generated based on Google Earth image captured June 20, 2023.

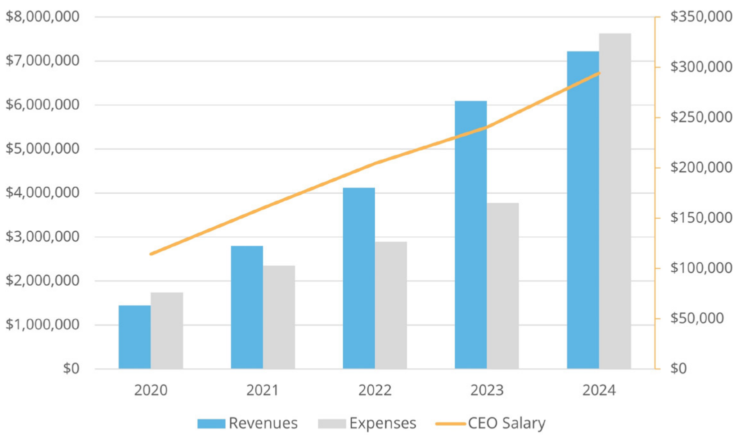
Conclusion 2: No code enforcement on City-owned land has occurred, which has allowed violations to persist.

- Although City staff evaluated the grading and determined that it was illegal, City representatives stated that the City does not formally investigate or take enforcement action against City lessees as it would for violations on private property.
- A Notice of Violation was never issued, and fines were not imposed.
- We were unable to identify a legal prohibition against enforcing building and land use code violations on City-owned property, and there is no City policy requiring this disparate practice.

Conclusion 3: Lease amendments appear to be necessary, which could significantly increase revenue to the City.

- Our investigation found that the lessee's revenues have increased roughly 400 percent between 2020 and 2024, reaching over $7.2 million in 2024.

Exhibit 11: Annual Revenues and CEO Compensation Have Been Growing



Source: OCA generated based on IRS Form 990s.

- The current 35-year flat-rate lease from 1994 requires an annual payment of only $600 per year, is not adjusted for inflation or any other factor, and does not include a percentage of gross revenues.
- Newly revised City policies provide mechanisms to recover a portion of a nonprofit's gross revenues and evaluate whether the nonprofits public benefit is commensurate with the lease subsidy related to newly-issued or amended leases.

What OCA Recommends

We make three recommendations to address the numerous violations by the lessee, and to ensure the City receives adequate compensation for the property in the future.

Key recommendation elements include:

- Requiring the lessee to comply with regulatory requirements, the Ocean Beach Community Plan, and State grant provisions;
- Potentially amending or terminating the existing lease and Conditional Use Permit;
- Creating a Citywide policy regarding Building and Land Use Enforcement Division investigations and enforcement procedures involving City-owned properties;
- Determining (upon lease amendment or new lease issuance) the current market rate rent versus the existing flat rate related to the leasehold based on the Barnes Tennis Center's operations and issuing a memorandum to the City Council describing the activity, the City's revenue recovery percentage (if any), and a determination whether a public benefit related to each activity exists that furthers a specific public policy; and
- Based on the market rate determination above, ensure that the difference between the current market rate and the proposed lease terms are commensurate with the public benefit determination.

Management agreed with all three recommendations.

For more information, contact Andy Hanau, City Auditor, at (619) 533-3165 or cityauditor@sandiego.gov.

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Summary

We received a Fraud Hotline report regarding the City's lease with the Barnes Tennis Center, which is operated by the nonprofit organization Youth Tennis San Diego (lessee). Our investigation substantiated several violations by the lessee, including lease terms, permitting requirements, environmental regulations, and grant terms. We also identified deficiencies in City Code Enforcement practices on City-owned land. Additionally, the current flat rate lease structure from 1994 no longer reflects the scale of commercial activities and substantial revenues generated by the lessee and should be updated.

The Barnes Tennis Center has undergone significant expansion in recent years, including the addition of pickleball and padel courts, and major tenant improvements funded in part through a $2.5 million State grant that the City advanced to the lessee in 2023 (to date, the City has only received approximately $260,000 from the State). The evidence we obtained shows that the lessee illegally graded an area of the leasehold known as Parcel A and converted it into a gravel parking lot beginning in 2022, without required permits, despite longstanding community planning documents identifying the area for future park use. The lessee has continued to use the area for parking even after the City's 2024 written directive to discontinue parking "immediately."

Enforcement actions proved ineffective. Although City staff confirmed the grading was illegal and documented multiple violations—including the lease terms, Conditional Use Permit, Environmental Impact Report, Coastal Commission requirements, and stormwater regulations—formal Code Enforcement procedures were not initiated because the violations occurred on City owned property and the City does not enforce violations on City property. This practice, which lacks a clear legal or policy basis, resulted in the absence of penalties, deadlines, or consequences. The lessee's delayed and non compliant response further underscores the need for more enforceable Citywide policies for lease oversight and Code Enforcement on City property.

Our summary financial analysis determined that the lessee's revenues increased roughly 400 percent between 2020 and 2024, exceeding $7.2 million in 2024, while lease payments remain at a nominal $600 per year under the decades old agreement that does not expire until June 2029. New City policies implemented since 2025 allow newly negotiated nonprofit leases to incorporate cost recovery mechanisms and revenue sharing provisions, offering an opportunity to modernize terms, increase transparency regarding rental rates as compared to market rates, and ensure that the public benefit is commensurate with the subsidy provided through below market lease rates for new or amended leases.

Overall, the investigation concluded that the Fraud Hotline allegations were substantiated. The lessee engaged in unpermitted grading, continued unauthorized use of Parcel A as a parking lot, and asserted inaccurate claims regarding historical use of the leasehold for parking. Gaps in City enforcement procedures allowed violations to persist, and the outdated lease structure no longer reflects the lessee's operational scale or financial capacity. The report recommends actions to strengthen enforcement, ensure regulatory compliance, and update lease terms to align with revised City policies and community planning goals. (See **Appendix B** for a timeline of key events related to the Barnes Tennis Center).

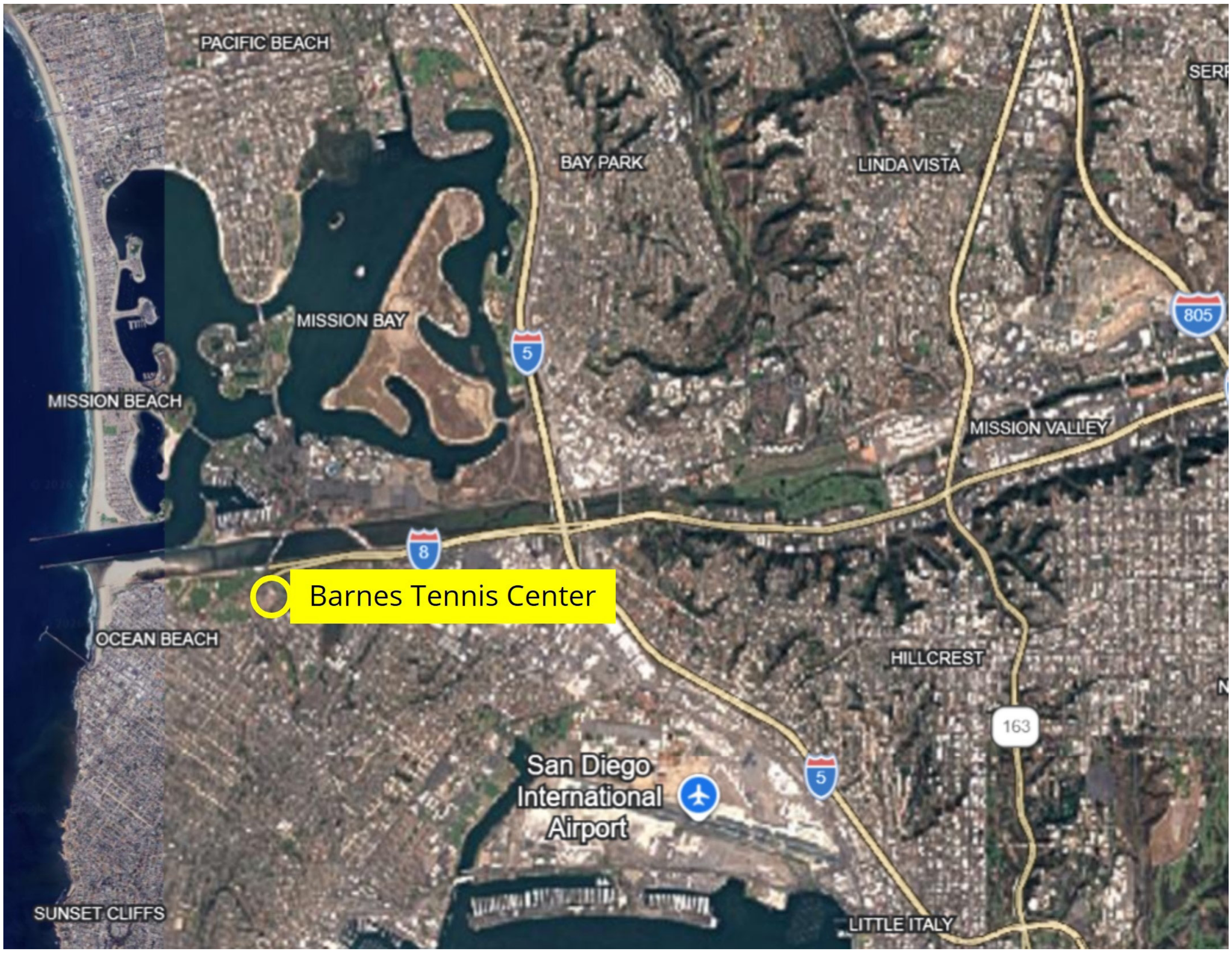
Background

As shown in **Exhibit 1** below, the Barnes Tennis Center is located in the Ocean Beach community, and is just south of the San Diego River. The address of the leasehold is 4490 West Point Loma Boulevard, at the northeast corner of Nimitz Boulevard and West Point Loma Boulevard. The 12.6-acre site is zoned Agricultural-Residential (AR-1-1), is in the Coastal Overlay Zone, and the Ocean Beach Community Planning area. A Conditional Use Permit to develop the site and operate it was issued in 1989 (which was amended in 2008).

According to City records, Youth Tennis San Diego (YTSD) was formed in 1956 as a 501(c)(3) nonprofit public benefit corporation, and the Barnes Tennis Center was established in 1997. The stated public purpose of YTSD is to promote the educational, physical, and social development of all youth through organized tennis and educational activities.

Exhibit 1

The Barnes Tennis Center is Located in the Ocean Beach Community



Source: OCA generated based San Diego Association of Governments image from 2023.

The nonprofit organization, Youth Tennis San Diego (lessee), currently operates the facility under a 35-year flat-rate lease[1] that was signed in 1994. The initial concept for the facility was authorized by the City Council in 1986 to "promote youth and junior tennis in San Diego County."

The annual rent is $600 per year (which was the standard rental rate for nonprofits lessees at the time), is not adjusted for inflation, and does not include a percentage of gross revenues. The lease notes that, as additional consideration, the lessee agreed to develop the leasehold (which at the time was undeveloped land).

- Between 1995 and 1997, the site was developed to include 25 tennis courts, basketball courts, volleyball courts, and an 11,515 square-foot building.
- In 2008, the site was expanded to include an additional 4,000 square-foot education building and a playground area.
- As part of a $2.5 million State grant project that began in 2022, the lessee added 20 pickleball courts, 4 padel courts, and resurfaced 1 tennis court to create 4 of the pickleball courts (leaving 24 tennis courts), remodeled bathroom and locker room facilities, and graded a parcel of City land to use it for parking.

As currently configured, the Barnes Tennis Center has been referred to as "the Disneyland of racket sports" due to the variety of racquet sports and amenities available in one attractive coastal location. Recently, the leasehold was the site of the 2025 and 2026 USA Pickleball National Championships and hosts the USTA Billie Jean King Girls' 18s National Championships, among other tournaments.

Our investigation concluded:

1. **Numerous Violations of Lease, Permitting, Environmental Requirements, and Grant Terms Occurred:** In 2024, the City ordered the lessee to immediately stop parking in an area that the lessee had illegally graded in violation of lease terms, permitting requirements, and environmental laws. Despite this directive, we found that the lessee has been continuously using the area for parking since illegally grading the area in 2022. Nearly a year after the City's directive, the lessee sent a reply letter falsely asserting the area had been routinely used for parking since 1994 and proposing only to address required permits as part of new lease negotiations. The current lease expires on June 30, 2029. The eight contractual, regulatory, and other violations we identified include violations of:
    - San Diego Municipal Code;
    - Existing lease terms;
    - Conditional Use Permit;
    - Environmental Impact Report;

1 https://sandiego.nextrequest.com/documents/11591428

- California Coastal Commission regulations and permit requirements;
- State grant and funding agreement requirements;
- Ocean Beach Community Plan; and
- Stormwater Best Management Practices.

2. **No Code Enforcement on City-Owned Land Has Occurred, Which Has Allowed Violations to Persist:** Although City staff evaluated the grading and determined that it was illegal, City representatives stated that the City does not formally investigate or take enforcement action against City lessees as it would for violations on private property. A Notice of Violation was never issued, and fines were not imposed. We were unable to identify a legal prohibition against enforcing building and land use code violations on City-owned property, and there is no City policy requiring this disparate practice.

3. **Lease Amendments Appear to be Necessary, Which Could Significantly Increase Revenue to the City:** The lessee's illegal grading of City land to create a parking lot violated several lease terms (and may be grounds for termination of the lease), was not included in the scope of the Conditional Use Permit, was not approved by the California Coastal Commission, and is inconsistent with the approved Ocean Beach Community Plan. Also, the terms of the State grant funding agreement allow the City to amend the lease to incorporate the tenant improvements and recognize the new facilities as part of the lease. As such, the City may want to negotiate a new lease or to amend the current lease terms and include a percentage of the substantial revenues earned by the lessee from tournaments, programs, memberships, and other income-generating activities. Our investigation found that the lessee's revenues have increased roughly 400 percent between 2020 and 2024, reaching over $7.2 million in 2024. The current 35-year flat-rate lease from 1994 requires an annual payment of only $600 per year, is not adjusted for inflation or any other factor, and does not include a percentage of gross revenues. Newly revised City policies provide mechanisms to recover a portion of a nonprofit's gross revenues and evaluate whether the nonprofits public benefit is commensurate with the lease subsidy for new or amended leases.

We make three recommendations to strengthen oversight, improve compliance, modernize nonprofit lease terms, and ensure that the prospective lease is in alignment with updated City policies and community planning documents. See **Appendix E** for the department's formal response memorandum.

Investigative Conclusion 1

Numerous violations of lease, permitting, environmental requirements, and grant terms occurred.

Our investigation confirmed that the lessee illegally graded Parcel A and constructed an unpermitted gravel parking lot. The unpermitted work violated lease terms, the Conditional Use Permit, the Environmental Impact Report, Coastal Commission requirements, stormwater best management practices, and the Ocean Beach Community Plan, as well as the terms of a grant. Despite the City directing the lessee in August 2024 to discontinue parking "immediately," the lessee continued parking operations and responded nearly a year later with a letter proposing future compliance during lease renewal negotiations.

Our investigation determined that the lessee violated the terms of its lease with the City, and several other regulatory requirements, by illegally grading and covering an area to the south of the Barnes Tennis Center with gravel and using it as a parking lot.

The unpermitted grading and addition of 205 parking spaces in the area, referred to as Parcel A in lease documents, was previously identified as a park-equivalent area in the Ocean Beach Community Plan.[2] As such, it was considered ideal for future development as a park for recreational purposes.

As described below, City staff conducted several inspections of the Barnes Tennis Center over the past several years. These site inspections show that Parcel A was not used for parking purposes until relatively recently. In fact, aerial images from the Google Earth (earth.google.com) website confirm that Parcel A was not used as a parking lot prior to the unpermitted grading and installation of gravel between July 14, 2022 and August 10, 2022.

The timing of the Parcel A parking lot grading and gravel installation corresponds to a $2.5 million State grant for the lessee to "renovate primary operations buildings, add five recreational courts, and replace or repair aged infrastructure." The grant agreement requires the lessee to obtain all necessary permits and City approval for grading work. The lessee obtained permits to install a solar photovoltaic system and tenant improvements to an existing locker room and restroom. However, no grading permits were obtained.

2 Estimates for the size of Parcel A at the south end of the Barnes Tennis Center vary from one acre to three acres. The 2015 Ocean Beach community plan refers to the area as "three acres of undeveloped land." That measurement may have been based on property lines. In contrast, the City's 2024 letter to the lessee referred to the graded lot area as "approximately one acre."

As discussed below, our investigation determined that the lessee spent over $480,000 in State grant funds to perform unpermitted grading in Parcel A, purchase gravel and mats, and install the gravel and mat parking system. The addition of 12 pickleball courts in an area previously occupied by a parking lot created a need to both replace the lost parking spaces and accommodate the added demand for parking due to the additional courts.

In December of 2023, at the City's request, the lessee submitted plans for the already-installed gravel parking lot in Parcel A. However, the City did not approve the plans because a related set of plans for landscaping was required to be evaluated jointly. The lessee explained that the landscaping plans were still in draft form, so they were not submitted as required—and were not submitted as of April 2026. No further action was taken by the City.

The Ocean Beach Community Plan identified Parcel A as future neighborhood park.

According to the 2015 Ocean Beach Community Plan and Local Coastal Program[3] (Plan), which is the official community plan for Ocean Beach, the area known as Parcel A in City documents was intended to be preserved for future park use. Specifically, the Recreation Element of the Plan references this portion of the Barnes Tennis Center site as an area for future park development. Page RE-78 of the Plan states (emphasis added),

> Currently, there are three acres of undeveloped land located on the south side of the leasehold which are **identified as a passive park in the lease agreement**. Since the lessee has been unable to fund the development of this area, the Ocean Beach Community would like to develop approximately three acres into a **neighborhood park and provide park amenities** that could include passive **picnic areas, children's play areas, a community garden, and a path with intermittent exercise equipment**, pursuant to the community input process for park development.

City Management presented the Plan to the City Council for approval in 2014 and 2015, and it was unanimously approved at both meetings. The Plan was also reviewed and certified by the California Coastal Commission on January 14, 2016. According to the website for the Ocean Beach Planning Board, the process of developing the Plan and obtaining Coastal Commission approval took more than a decade to complete. We confirmed that City records show that the process began in 2002.

3 The 2015 Ocean Beach Community Plan and Local Coastal Program can be found here: https://www.sandiego.gov/sites/default/files/ocean_beach_community_plan-final_document_reduced_0.pdf

Parcel A was described by City residents as "open space," and a "nature preserve" with "native plants, birds and insects alive and thriving" prior to the unpermitted parking lot conversion.

After Parcel A was graded and converted into a gravel parking lot, the City received several complaints from local residents via the Code Enforcement Division, the Get It Done complaint system, and the Fraud Hotline.

As discussed later in this report, the City received a Code Enforcement complaint in 2023 noting that the lessee had converted the Parcel A "open space" into a parking lot by laying down gravel which created "immense dust" problems for nearby residents. Complaints were also noted in a City site inspection in 2023 (also discussed later in this report). In addition, a 2024 Get It Done complaint to the City noted the dust problems created by the gravel parking lot.

A 2024 Fraud Hotline report alleged mismanagement and abuse of discretion related to the administration of the Barnes Tennis Center lease.[4] The report raised several concerns regarding the operations of the facility, including conflicts of interest, alcohol sales, and various for-profit activities. The Fraud Hotline reporter noted that the area being used as a gravel parking lot was previously viewed as a "nature preserve" by nearby residents. The report also noted, "We had native plants, birds and insects alive and thriving. Today that land is a parking lot..."

We reviewed the allegations in the Fraud Hotline report and referred them to City Management to investigate and provide a response. Management indicated that they were already aware of the unpermitted grading issue and reported that they were notifying the lessee of the process to amend the Conditional Use Permit, which would require approval from the Coastal Commission[5] and an amendment of the lease with the City.

After reviewing the department's investigation summary and corrective actions taken, we closed the Fraud Hotline report as substantiated regarding the illegal grading. The allegations regarding lease violations were determined to be unsubstantiated based on an interview with the lessee's representative, who denied them. We assessed City Management's ongoing corrective actions with respect to the lessee as reasonable.

However, several months after the initial Fraud Hotline allegation, we received similar allegations related to the Barnes Tennis Center and we determined that the current investigation should be conducted by OCA Fraud Investigators, rather than referring the matter to the department for investigation again or closing the allegation as a duplicate. Although City Management indicated that they were working with the lessee to gain compliance with the lease, and other permitting and regulatory requirements, we determined that an independent investigation was warranted.

4 The earlier Fraud Hotline report, 431562982197, was closed as substantiated in March of 2024. Two subsequent reports were received in July of 2024 (391757789939, which is the subject of this report) and January of 2025 (205940334044, which was integrated into this investigation and closed as a duplicate).

5 We confirmed with the California Coastal Commission that the Parcel A land is within the agency's permit jurisdiction.

Previous site inspections of the Barnes Tennis Center show that Parcel A was not used for parking until 2022.

Our investigation determined that the Economic Development Department (EDD) conducted inspections of the Barnes Tennis Center leasehold in 2008, 2009, 2010, 2012, 2023, and 2024. Although there are gaps in the inspections of the Barnes Tennis Center, those gaps are not limited to this lease.

As we have pointed out in performance audits[6] in 2022 and in 2026, "EDD has not consistently conducted inspections on the leased properties of all asset types in its lease portfolio and has a backlog." The audits noted that there was no clear-cut standard for how often inspections should occur, but there was an internal target of annual inspections.

The earliest inspection report we found, from July 30, 2008, includes a caption under an image of Parcel A showing an undeveloped green and grassy area that reads, "3 acre undeveloped portion of the leasehold that [the Parks and Recreation Department] is interested [in] develop[ing] as a park." This caption indicates that the City, and most likely the lessee, were aware of the intended use of Parcel A as a park, and notes that the area was "undeveloped" in 2008.[7]

The inspection performed on June 30, 2010, was documented in a letter to the lessee's representative. The report included a remark by the Property Agent that there were "tall weeds and two (2) dead trees on the vacant land adjacent to the parking lot that are in need of removal." The eight images attached to the report show Parcel A, with dense brown plant material roughly one foot tall, and some green plants covering the area. Two large mounds of possible mulch material are visible in the generally flat lot. An apartment complex is visible to the south of the lot. No vehicles are visible in any of the images taken of Parcel A on June 30, 2010.

A subsequent inspection from July 17, 2012, included an image of Parcel A completely covered with dried plants and some green vegetation. No vehicles are present in the area, and it does not appear that there had been any recent vehicle use.

As shown in **Exhibit 2**, a property inspection report from September 28, 2023, included images of complaint signs from neighbors immediately to the south of the unpermitted Parcel A gravel lot. The report noted that Parcel A, "should either be restored to the grasslands that it was, or it should be paved to prevent the dust that is bothering the neighbors." The report added that the lessee's representative did "not seem to be aware of the non-profit obtaining City approval" prior to grading the area, but the lessee acknowledged performing the grading and gravel installation.

6 Our Performance Audit of the City's Lease Management and Renewal Process, issued in February 2022, can be found here: https://www.sandiego.gov/sites/default/files/22-007_lease_mgmt_renewal_process.pdf
Our Performance Audit of the City's Management of Its Leased Golf Property Portfolio, issued in February 2026, can be found here: https://www.sandiego.gov/sites/default/files/2026-02/performance-audit-of-the-city-s-management-of-its-leased-golf-property-portfolio.pdf

7 Although we did not find a complete documented inspection report for the 2008 site visit, we found pictures taken at the time with the notations cited. We believe it is likely that the lessee met with City staff at the time to discuss the results of the inspection as a routine practice, which is EDD's current procedure.

Exhibit 2

Neighbors Complained Using Signs About the Unpaved Parking Lot in 2023

Source: Image obtained from City site visit inspection report dated September 28, 2023.

Aerial images show that Parcel A was not used as a parking lot prior to July of 2022.

In addition to the inspection reports and images obtained by City staff, we reviewed aerial images from the Google Earth website. The first image showing the completed Barnes Tennis Center is dated January 8, 2000. The subsequent series of online images show that Parcel A was not used as a parking lot prior to, and as of, July 14, 2022, which was the last image showing an undeveloped lot.

As shown in **Exhibit 3** below, and earlier imagery of the Barnes Tennis Center facility available online, the area to the south of the leasehold (Parcel A) circled in yellow on the map was not used for parking. This image is consistent with the ground-level images captured by City staff as part of the leasehold inspections.

Exhibit 3

Before: Parcel A Was Not Used for Parking Prior to July 14, 2022

Source: OCA generated based on Google Earth image captured July 14, 2022.

The next image, shown in **Exhibit 4** below, is August 10, 2022, and shows a substantial area of Parcel A occupied by parked vehicles on what appears to be a light-gray gravel substrate. These images show that the illegal grading of Parcel A occurred between July and August of 2022.

Exhibit 4

After: Parcel A Was Illegally Graded and Used for Parking Since Sometime Between July 2022 and August 2022

Source: OCA generated based on Google Earth image captured August 10, 2022.

The aerial images of the Barnes Tennis Center show a second expansion of the illegally graded parking lot area sometime prior to June 20, 2023. The second expansion of the parking lot roughly 10 months after the first annexation is shown in **Exhibit 5** below.

Exhibit 5

Again: Parcel A Was Illegally Graded a Second Time Prior to June 20, 2023

Source: OCA generated based on Google Earth image captured June 20, 2023.

Exhibit 6 below shows the most recent Google Earth image of the leasehold, captured March 18, 2025. As compared to the image from July 14, 2022, prior to the parking lot construction, solar panels and numerous additional pickleball and padel courts are circled in yellow. The lessee obtained permits to install a solar photovoltaic system and tenant improvements to an existing locker room and restroom. No grading permits were obtained.

Exhibit 6

Substantial Changes Were Made After a $2.5 Million State Grant Was Awarded

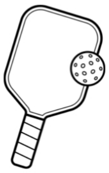
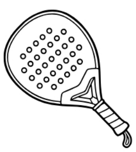
Source: OCA generated based on Google Earth image dated March 18, 2025.

Exhibit 7 below summarizes the number of courts added to the leasehold based on our count of the number of courts visible from an aerial image captured on March 18, 2025, versus the number visible on July 14, 2022.[8] The total number of courts went from 31 to 54, a nearly 75 percent increase between 2022 and 2025.

The exact number and type of courts varies because the lessee resurfaces tennis courts temporarily for pickleball and then resurfaces them back.

Exhibit 7

Aerial Images Taken in 2022 and 2025 Show 23 Courts Were Added

Court Type	2022	vs. 2025	Difference
 Pickleball	3	23	+20
 Padel	3	7	+4
 Tennis	25	24	-1

Source: OCA generated using Google Earth images dated July 14, 2022 and March 18, 2025.

8 In December 2025, the lessee reported 25 tennis courts, 19 pickleball courts, and the same number of padel courts. The difference can be accounted for by the resurfacing of a tennis court (increasing the tennis court count from 24 to 25), which removed four pickleball courts (reducing the number of pickleball courts from 23 to 19).

The terms of the $2.5 million grant agreement with the State require the City to assure that the lessee complies with environmental laws and regulations.

On February 25, 2022, the City Council approved a $2.5 million State grant application (R-313910) for the benefit of the lessee titled, "Billie Jean King Tennis Court Renovation."[9] The purpose of the grant was for the lessee to "renovate primary operations buildings, add five recreational courts, and replace or repair aged infrastructure."

Our investigation found that the City paid $2.5 million to the lessee in advance (in two equal payments in January and September of 2023). However, as of April 2026, the City has only received slightly over $260,000 from the State related to the grant.

There are two main agreements related to the grant.

First, the City entered into a Grant Agreement with the State to receive $2.5 million to reimburse the lessee for the costs to renovate the facility on May 25, 2022. The City was named as the "grantee" for the award. As such, the City is required to ensure that the lessee completes the project with all applicable permits and approvals in place before construction begins. Specifically, the Grant Agreement states (at provision B, Project Execution, paragraph 6, emphasis added),

> Grantee certifies that the project does and will continue to **comply with all current laws and regulations which apply to the project**, including, but not limited to, legal requirements for construction contracts, building codes, environmental laws, health and safety codes, and disabled access laws. **Grantee certifies that prior to commencement of construction all applicable permits and licenses (e.g., state contractor's license) will have been obtained.**

Second, the City entered into a separate Contribution Agreement with the lessee related to the grant on October 31, 2022. One of the requirements is that the lessee obtain all necessary permits and "City signature and sign off as final approval on all grading."

9 R-313910 is available online at: https://docs.sandiego.gov/council_reso_ordinance/rao2022/R-313910.pdf

The key clauses of the two agreements are summarized in **Exhibit 8** below.

Exhibit 8

The City Contracted with the State and Lessee

Agreement and Date	Parties	Key Clause
Grant Agreement May 25, 2022	City (grantee) and State of California	"Grantee certifies that the project does and will continue to comply with all current laws and regulations which apply to the project"
Contribution Agreement October 31, 2022	City and lessee	"City signature and sign off as final approval on all grading or public right-of-way permits"

Source: OCA generated based on the Grant Agreement and Contribution Agreement.

Although the Grant Agreement names the City as the "grantee," City staff we interviewed during the course of our investigation implied that the City was not responsible for ensuring compliance with "all current laws and regulations." We asked Parks and Recreation Department staff if they required the lessee to obtain all necessary permits prior to disbursing the funds. In response, staff stated that the lessee was "not required to obtain permits before the funding was advanced, but both the grant guidelines and the advanced payment agreement required that they do obtain permits when needed." This appears to shift the permitting compliance burden from the City to the lessee, which is contradicted by the terms of the Grant Agreement.

According to the Contribution Agreement, the improvements funded by the State grant became the property of the City once the work is complete. An additional provision gives the City the option to amend the lease to incorporate the tenant improvements and recognize the new facilities as part of the lease. Specifically, section 12 of the agreement's recitals reads (emphasis added), "**Once the Project is complete, City will own the improvements and, if necessary, City will amend the flat lease**..."

The "performance period" for the State grant began on March 1, 2022, has been extended twice, and is currently open until December 31, 2026. According to the extension, "the agreement and the terms and conditions if relevant thereto, shall remain in full force and effect." This is significant because the Grant Agreement between the City and State notes (at provision E, Project Termination, paragraph 4, emphasis added),

> If the Grantee fails to complete the project in accordance with this Agreement, or **fails to fulfill any other obligations of this Agreement** prior to the termination date, the **Grantee shall be liable for immediate repayment to the State of all amounts disbursed by the State** under this Agreement, plus accrued interest and any further costs related to the project. The State may, at its sole discretion, consider extenuating circumstances and not require repayment for work partially completed provided that the State determines it is in the State's best interest to do so. This paragraph shall not be deemed to limit any other remedies available to the State for breach of this Agreement.

Because the State grant is still active, the City has the opportunity to address the lessee's illegal grading and other apparent regulatory violations (discussed below). The City has not exercised the option to update the lease to incorporate the significant tenant improvements that were made using the State grant funds. The effect of this decision will be discussed later in this report.

The lessee's illegal grading and parking lot construction were funded using proceeds from the $2.5 million State grant that was administered by the City.

One of the identified project elements for the State grant was, "Parking lot renovation, media pad conversion, and surveillance cameras around perimeter." There is no mention of grading into an undeveloped area to expand or relocate the existing parking lot. However, we found project plans attached to the Contribution Agreement that stated, "Remove Grounds Debris and add Media area," and "ADD DG to Overflow Parking." (The term "DG" refers to "degraded granite" rocks roughly one-half inch in size, the "overflow parking" area is a reference to Parcel A).

The lessee obtained permits to install a solar photovoltaic system and tenant improvements to an existing locker room and restroom. However, no grading permits were obtained.

Our investigation identified invoices that were paid for using grant funds to conduct work, such as grading Parcel A, removing vegetation from the area, covering the area with gravel, and installing a mat system to retain the rocks. An excerpt from one of the invoices is shown in **Exhibit 9**. The notations on the invoice refer to "Largest amount of grading work is required in this area," and "Excess soil has been moved out of the way…need to complete grading efforts…"

Exhibit 9

An Invoice Submitted for State Grant Reimbursement Noted Unpermitted "Grading Work" in Parcel A

Source: OCA generated based on an invoice submitted to the City for grant reimbursement.

As discussed earlier in this report, aerial images show that Parcel A was initially graded between July and August of 2022. We identified invoices dated as early as August 8, 2022, and as late as September 18, 2024, related to grading, gravel purchase and installation, and the parking mat system purchase and installation. In total, we found that the lessee used over $480,000 in State grant funds to install 205 parking spaces in Parcel A.

Although the lessee submitted a plan for the already-graded gravel parking lot, staff deemed it incomplete and a grading permit was never issued.

On December 2, 2023, at the request of City staff, the lessee submitted plans related to the Parcel A parking lot. In a follow-up email, the City's Property Agent required that landscaping plans be submitted together with the parking lot plans because the two sets of plans were interrelated and required to be submitted together. The lessee explained that the landscaping plans were still in draft form and would need its board's approval (and several other actions) before they were finalized. As a result, the lessee never submitted landscaping plans and City staff did not approve the incomplete after-the-fact grading plan.

Our review of the project notes section of the plans submitted by the lessee revealed an acknowledgement that Parcel A had been graded by the lessee before a permit was obtained. A note reads that Parcel A had been, "cleared of the seasonal invasive weeds and grasses as a performance requirement of the lease conditions." Contrary to this assertion, the unpermitted grading of Parcel A appears to violate several lease sections, including sections: 5.3 Waste, Damage, or Destruction; 6.4 Improvements/ Alterations; 6.15 Coastal Commission Approval; and 7.2 Compliance with Law.

Another unusual aspect of the plans is that they appear to have been drafted as the gravel and mat system was being installed, but the language in the notes refer to a "proposal" to do the work. A project note states, "To address the issue of dust being generated by vehicles traveling the area, the property tenant, Youth Tennis San Diego, is proposing to install Gravel Pave 2 over the area in question." In fact, the plans include images of vehicles parked in the already-graded Parcel A with a "sample panel" installed and visible in an image. Our field visit to the site in November of 2024 confirmed that the entire Parcel A lot was filled with gravel and plastic mat material and was being used for parking in the area.

The plans asserted that drainage and stormwater contamination were not an issue. Specifically, a note reads:

> The Gravel Pave2 product and the surface aggregate allow water to freely move vertically into the soil and with the existing on-site sand(y) substrate, water infiltrates at such a fast rate that it does not generate any runoff. Therefore, no grading plan nor storm water facilities are needed on-site.

Despite this assertion, San Diego Municipal Code Sections 129.0602(e)(4) and (5), state that a grading permit is required either when an area more than 1 acre is graded, or when drainage patterns are altered. The City's letter to the lessee concluded that the unpermitted grading caused an "increase of runoff" to the "existing southwest storm drain inlets..."

In 2024, the City instructed the lessee to "immediately" stop using Parcel A for parking and to request after-the-fact permits.

Attached as Appendix C, a two-page letter to the lessee dated August 27, 2024, from EDD Director Christina Bibler noted that the expansion of the parking lot into Parcel A was not included in either the original or amended Conditional Use Permit (CUP). After advising the lessee that an amendment to the CUP would be necessary, Bibler emphatically stated, "To be clear, no vehicular parking is allowed on Parcel A without the necessary approvals, and if Lessee is allowing any such parking on Parcel A, Lessee must discontinue the parking use immediately."

The letter noted that it was a follow-up to a meeting in November of 2023 between the lessee and representatives from the City. That meeting was also subsequent to the EDD Property Agent's field inspection in September of 2023, during which the unpermitted grading in Parcel A was discussed with the lessee. Additionally, the letter was written roughly nine months after the lessee submitted partial plans for the already-completed grading and parking lot construction that were never approved. We found evidence of additional meetings, discussions, and emails to attempt to reach a resolution.

The letter included a conclusion from the City's Development Services Department (DSD) that Parcel A "has been illegally graded." The letter continued, "It was observed that vegetation and dirt had been cleared, grubbed, and disturbed over an area of approximately one acre. Per SDMC Sections 129.0602(e)(4) and (5), a grading permit would be required."

Another issue raised by the illegal grading of Parcel A was the impact to the stormwater system. The letter to the lessee noted, "increase of runoff generated by the unpermitted graded area to the existing southwest storm drain inlets also violates the 2008 CUP and the Environmental Impact Report…" The CUP from 2008 requires "permanent Best Management Practices for erosion and sediment control," according to the letter.

The lessee responded to the City's letter requiring that they "immediately" stop using Parcel A for parking with a letter indicating that they had no intention to stop using the area for parking.

During the course of our investigation, we inquired with City Management about the status of the leasehold and asked if any enforcement action had taken place with respect to the City's emphatic letter. Based on our inquiries, EDD contacted the lessee and requested a formal response to the City's August 2024 letter.

In response, the lessee sent a two-page letter to EDD on July 17, 2025 (see **Attachment D**), the lessee referred to the City's written demand to immediately discontinue the parking use, as "guidance" regarding the City's "regulatory framework" and requirements from the California Coastal Commission.

Rather than complying with the City's demand to "immediately" stop using Parcel A for parking and to obtain the required permits and approvals, the lessee's letter stated:

> As we move forward in collaboration with the City on a new lease agreement, it is our full intention to incorporate all necessary Conditional Use Permits and amendments, including [Conditional Use Permit] and [Coastal Development Program] updates, into that agreement to ensure complete compliance across all involved entities—including the City of San Diego, the Coastal Commission, and the Real Estate Assets Division.

We note that the City's letter to the lessee did not offer to incorporate legal and regulatory compliance into future lease negotiations. In fact, section 4.4 of the lease states that in the event that the lessee defaults "in the performance of any covenant or condition" of the lease and fails to "immediately" and "diligently" pursue a cure of the default to completion, the City may "immediately terminate" the lease. Otherwise, the current lease is set to expire in July of 2029.

Despite the City's 2024 letter informing the lessee that the "increase of runoff generated by the unpermitted graded area to the existing southwest storm drain inlets also violates the 2008 CUP and the Environmental Impact Report," the lessee asserted that stormwater Best Management Practices "have been and continue to be followed." We note that the lessee's assertion was not supported by evidence.

The lessee also noted that they have “never been previously informed or made aware of the Ocean Beach Community Plan’s characterization of Parcel A as a potential park-equivalent space.” Notwithstanding this assertion, the lease document (at section 6.12) requires that the leased premises be developed in accordance with the City’s General Development Plan.[10] That section of the lease notes, “Failure by LESSEE to comply with the General Development Plan shall constitute a major default and subject this lease to termination by CITY.”

The plan to use Parcel A as an open space area is also apparent in the landscape plans included in the lease. Page 43 of the lease includes an October 1989 map of the leasehold depicting Parcel A in a shaded area with the notation “Open Space Picnic.” A revised version of the map, dated June 6, 1994, also shows Parcel A demarcated by walking paths into two oval-shaped park areas surrounded by trees or shrubs (lease page 42).

As noted above, our investigation found a July 30, 2008, EDD inspection report noting that the City is interested in developing the 3-acre undeveloped portion of the leasehold (Parcel A) into a park. This notation seems to contradict the lessee’s claim to have never been aware of Parcel A’s potential park use. Although we do not have the complete inspection records from 2008, we found that similar comments in subsequent reports were discussed with the lessee.

The letter from the lessee also claimed that the potential park use of Parcel A “appears to conflict with the terms of our existing lease, under which all parcels—including Parcel A—are legally held under lease by Youth Tennis San Diego.” As noted above, including a parcel as part of a leasehold does not allow the leaseholder to do whatever they want with the property. As the City’s letter pointed out, the unpermitted grading of Parcel A appears to violate lease sections: 5.3 Waste, Damage, or Destruction; 6.4 Improvements/Alterations; 6.15 Coastal Commission Approval; and 7.2 Compliance with Law.

Finally, the letter from the lessee falsely claimed that “since the initial development of the facility in 1994, vehicular parking on Parcel A has been a longstanding and consistent practice.” As noted above, aerial images[11] from Google Earth dating back to January 8, 2000 and site inspection reports from EDD starting on July 30, 2008, directly contradict the assertion that Parcel A was consistently used for parking for “more than three decades.” In fact, our investigation determined that Parcel A was not routinely used as a parking lot on July 14, 2022, or earlier.

10 As noted in the Ocean Beach Community Plan: The Ocean Beach Community Plan and Local Coastal Program is intended to further express General Plan policies in Ocean Beach through the provision of community-specific recommendations that implement citywide goals and policies while addressing community needs... The two documents work in tandem to establish the framework for infill development in Ocean Beach.

11 An aerial image dated June 1, 1994, shows the site of the Barnes Tennis Center prior to development. Parcel A of the leasehold could not have been used routinely for parking before the facility was constructed. Tax returns for the lessee state that the facility was built in 1995 and completed in 1997.

Recommendation 1.1 (Priority 2)

We recommend that the Chief Housing and Community Development Officer ensures that the lessee takes timely actions with respect to the lessee's ongoing violations of existing lease terms, the State grant and funding agreements, and other regulatory requirements related to the unpermitted grading into Parcel A of the Barnes Tennis Center leasehold and ongoing use of the area as a parking lot after the City required the lessee to immediately discontinue the parking use. The lessee should provide verifiable evidence of compliance with the City's enforcement actions, such as City permit applications, and other formal approval requests to outside agencies.

Specifically, the Chief Housing and Community Development Officer should:

a. Require the lessee to amend the Conditional Use Permit;

b. Require the lessee to amend the Environmental Impact Report, if necessary;

c. Require the lessee to comply with California Coastal Commission regulations and permit requirements;

d. Require the lessee to comply with State grant and funding agreement requirements;

e. Require the lessee to comply with or amend the Ocean Beach Community Plan;

f. Require the lessee to comply with stormwater Best Management Practices; and

g. If the lessee does not achieve compliance timely, consider amending or terminating the existing lease.

Management Response: Agree. [See full response beginning on page 42.]

Target Implementation Date: June 2027

Investigative Conclusion 2

No code enforcement on City-owned land has occurred, which has allowed violations to persist.

Although the City determined that the lessee performed illegal grading and found multiple other violations, no formal enforcement actions, such as Civil penalties, were pursued because the property is City owned. Code Enforcement cases involving City land are routinely referred to the administering department to address the issue with the lessee, resulting in an enforcement gap without a legal or policy justification.

Although the City's August 2024 letter to the lessee demanded that it "immediately" stop parking in the illegally graded lot, there was no deadline, stated or implied consequences, or required action included in the letter. We visited the site in November of 2024, and subsequently, and found that the lessee was continuing to use the area of the leasehold referred to as Parcel A for parking. In addition, multiple aerial images of the leasehold and Economic Development Department (EDD) inspection reports show that Parcel A was not used for parking prior to July 14, 2022.

A response to the City's letter was not forthcoming until after we asked City Management for an update regarding the status of the illegal grading issue during the course or our investigation. **Exhibit 10** summarizes the violations identified by the City in its August 27, 2024, letter to the lessee.

Exhibit 10

The City Notified the Lessee of Numerous Violations Related to the Illegal Grading

Source of Authority	Sections	Conclusion
San Diego Municipal Code	Sections 129.0602(e)(4) and (5)	Parcel A has been **illegally graded**
Lease Terms	5.3 Waste, Damage, or Destruction 6.4 Improvements/Alterations, 6.12 Development Plan* 6.15 Coastal Commission Approval 7.2 Compliance with Law	Compliance with lease terms is **required**, and failure to comply with the General Development Plan "shall constitute a **major default** and subject this lease to termination by the City"
Conditional Use Permits (CUP)	Both the 1989 and amended 2008 CUP documents	The increase of runoff generated by the unpermitted grading **violates** the CUP
Environmental Impact Report (EIR)	Including the addendum under Project Number 116246	The unpermitted grading **violates** the EIR
Land Use Plan and Local Coastal Development Program	Determined at the discretion of City staff	Permit amendment will be **reviewed for consistency**
Ocean Beach Community Plan	Recreation Element, Park Equivalencies	Identifies the area as a park-equivalent facility ideal for something like a **neighborhood park**
Stormwater Best Management Practices	2008 CUP document	Erosion and sediment control **Best Management Practices** requirements

* Section 6.12 of the lease, "Development Plan," was not specifically called out in the City's letter to the lessee, but appears to have been an additional lease term violation we identified.

Source: OCA generated based on August 27, 2024, letter to the lessee.

The City's Building and Land Use Enforcement Division does not investigate or take enforcement action against City lessees.

The City's Development Services Department (DSD), which would normally investigate and enforce Code violations, such as illegal grading, did not open an enforcement case because the property is City-owned. Based on our consultation with staff and management from relevant City departments, reviews of City documents and communications, and interviews with City staff, this appears to be a process gap without a clear legal or policy rationale.

No civil penalty or other formal enforcement action has been taken by the City to date. Rather than complying with the City's letter clearly stating that the lessee "must discontinue the parking use immediately," the lessee responded with its own letter—sent nearly a year after the City's—offering only to include permits and other "updates" as part of the lease renewal discussions (the current lease is set to expire in 2029).

Our investigation identified a Code Enforcement complaint that was sent to DSD's Building and Land Use Enforcement Division on August 13, 2023, regarding the illegal grading of Parcel A by the lessee. The complaint noted,

> Barnes Tennis Center has converted open space to be used to increase parking. They have laid down gravel which creates immense dust for neighboring residence [sic]. This space has been used in this way for one year.

The records we obtained show that the complaint was closed the day after it was received with a status of "referred." We learned from DSD staff that Code Enforcement complaints regarding City-owned properties are routinely referred to the administering department for investigation and corrective action.

In this case, we obtained records showing that DSD's staff assisted EDD's enforcement efforts by conducting site inspections, reviewing relevant documents, attending meetings, and assisting with the enforcement process. These appear to be most of the same steps staff would take to investigate and enforce Code violation allegations on non-City property. However, DSD did not issue a Civil Penalty Notice and Order, which could include the imposition of daily penalties until the violations are corrected in accordance with San Deigo Municipal Code sections 12.0801 et seq.

We were unable to identify a legal or policy-based rational for this disparate practice. City staff explained that enforcing Code violations on City property would be similar to the City taking legal action against itself. We were informed that there is no policy or legal statement to this effect.

According to City Management, EDD's Property Agents do not provide property management services within their job description (classification). As such, lease compliance is based on responses to complaints or routine site visits with the lessee. In addition, City Management stated,

> A dedicated property or asset management function would materially differ from the City's current operating model. Such a function would allow for more frequent site presence, proactive tenant relationship management, routine inspection protocols,

> earlier identification of unauthorized or non-permitted uses, monitoring of deferred maintenance conditions, and more consistent operational oversight of tenant compliance. Dedicated asset management staffing could also support enhanced coordination with enforcement and operational departments, more timely escalation of issues, and improved long-term stewardship of City assets.

City Management concluded, “The addition of dedicated property or asset management resources would improve the City’s ability to conduct ongoing monitoring and earlier detection of operational and maintenance-related issues across the portfolio.” Our investigation did not include an evaluation of existing EDD job descriptions or potential improvements to the staffing model.

Recommendation 2.1 (Priority 3)

We recommend that the Chief Housing and Community Development Officer, in consultation with the City Attorney’s Office, create a Citywide policy regarding Building and Land Use Enforcement Division investigations and enforcement procedures involving City-owned properties.

Management Response: Agree. [See full response beginning on page 43.]

Target Implementation Date: June 2027

Investigative Conclusion 3

Lease amendments appear to be necessary, which could significantly increase revenue to the City.

Lease amendments appear to be necessary since the 1994 flat rate lease no longer aligns with the lessee's current commercial scale or revenues. Newly-revised City policies (Council Policy 700-12 and the Real Property Management Plan) permit cost recovery and gross revenue sharing, providing mechanisms to modernize nonprofit lease terms and ensure transparency regarding nonprofit revenues. Comparative reviews show other California cities commonly use percentage rent models for racquet sports facilities, often through competitive procurement processes.

Our investigation determined that the longstanding flat-rate nonprofit lease terms for the Barnes Tennis Center that have been in effect since 1994 did not account for the substantial revenue streams earned by the lessee. While the lessee pays only $600 per year, the organization has recently generated annual revenues of over $7 million, with significant revenues earned from tournaments, programs, memberships, and other income-generating activities.[12] Between 2020 and 2024, the lessee's revenues increased by 400 percent. During the same timeframe, the CEO's compensation more than doubled, and other expenses increased substantially, leading to a net loss in 2024.

Although the terms of the lease recognized the public benefit provided by a nonprofit youth-focused tennis center, and considered the need to develop the site initially, the recently revised Council Policy 700-12 (effective February 2025) and the new Real Property Management Plan process will allow the City's nonprofit leases to include a share of the gross revenue earned from ancillary activities and improve transparency regarding discounted revenue.

The nonprofit lessee recently earned over $7 million, while paying the City a flat rate of $600 per year.

The lessee's CEO was quoted in a New York Times[13] article referring to the Barnes Tennis Center as "the Disneyland of racket sports." The facility was also featured on the front page of Facility magazine,[14] which included a 5-page article titled, "A Multi-Sport Model for the Future," with a subheading reading, "How San Diego's Premier Racket Sports Facility is Leading the Way in Tennis, Pickleball, and Padel Integration."

12 We confirmed that the lessee has paid their annual rent of $600 per year for at least the past 15 years. This was the standard nonprofit lease rate in effect in 1994; the lease included development of the site as part of the consideration.

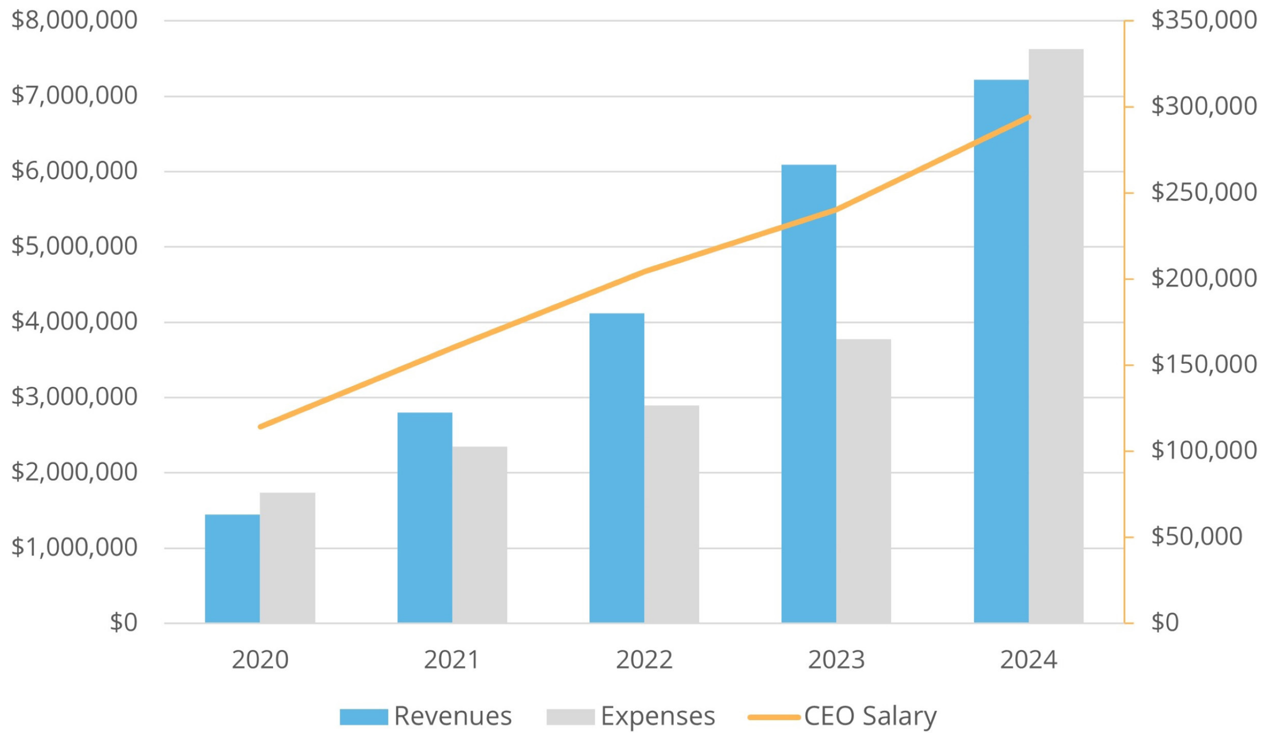
13 https://www.nytimes.com/2023/05/11/sports/tennis/pickleball-platform-tennis-padel.html

14 https://b484114b-6511-4f4e-9e68-8c380cdfb5b0.usrfiles.com/ugd/b48411_5c17d86f6f5f4993a66a870f48cc6cea.pdf

As summarized in **Exhibit 11** below, the lessee has reported steadily increasing revenues ranging from $1.4 million to $7.2 million in calendar years 2020 through 2024 (the most recent year that Youth Tennis San Diego's Federal nonprofit tax forms were available). Also increasing since 2020, when the CEO was hired, is his reported total compensation and the overall expenses for the lessee. The CEO's compensation reached nearly $300,000 in 2024, before factoring in revenues from the Taktika Padel company he operates from the leasehold. We note that the revenue from the $2.5 million State grant was reported in the lessee's 2023 return.

Exhibit 11

Annual Revenues and CEO Compensation Have Been Growing



Source: OCA generated based on IRS Form 990s.

Although the total revenues per year do not necessarily reflect the overall financial wellbeing or annual activities of an organization, the magnitude of the revenues should be viewed relative to the flat-rate lease revenue paid to the City of $600 per year since 1994.

Our investigation identified multiple revenue streams that contribute to the lessee's annual income. Some of these revenue streams are:

- **Tournaments**—including the USA Pickleball National Championships in 2025 (reportedly drawing 2,600 athletes from 47 states and 13 countries, with more than 10,000 spectators) and in 2026, the Better Buzz Coffee San Diego Open, USTA Billie Jean King Girls' 18s National Championships—accounted for over $2.1 million in revenue for the lessee in 2024.

- **Programs**—including special events, adult programs, and corporate —accounted for over $1.5 million in revenue for the lessee in 2024.
- **Junior Development**—as described in IRS Form 990s includes programming for "thousands of youngsters each year," including an after-school tennis program and camps—accounted for over $950,000 in revenue for the lessee in 2024.
- **Memberships**—annual rates range from $650 for a family, to $225 for students, seniors, and military personnel—include discounts on merchandise (excluding racquets), stringing fees, lessons, and massage and physical therapy services.

We note that lease section 9.7 regarding the Schedule of Rates and Charges states (emphasis added), "**There will be no membership as such at the Junior Tennis Center**." The section also states, "Adults will pay $4.00 per day for court use. Juniors 18 years of age and under will use the tennis courts for free." Unless previously approved by the City, the membership fees and court use rates may violate this lease provision.

Other items reported on the lessee's 2024 IRS Form 990 include over $93,000 for a "Padel Joint Venture," and "Facility Miscellaneous Income" of over $82,000. The lessee's website also advertises an AI-powered ball machine capable of simulating various game scenarios, customizable through an app, for $40 per hour. The promotion states that Barnes Tennis Center members can train free for the first two months. Additional revenue is likely generated from the on-site café, pro shop, and fitness center.

The Barnes Tennis Center's annual revenues and employee salaries are much higher than those of a nearby comparably sized tennis center.

We did not conduct a thorough review of the City's lease terms or the operations of the Balboa Tennis Club (Balboa).[15] However, its size, location, and financial performance provide a useful source of comparison. With 25 tennis courts, the Balboa leasehold has the same number of tennis courts as the lessee. Measured by air, the two leaseholds are approximately 6 miles apart. Both lessees operate under agreements with the City, but the Balboa Special Use Permit is administered by the City's Parks and Recreation Department rather than the Economic Development Department (EDD).

As shown in **Exhibit 12**, the financial performance for the Barnes Tennis Center and the Balboa Tennis Club are drastically different. In fact, the reported revenues for Barnes were roughly 10 times greater than those of Balboa's in 2023 and 2024, according to IRS Form 990 data.

15 The Balboa Tennis Club operates under a Special Use Permit, administered by the City's Parks and Recreation Department. Although not referred to as a "lease," the permit allows the nonprofit to operate on City-owned property in exchange for a one-time processing fee of $448, according to the 2025 agreement. As an additional example, the City entered into a 3-year Special Use Permit with a 10-court facility operated by the nonprofit Lake Murray Tennis Club for a one-time fee of $1,050.

Exhibit 12

Annual Revenues for Barnes Were Up to 10 Times Greater Than Balboa's and Barnes' CEO Compensation Exceeded Total Salary Expenses for Balboa in Recent Years

Year	Barnes Revenues	Balboa Revenues	Barnes CEO Salary	Balboa Total Salaries
2020	$1,446,054	$478,833	$114,303	$172,565
2021	$2,796,503	$565,381	$160,128	$201,530
2022	$4,117,198	$600,231	$204,479	$209,385
2023	$6,090,932	$638,118	$240,295	$222,826
2024	$7,215,638	$703,824	$294,162	$240,566

Source: OCA generated based on IRS Form 990s.

The annual compensation for Barnes CEO, as an individual, was higher than the total combined compensation for the Balboa organization for both 2023 and 2024. Several of the Barnes executives were paid over $100,000 in recent years and two were paid over $200,000 in 2024. In contrast, according to IRS Form 990s, none of the Balboa executives are compensated, including board members, president, vice president, treasurer, and secretary positions.

Membership revenues were the single largest source of income for Balboa for each of the five years we reviewed. According to the Balboa website, the current membership rates range from $945 for a family, to "super senior" memberships (80 years and over) for $126.[16] In contrast, annual membership rates for Barnes were slightly lower, ranging from $650 for a family, to $225 for students, seniors, and military personnel.

Like Barnes, the Balboa leasehold includes a café, pro shop, and lessons provided by subcontractors. According to a recent newsletter report from the Balboa Treasurer, "Income from outside court rental, tournaments, [subcontracted lesson provider's] rent and daily permits have all risen…" The entry notes that the revenues have helped to offset rising repair and maintenance costs for the facility. Like Barnes, the Balboa Special Use Permit does not include a provision requiring that the City collect a percentage of the revenues collected by subcontractors.

16 Rates for seniors aged 65-79, students, and active-duty military are $315 per year. Junior rates (17 and under) are $150. Adults (18-64) are charged $470.

Other cities provide alternative examples of tennis center lease administration options.

As summarized in **Exhibit 13** below, other California cities have used various approaches to manage tennis and other racquet sport facilities.

Exhibit 13

Other Cities Favor Competitive Awards to For-Profit Lessees

Location	Competitive RFP Process?	Lease Terms	Amount	Lessee Type
San Diego	No	Flat Rate	$600/yr.	Nonprofit
Anaheim	Yes	Flat and Percentage	$36,000/yr. plus 10% gross > $20,000/mo.	For-profit
Long Beach	No, assignment from prior operator	Greater of min. or gross receipts	Greater of $9,000/yr. or 10% gross receipts	For-profit
Santa Clara	Yes	Flat Rate (adjusted annually)	$30,000/yr. + CPI adj. and $50,000 in improvements	For-profit

Source: OCA generated based on contracts published on city webpages for Anaheim, Long Beach, and Santa Clara.

As shown in the table above, and in contrast to the City's practice, the City of Anaheim's Tennis and Pickleball Center's lease was awarded through a competitive Request for Proposal process, includes both a flat rate of $3,000 per month and 10 percent of gross income over $20,000 per month.[17] The relatively smaller facility consists of 10 lighted tennis courts and 10 pickleball courts, and the operator is a for-profit corporation. Likewise, the City of Long Beach's lease to operate two tennis centers includes an annual minimum rent, or 10 percent of gross receipts (whichever is greater), and the prior lease included 24 percent of the charges received from instructors. The City of Santa Clara also engaged in a competitive bidding process prior to awarding a contract to operate two tennis facilities to a for-profit corporation at $30,000 per year (with CPI adjustments, plus up to $50,000 in capital maintenance and facility improvements).

The City of Palo Alto handles its own tennis court reservations for local and United States Tennis Association tournaments, otherwise, tennis courts are available on a first-come, first-served basis. Similarly, the San Francisco Recreation and Park Department offers online tennis and pickleball court reservations. In contrast, the City of San Diego does not include tennis court rental fees in the Parks and Recreation Department's Fee Schedule. While this may be an option in the future, it has not been the City's practice to manage tennis court reservations.

17 The flat monthly rent is increased annually in accordance with the Consumer Price Index (CPI) for the Orange County, Long Beach, and Los Angeles area.

We found no examples of competitive Request for Proposals for the operation of a tennis facility in the City of San Diego. Although we do not make a specific recommendation regarding a competitive process for the lease award, the lease terms in place in other cities are instructive.

City policies now allow nonprofit leases to include a specified percentage of gross revenue from ancillary activities and require disclosure of discounted revenues.

Recent revisions to the City's management of nonprofit leases were made in response to the recommendations made in two prior OCA Performance Audits.

First, Recommendation 4 from our 2012 Performance Audit of the Real Estate Assets Department noted that the City incurs administrative and other costs associated with administering leases for nonprofit agencies that are not recovered.[18] In general, San Diego Municipal Code section 22.3210 allows the City to determine if a nonprofit organization's activities confer a public benefit and "furthers a specific public policy." If so, certain contracting rules, such as open and competitive bidding, may be waived.

At the time of the audit, City Management noted, "many nonprofits enjoy considerable community support and that it would be difficult to recover any fees from them." Nevertheless, in response to the audit, Council Policy 700-12 (at section 3, page 2, emphasis added) was amended to read:

> When the City Council determines that a proposed lease transaction will confer public benefits, the City may charge the lessee one of the following amounts, in lieu of market rent: (a) a nominal fee, in an amount determined by the Department, commensurate with the public benefit of the public services provided; or (b) an **administrative cost recovery fee** based on City staff's administrative resources, to be **paid annually based on percentage increases in the Consumer Price Index**, with respect to any other City property leased to a nonprofit organization for the provision of public services.

The new language in Council Policy 700-12 expands the City's nonprofit lease options beyond the flat-rate rent—similar to the one that has been in place at the Barnes Tennis Center since 1994—by adding a second option to compute the base rent amount on the City staff's administrative costs, which could include inspections and lease revenue audits.

18 The Performance Audit of the Real Estate Assets Department, issued in December 2012, can be found here: https://www.sandiego.gov/sites/default/files/13-009_read.pdf

Council Policy 700-12 also allows the City to recover a percentage of the nonprofit's gross revenue earned from "ancillary" business activities on City land. The new language (at paragraph 8, emphasis added) states:

> When a lease authorizes the lessee to conduct revenue-producing ancillary uses on a City property, the City may (at its option) negotiate with the lessee for payment of rent to the City, which may include a **specified percentage of the lessee's gross revenue**.

In sum, these two sections of Council Policy 700-12 (effective February 11, 2025) allow the City more flexibility in drafting lease terms with nonprofit organizations by including staff cost recovery and gross revenue terms. At the same time, the policy recognizes the public benefit nonprofit organizations provide to the community.

Council Policy 700-12 also states that "leasing of each City property will follow the customary leasing process outlined in Council Policy 700-10…" (Council Policy 700-10 includes an appraisal requirement).

Second, Recommendation 9 from our 2022 Performance Audit of the City's Lease Management and Renewal Processes[19] addressed the need for transparency regarding revenue rates from noncompetitively priced leases. In response to our recommendation, EDD developed a Real Property Management Plan that will include an inventory of all City properties, including a comparison of the current rent versus the most recent market rent value.

Taken together, the newly revised Council Policy 700-12 and the City's Real Property Management Plan allow the City to establish lease terms that capture a portion of the substantial revenues earned by the lessee and increase transparency regarding discounted rental revenue as consideration for the public benefit the nonprofit organization provides to the community.

Although the new requirements related to Council Policy 700-10 went into effect on in February of 2025, we found that nonprofit lease agreements that were presented to Council for approval based on the new policy included a request to waive the Council Policy 700-12 requirement that the City obtain a market rent appraisal because the nonprofit lessee serves a public purpose.

Given the magnitude of the current revenues earned by Barnes versus the flat-rate rent included in the existing contract terms, we believe that the Council Policy 700-10 market rate analysis should not be waived (whether the existing lease is amended or renegotiated in 2029).

19 Our Performance Audit of the City's Lease Management and Renewal Process, issued in February 2022, can be found here: https://www.sandiego.gov/sites/default/files/22-007_lease_mgmt_renewal_process.pdf

Recommendation 3.1 (Priority 1)

When the lease is amended, renewed, or put out to bid, we recommend that the Chief Housing and Community Development Officer:

a. Consistent with Council Policy 700-12, determine the current market rate rent versus the existing flat rate related to the leasehold based on the Barnes Tennis Center's operations and issue a memorandum to the City Council describing the activity, the City's revenue recovery percentage (if any), and a determination whether a public benefit related to each activity exists that furthers a specific public policy; and

b. Based on the determination in (a), if the difference between the market rate and proposed lease terms exceeds the public benefit, consider amending the existing Barnes Tennis Center lease terms to ensure that the difference between the current market rate and the proposed lease terms are commensurate with the public benefit determination. Consider requiring a specified percentage of the lessee's gross revenue from revenue-producing ancillary uses such as retail sales, memberships, court rentals, clinics, coaching, stringing fees, tournaments, physical therapy, massage, and other income sources.

Management Response: Agree. [See full response beginning on page 45.]

Target Implementation Date: June 2029

Conclusion

Our investigation into the Fraud Hotline allegations of mismanagement related to the Barnes Tennis Center lease administration determined that the allegations were substantiated. The evidence we obtained shows that the lessee engaged in unpermitted grading and continued to use Parcel A as a parking lot despite clear regulatory requirements, City directives, and longstanding community planning documents that identified the area for future use as a park—not a parking lot. The City's letter to the lessee, while acknowledging the violations, lacked timely and enforceable corrective measures.

We also determined that gaps in City enforcement practices—particularly regarding illegal grading and stormwater impacts—allowed the violations to persist without meaningful consequence, despite clear requirements in the lease, the Conditional Use Permit, the Ocean Beach Community Plan, the Environmental Impact Report, and California Coastal Commission regulations.

Finally, we found that the existing flat-rate lease structure, unchanged since 1994, no longer reflects the lessee's current financial capacity or the scale of commercial activities occurring on the City-owned property. The lessee's revenues have grown significantly in recent years, supported by national-level tournaments, memberships, coaching programs, and related enterprises. Meanwhile, the City continues to receive only a nominal flat-rate annual lease payment based on the terms of the lease entered into in 1994 and expiring on June 2029. Newly revised City policies provide mechanisms to receive a portion of gross revenues and enhance transparency regarding rental revenues, which underscores the need to modernize the lease terms for nonprofits in particular.

To address these concerns, our report makes three recommendations aimed at strengthening enforcement, improving compliance, modernizing nonprofit lease terms, and ensuring alignment with updated City policies and community planning documents. City Management's implementation of these recommendations will help protect public assets, support equitable lease practices, and reinforce consistent and transparent administration of City property going forward.

Appendix A

Definition of Fraud Hotline Recommendation Priorities

The Office of the City Auditor maintains a priority classification scheme for Fraud Hotline recommendations based on the importance of each recommendation to the City, as described in the table below. While the City Auditor is responsible for providing a priority classification for recommendations, it is the City Administration's responsibility to establish a target date to implement each recommendation, taking into consideration its priority. The City Auditor requests that target dates be included in the Administration's official response to the findings and recommendations.

PRIORITY CLASS*	DESCRIPTION
1	Fraud or serious violations are being committed. Significant fiscal and/or equivalent non-fiscal losses are occurring. Costly and/or detrimental operational inefficiencies are taking place. A significant internal control weakness has been identified.
2	The potential for incurring significant fiscal and/or equivalent nonfiscal losses exists. The potential for costly and/or detrimental operational inefficiencies exists. The potential for strengthening or improving internal controls exists.
3	Operation or administrative process will be improved.

* The City Auditor is responsible for assigning Fraud Hotline recommendation priority class numbers. A recommendation that clearly fits the description for more than one priority class shall be assigned the higher priority.

Appendix B

Timeline of Key Events Related to the Barnes Tennis Center

Date	Event
1/27/1992	Original Conditional Use Permit 88-1259 recorded
2/18/1992	Costal Development Permit approved with conditions
6/7/1994	**35-Year Flat Rate Lease Agreement signed**
8/12/1994	Coastal Commission and City Agreement, all property is within Coastal Zone
1995-1997	Original Barnes Tennis Center facility built in 1995, completed in 1997, per tax records
9/24/2007	Addendum to Environmental Impact Report
1/28/2008	Amendment to Conditional Use Permit for additional 4,400 sf building, two mini tennis courts, and outdoor play area
7/30/2008	Inspection report from EDD includes a picture of undeveloped Parcel A, notes future park development interest
6/30/2010	Inspection report from EDD includes pictures of undeveloped Parcel A
7/17/2012	Inspection report from EDD shows image of undeveloped Parcel A
11/9/2015	Ocean Beach Community Plan refers to Parcel A as a future neighborhood park
2/25/2022	$2.5 million grant authorized by the City Council
3/1/2022	Grant agreement performance period begins (ends on 12/31/2026)
5/25/2022	$2.5 million Grant Agreement signed between the City and State of California
8/10/2022	**Google Earth Image shows grading and parking in Parcel A**
10/31/2022	$2.5 million Contribution Agreement signed between City and lessee
2/14/2023	First $1.25 million advanced to the lessee by the City related to the grant
6/20/2023	Google Earth Image shows complete grading of Parcel A
9/27/2023	Second $1.25 million advanced to the lessee by the City related to the grant
9/28/2023	Inspection report from EDD includes image of complaint signs from neighbors related to parking in Parcel A
12/2/2023	Incomplete parking lot permit plans sent to the City (plans dated 11/30/2023)
8/6/2024	EDD site visit at Barnes, notes that parking mats and gravel is installed on Parcel A without permits or approvals
8/27/2024	**Parking Lot Determination Letter regarding illegal grading**
7/17/2025	Lessee response letter to City regarding the 8/27/2024 parking lot determination letter
6/7/2029	**Current 35-year lease expires**

Appendix C

Letter from EDD to the Lessee (August 27, 2024)

The City of SAN DIEGO

Economic Development Department

August 27, 2024

SENT VIA EMAIL rredondo@ytsd.org

Mr. Ryan Redondo
Youth Tennis San Diego
4490 W. Point Loma Blvd.
San Diego, CA 92107

Subject: Flat Rate Lease Agreement ("Lease") between City of San Diego ("City") and Youth Tennis San Diego dba Barnes Tennis Center ("Lessee") filed in the Office of the City Clerk as Document No. RR-280520 on August 10, 1992

Dear Ryan:

Thank you for your patience while the City's Development Services Department ("DSD") evaluated the site location for the proposed 2023 Barnes Gravel Pave 2 Plan on Parcel A.

After DSD reviewed both files, including the Conditional Use Permit issued in 1989 and amended in 2008 ("CUP"), DSD concluded that expansion of a parking lot into Parcel A was not included in the scope of the CUP in its original or amended form. Therefore, any proposal for a parking lot in that area or the use of that area for overflow vehicular parking would require an additional amendment to the CUP as well as approval from the California Coastal Commission. To be clear, no vehicular parking is allowed on Parcel A without the necessary approvals, and if Lessee is allowing any such parking on Parcel A, Lessee must discontinue the parking use immediately.

In addition, Lessee must comply with Lease sections 5.3 Waste, Damage, or Destruction, 6.4 Improvements/Alterations, 6.15 Coastal Commission Approval, and 7.2 Compliance with Law.

When an application for a discretionary permit (or in this case, an amendment of an existing permit) is filed, DSD staff will review for compliance with all applicable code requirements as well as consistency with the adopted land use plan and local coastal development program ("CDP"). As it exists today, the Ocean Beach Community Plan identifies this particular area of the leasehold for a park-equivalent facility ideal for something like a neighborhood park. In order to consider the expansion of the parking lot, adequate review is required through the CUP/CDP process to determine if expansion is acceptable.

Following the on-site meeting in November 2023 with representatives from the City, DSD provided the information below regarding the previous unpermitted grading to Parcel A of the premises.

In the opinion of DSD's Building and Land Use Enforcement Division, the area south of the Barnes Tennis Center has been illegally graded. It was observed that vegetation and dirt had been cleared, grubbed, and disturbed over an area of approximately one acre. Per SDMC Sections 129.0602(e)(4) and (5), a grading permit would be required. Please note that the

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increase of runoff generated by the unpermitted graded area to the existing southwest storm drain inlets also violates the 2008 CUP and the Environmental Impact Report ("EIR") with related addendum under Project Number 116246. Additionally, the 2008 CUP requires implementation of permanent Best Management Practices for erosion and sediment control.

For your reference, attached are copies of the recorded, amended CUP dated January 28, 2008, and the Addendum to the EIR dated September 24, 2007.

If you have any questions or concerns, please contact Clay Gosnay at (619) 236-6298 or by email at mgosnay@sandiego.gov.

Sincerely,

Christina Bibler (Aug 27, 2024 15:56 PDT)

Christina Bibler
Director, Economic Development Department

CB/cb

Attachments: Conditional Use Permit, Lease, EIR

cc: Lucy Contreras, Deputy Director
Jim Mandler, Program Manager
Suki Jacala, Program Manager - DSD
Koy Nichols, Program Coordinator
Tracy Solis, Supervising Property Agent
Clay Gosnay, Property Agent

Appendix D

Response Letter from the Lessee to EDD (July 17, 2025)

Subject: Response to CUP and Lease Compliance Review for Parcel A – Barnes Tennis Center

Dear Ms. Bibler and Team,

Thank you for your detailed correspondence dated August 27, 2024, regarding the Conditional Use Permit (CUP), Coastal Development Permit (CDP), and lease compliance matters related to Parcel A at the Barnes Tennis Center.

We appreciate the City's thorough review and the guidance provided to ensure that Youth Tennis San Diego (YTSD) remains aligned with the City of San Diego's regulatory framework, the California Coastal Commission, and the Real Estate Assets Division.

Coordination with City Leadership and Lease Planning

We would like to confirm that YTSD President Jack McGrory, Treasurer Todd Sprague, and CEO Ryan Redondo have conducted multiple virtual and on-site meetings at the Barnes Tennis Center with leadership from the Mayor's Office and other relevant department heads relative to Parcel A, which we can verify by email correspondence and calendar invitations. These meetings were held to proactively address the concerns raised and to align future site planning with the City's long-term goals.

As we move forward in collaboration with the City on a new lease agreement, it is our full intention to incorporate all necessary Conditional Use Permits and amendments, including CUP and CDP updates, into that agreement to ensure complete compliance across all involved entities — including the City of San Diego, the Coastal Commission, and the Real Estate Assets Division.

Best Management Practices and Lease Stewardship

We would also like to reaffirm that Best Management Practices (BMPs) for erosion and sediment control for Parcel A and the leased premises, as outlined in the 2008 CUP and EIR Addendum, have been and continue to be followed. These practices have been actively communicated and reviewed with various managers from the Real Estate Assets Division assigned to our lease over time. As stewards of this public asset, our goal has always been to keep the site safe, clean, and well-maintained, free from hazards or destruction.

The YTSD leadership team has taken a proactive approach to the handling of matters concerning Parcel A including listening to the concerns of our neighbors, particularly regarding overgrowth, weed accumulation, and rodent infestations relating to Parcel A. In response, our team addressed these safety and environmental issues without altering any intended land use for Parcel A or expanding the physical footprint of the area. We added a material called "Gravel Pave" over the surface of portions of Parcel A, and this material eliminates dust, allows for weed control and provides permeability for rain to return to the ground. These efforts reflect YTSD's commitment to fulfilling our obligations under the terms of the lease with the City while furthering our community partnership and environmental responsibilities.

Clarification Regarding Parcel A Use and the Ocean Beach Community Plan

We also wish to respectfully note that Youth Tennis San Diego has never been previously informed or made aware of the Ocean Beach Community Plan's characterization of Parcel A as a potential park-equivalent space. This designation was not communicated to us during past planning or lease discussions, and appears to conflict with the terms of our existing lease, under which all parcels — including Parcel A — are legally held under lease by Youth Tennis San Diego.

Additionally, since the initial development of the facility in 1994, vehicular parking on Parcel A has been a longstanding and consistent practice. Youth Tennis San Diego has not expanded or changed these practices in any material way. The existing use of Parcel A simply reflects established operations that have been ongoing for more than three decades. YTSD leadership's role has been limited to maintaining those practices responsibly and in alignment with the lease, always with safety, environmental care, and legal compliance in mind.

Conclusion and Path Forward

We value our relationship with the City of San Diego and remain committed to working collaboratively toward a resolution that respects our lease rights, protects public trust, and meets all planning and environmental standards. We are eager to continue our engagement on this matter and are fully prepared to participate in the CUP/CDP process to ensure future use of Parcel A is clearly and legally defined within the scope of a revised lease agreement.

Please advise us on any next steps, forms, or hearings we should prepare for as we continue this cooperative process.

Sincerely,

Ryan Redondo
CEO, Youth Tennis San Diego
rredondo@ytsd.org | 760 613 9462

THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: August 20, 2026

TO: Andy Hanau, City Auditor, Office of the City Auditor

FROM: Casey Smith, Chief Housing and Community Development Officer

SUBJECT: Hotline Investigation of the City's Lease with Barnes Tennis Center – 4490 W. Point Loma Boulevard, San Diego, CA 92107

This memorandum serves as the management's response to the Hotline Investigation of the City's Lease with Barnes Tennis Center. Management appreciates the work of the Office of the City Auditor and submits the following responses to the findings and recommendations of the investigation.

Recommendation 1.1

We recommend that the Chief Housing and Community Development Officer ensures that the lessee takes timely actions with respect to the lessee's ongoing violations of existing lease terms, the State grant and funding agreements, and other regulatory requirements related to the unpermitted grading into Parcel A of the Barnes Tennis Center leasehold and ongoing use of the area as a parking lot after the City required the lessee to immediately discontinue the parking use. The lessee should provide verifiable evidence of compliance with the City's enforcement actions, such as City permit applications, and other formal approval requests to outside agencies.

Specifically, the Chief Housing and Community Development Officer should:

a. require the lessee to amend the Conditional Use Permit;
b. require the lessee to amend the Environmental Impact Report, if necessary;
c. require the lessee to comply with California Coastal Commission regulations and permit requirements;
d. require the lessee to comply with State grant and funding agreement requirements;
e. require the lessee to comply with or amend the Ocean Beach Community Plan; and
f. require the lessee to comply with stormwater Best Management Practices.
g. if the lessee does not achieve compliance timely, consider amending or terminating the existing lease

Management Response:

Management agrees with the recommendation. Management acknowledges the presence of violations that require correction. Management does not concur with the assertion that it is necessary to amend or terminate the existing lease, and the City's intent is to address these concerns and violations through on-going lease negotiations or seek proposals from potential new lessees through a competitive RFP process if defaults and remedies are not satisfied by the current lessee in a manner and timeframe that is satisfactory to the City. The current lease is scheduled to expire within approximately three years, and the City must continue to administer the agreement in accordance with its contractual obligations, including any applicable notice and cure provisions. Enforcement and compliance measures should and will proceed consistently with the lease terms and applicable regulatory processes, particularly where corrective action may require discretionary permitting or environmental analysis.

The City issued correspondence to the Barnes Tennis Center in August of 2024 requiring the following:

- the lessee to amend the Conditional Use Permit;
- the lessee to comply with the Coastal Act;
- the lessee to amend the Ocean Beach Community Plan; and
- the lessee to comply with stormwater Best Management Practices.

Further, the City received a presentation from Barnes Tennis Center on their five year strategy in December 2024. Throughout 2025, EDD staff had additional and ongoing communication with the lessee which will continue to occur until this issue has been resolved, likely through current and ongoing lease negotiations. The lessee submitted a proposal to the City in March 2026 which is currently under review and negotiations have commenced, and staff from EDD and DSD both met with the lessee in person on August 12, 2026 and reiterated the City's position and necessary next steps to address the code violations including what permits and submittals are required.

Management will continue to coordinate with the appropriate departments to monitor compliance efforts and determine whether any additional enforcement or lease-related actions may be warranted. When violations occur, whether on public or private property, the City's primary goal is to seek compliance with applicable codes and regulations by the party responsible. Enforcement is applied based on the severity, the priority level of the violations, and the City's ability to provide enforcement, given staffing resources and workload. The City can take administrative or legal action to compel compliance, which is typically reserved for cases when no effort toward compliance is demonstrated. Further, the City's Building and Land Use Division (BLUE) is in regular contact with the City Attorney's Office regarding land use enforcement and prioritization. **Target Implementation Date:** June 30, 2027, and implementation is dependent upon completion of applicable permitting, environmental review, regulatory approvals and compliance efforts undertaken by the lessee with City oversight through the Economic Development Department and Development Services Department following established permitting and code enforcement practices.

Recommendation 2.1

We recommend that the Chief Housing and Community Development Officer, in consultation with the City Attorney's Office, create a Citywide policy regarding Building and Land Use Enforcement Division investigations and enforcement procedures involving City-owned properties.

Management Response:

Management agrees with this recommendation. The Development Services Department (DSD) BLUE's training and enforcement program is designed and managed only to enforce regulations against private property owners, as the City can easily discern the property owner (through recorded property ownership documentation) who is responsible for correction of violations on the property regardless of who the current tenant is. In the case of City owned property, City's Property Agents within the Economic Development Department (EDD) rely on BLUE's subject matter expertise to identify building and land use violations. However, enforcement of City lease terms is left to City's Property Agents to determine if compliance can be gained through standard lease tenant communications, or if administrative or legal action needs to occur. In these instances, staff regularly work with the City Attorney's Office to identify the best and most appropriate method to gain compliance. EDD and DSD have had regular and on-going discussions on the best method to address enforcement on City leased property and will continue to work on an appropriate resolution based on the resources available. These discussions and outcomes include coordination with the City Attorney's Office both from DSD's leadership and EDD's lease administration division.

Given that BLUE experienced a 40% staffing reduction in FY26 and received additional 20% reduction in FY27, the division does not currently have the staffing or resources necessary to absorb new enforcement responsibilities on City properties at the level of responsiveness suggested in the audit. Any additional workload would directly impact existing operations unless staffing and funding are added. Several asset owning City departments, including PUD, TD, ESD, P&R, and SWD, maintain their own code compliance teams capable of enforcing the SDMC on their properties and assets. EDD would benefit from additional staffing, as indicated in the audit, by adding property managers or specific asset management trained staffing necessary to provide the oversight of property to the appropriate levels necessary to handle the approximately 1,600 properties owned by the City with associated leaseholds.

Under the current staffing and operational department structure within EDD, Property Agents within the classification can include (Sr. Property Agents, Property Agents and Associate Property Agents) inspect sites on an annual basis but do not function as full-time property or regular asset managers given their sizable, and diverse portfolio coupled with under-resourced staffing capacity. Outside the annual inspection, site visits generally occur on an as-needed basis tied to specific transactions, tenant requests, complaints, capital projects, disputes, or known compliance concerns, rather than as part of a recurring operational inspection and asset management program.

A dedicated property (or asset) management classification staff not associated with lease negotiations would allow more frequent site presence, proactive tenant relationship management, routine inspection protocols, earlier identification of unauthorized or non-permitted uses, monitoring of deferred maintenance conditions, and more consistent operational oversight of tenant compliance. Dedicated asset management staffing could also support enhanced coordination with enforcement and operational departments such as BLUE, with more timely escalation of issues, and improved long-term stewardship of City assets.

As identified through both operational experience and prior workload analyses, the scale and complexity of the City's real estate portfolio significantly exceeds the level of staffing currently available for proactive asset management activities. The addition of dedicated property, asset management, or code enforcement resources would improve the City's ability to conduct ongoing monitoring and earlier detection of operational and maintenance-related issues across the portfolio. In comparison, the City's San Diego Housing Commission has a staff of 150 to manage the housing assets within its portfolio while EDD has a dozen staff members for the full lease portfolio. **Target Implementation Date:** June 30, 2027.

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Andy Hanau, City Auditor, Office of the City Auditor
August 20, 2026

Recommendation 3.1

When the lease is amended, renewed, or put out to bid, we recommend that the Chief Housing and Community Development Officer:

a. Consistent with Council Policy 700-12, determine the current market rate rent versus the existing flat rate related to the leasehold based on the Barnes Tennis Center's operations and issue a memorandum to the City Council describing the activity, the City's revenue recovery percentage (if any), and a determination whether a public benefit related to each activity exists that furthers a specific public policy; and

b. Based on the determination in (a), if the difference between market rate and proposed lease terms exceeds the public benefit, consider amending the existing Barnes Tennis Center lease terms to ensure that the difference between the current market rate and the proposed lease terms are commensurate with the public benefit determination. Consider requiring a specified percentage of the lessee's gross revenue from revenue-producing ancillary uses such as retail sales, memberships, court rentals, clinics, coaching, stringing fees, tournaments, physical therapy, massage, and other income sources.

Management Response:

Management agrees and acknowledges that the operational activities occurring at the site and applicable City policies have evolved since execution of the existing lease in 1994. The lease was negotiated, approved, and executed under the market conditions, operational assumptions, and City policies in effect at that time and remains a legally binding agreement through 2029. The City cannot unilaterally modify the negotiated rent structure during the remaining lease term based solely on changes in operations, revenues, market conditions, or subsequently adopted policies that generally comply with the lease.

Management further notes that, in response to the City's recent communications regarding compliance, the lessee recently submitted an initial proposal for the City's consideration related to a potential amendment or future lease structure intended to address the compliance issues and uses currently occurring on-site. These negotiations are in the preliminary stages, and the City is currently evaluating the proposal, including potential operational, regulatory, permitting, environmental, and compliance considerations associated with any future authorization of such uses. It should be noted that the City has not made any determination as to the appropriateness of a lease amendment or new lease and reserves its right to pursue alternative approaches, including competitive solicitation, if determined to be in the best interest of the City.

As part of any future lease negotiation process, the City would have the opportunity to reevaluate the overall rent structure and consider then-current market conditions, valuation methodologies, appraisals, ancillary revenue participation opportunities, cost recovery mechanisms, benchmarking against comparable facilities, and consistency with applicable Council Policies, including relevant portions of Council Policy 700-10 and consistent with 700-12. EDD has recently evaluated other large city's real estate non-profit lease structure models for applicability in San Diego for certain sites managed by non-profits that provide public benefit but deserve a different monetary structure more appropriate for leases that also demand significant city services. This will be discussed with Council Committee and City Council for consideration later this calendar year (2026). **Targeted Implementation Date:** June 1, 2029, prior to consideration of any new lease or competitive solicitation for the site and consideration of any applicable Council Policy direction.

Thank you for the opportunity to provide responses to these recommendations. Management appreciates your team's professionalism throughout this review.

cc: Honorable City Attorney Heather Ferbert
Paola Avila, Chief of Staff, Office of the Mayor
Charles Modica, Independent Budget Analyst
Rolando Charvel, Chief Financial Officer
Rania Amen, Chief Community Services Office & Chief Engineer
Matt Yagyagan, Director of Policy, Office of the Mayor
Chris Ackerman-Avila, Policy Advisor, Office of the Mayor
Christina Bibler, Director, Economic Development
Elyse Lowe, Director, Development Services Department
Andy Field, Director, Park and Recreation Department
Kathy Steinman, Chief Deputy City Attorney
Matt Helm, Assistant City Auditor, Office of the City Auditor
David Karlin, Senior Deputy City Attorney
Andy Horita, Senior Fraud Investigator, Office of the City Auditor
Gina Rouza, Fraud Investigator, Office of the City Auditor

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