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**COUNCIL PRESIDENT
SCOTT H. PETERS**

CITY OF SAN DIEGO

August 1, 2007

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SAN DIEGO
COUNTY GRAND JURY

Honorable Janis Sammartino
Presiding Judge
San Diego County Superior Court
Main Courthouse, Third Floor
220 West Broadway
San Diego, CA 92101

Re: 2006-2007 Grand Jury Report entitled "San Diego Real Estate Assets"

Dear Judge Sammartino:

Pursuant to the California Penal Code Section 933.05 (a), (b) and (c), the San Diego City Council has provided the attached responses to the Grand Jury's report dated May 7, 2007.

In summary, on July 17, 2007, the City Council voted to approve the Independent Budget Analyst's recommendation to join and affirm the Mayor's response on the facts, findings and recommendations 07-19, 07-20 and 07-22 outlined in the Grand Jury Report.

On Recommendation 07-21, the City Council responds that further analysis is required. The Real Estate Assets Department presented a revised Council Policy 700-10, Disposition of City Owned Property, to the Land Use and Housing Committee on July 11, 2007. The Committee took action to forward this for full City Council consideration and it is anticipated that this will occur in the fall.

Sincerely,

Scott H. Peters

SHP/ms
Attachments



Honorable Janis Sammartino
August 1, 2007
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cc: Honorable Mayor & City Council
Independent Budget Analyst Andrea Tevlin
City Clerk Elizabeth Maland

**SAN DIEGO CITY COUNCIL RESPONSE TO GRAND JURY REPORT
“SAN DIEGO CITY REAL ESTATE ASSETS”**

Finding 1: The Real Estate Assets Department (READ), which manages this portfolio, was in need of a new business model. The City’s portfolio of income-producing real estate was managed without a formal plan. Departmental space was provided as needed, without consideration of use by other departments, availability or possible changes to the portfolio. Public service properties were acquired on an as-requested basis without reference to an over-all plan. The organization lacked the authority to manage its portfolio, instead making small individual transactions to provide services to the best of its ability.

Agree. In response for the need of a new business model, many changes have been implemented within the department. READ is working towards developing its first portfolio management plan which is scheduled to be presented to Council in December 2007. As part of this plan READ has assumed the duties of coordinating the space needs of City departments. An RFP for a consultant to write a facility plan that will outline the space needs for all the City’s departments has been drafted and will be issued in July 2007. The organization has moved to increase its authority to manage its portfolio by submitting changes to Council Policy 700-10 which governs the sale and leasing of the City’s real estate assets.

Finding 2: The Department has been divided into three major components: Acquisition/Disposition (acquiring and disposing of City properties), Asset Management (managing City’s ground lease portfolio), and Corporate Services (managing facilities needs for governmental functions and services).

Agree. The reorganization of READ to align with its core lines of business has made the department operate in a more efficient manner.

Finding 3: By using real estate brokerage techniques instead of a public auctions the City would have greater latitude in disposing of surplus assets at the best price.

Agree. READ believes that having the option to hire real estate brokers to market the City’s property will net better prices than always disposing of these assets at auction. A Request for Qualifications (RFQ) has been issued with the goal of producing a preferred vendor list of highly qualified real estate brokerage companies to represent the City. These brokers will bid their commissions for the individual assignments and listings will be awarded on the basis of the low bid.

Finding 4: The Grand Jury has reviewed the recommended changes to 700-10 and believes that the implementation of these changes should maximize the value received from the sale of the City's surplus property.

Agree. A revised Council Policy 700-10 has been drafted and was presented to Council's Land Use and Housing Committee on July 11, 2007 for approval. The policy will be sent to the full City Council for consideration in the fall. The revised policy allows for greater flexibility in the sale of the City's surplus properties which will result in increased prices.

Finding 5: A high priority should be placed on scanning all of the original documents into a computer database and storing the originals in a safe, off-site facility.

Agree. A contract to scan the paper files of the Real Estate Assets Department into a computer database has been awarded to Anacomp. It is anticipated that the scanning of the documents will begin either late third quarter or early fourth quarter 2007. The scanned information will be available to migrate into READ's new computer system and a copy will be electronically stored at a safe off-site facility.

Finding 6: The Grand Jury did find that there have been issues, friction, and in some instances a lack of cooperation between READ and the City Attorney's Office.

Agree. READ is trying its best to work with the City Attorney's Office.

Recommendation 07-19: Provide financial and administrative resources to implement READ's portfolio management model recommended by the Grubb & Ellis Report.

Response: This recommendation is being implemented. The City continues to work diligently to create a system that will keep track of all READ's financial and administrative workings. The City has supported efforts for revitalizing READ through a reorganization of the department, approved the creation of 3 non-classified positions to manage core business, provided funding for a consultant study of best practices of managing the department (Grubb & Ellis study), provided funding for scanning READ's files into an electronic format, provided funding for a new computer system for READ and provided funding in the FY 08 budget for training.

Recommendation 07-20: Direct READ to immediately implement a program to scan and store all original documents in a safe repository.

Response: This recommendation is being implemented. A contract to scan READ's paper files into an electronic format has been awarded to Anacomp. It is anticipated that the scanning of the documents will begin no later than early fourth quarter 2007.

Recommendation 07-21: Implement changes in Council Policy 700-10 as presented by the report at the City Council Committee on Land Use and Housing dated February 7, 2007.

Response: The recommendation requires further analysis and is under consideration. The Real Estate Assets Department presented a revised Council Policy 700-10, Disposition of City Owned Property, to the Land Use and Housing Committee on July 11, 2007. The Committee took action to forward this for full City Council consideration. It is anticipated that this item will be considered by the Council in the fall.

Recommendation 07-22: Establish an efficient and timely working relationship to maximize return on all City property.

Response: READ is working to develop such a relationship.

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: July 9, 2007

IBA Report Number: 07-71

City Council Docket Date: July 17, 2007

Item: Response to the 2006-2007 Grand Jury Report entitled "San Diego Real Estate Assets"

OVERVIEW

On May 10, 2007, the San Diego County Grand Jury released their report "San Diego City Real Estate Assets". The report reviews the management of City-owned land and assets and makes recommendations that are intended to enhance management of the City's portfolio in a manner which will maximize its value.

In a July 6, 2007 response, the Mayor has responded to the Findings of the report and to the Recommendations made to the City of San Diego. In a separate item on this docket, the Mayor provides the opportunity for Council consideration and legislative approval to sign on to those responses. The IBA submits this item to propose a response to the report's recommendation 07-21, which was directed solely to the City Council.

FISCAL/POLICY DISCUSSION

The IBA has reviewed the Mayor's responses to Findings and Recommendations. The IBA suggests that the City Council join with the Mayor in these responses as suggested by staff in the companion docket item. In addition, the IBA proposes the language below for the City Council to utilize in responding to Recommendation 07-21:

The 2006-2007 San Diego County Grand Jury recommends that the City of San Diego:

7-21: Implement changes in Council Policy 700-10 as presented by the report at the City Council Committee on Land Use and Housing dated February 7, 2007.

The recommendation requires further analysis and is under consideration. The Real Estate Assets Department presented a revised Council Policy 700-10, Disposition of City Owned Property, to the Land Use and Housing Committee on June 13, 2007. The item

was continued and is now scheduled to return to the Land Use and Housing Committee for further discussion on July 11, 2007. Depending on the Committee's action, the revisions to the policy may be forwarded to the full City Council for consideration in the fall.

CONCLUSION

The IBA believes that the language submitted by the Mayor, as well as the proposed response to Recommendation 07-21, is appropriate to constitute the response to the Grand Jury on their report on Real Estate Assets on behalf of the San Diego City Council.

[SIGNED]

Penni Takade
Deputy Director

[SIGNED]

APPROVED: Andrea Tevlin
Independent Budget Analyst