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THE CITY OF SAN DIEGO
COUNCIL PRESIDENT MYRTLE COLE
FOURTH DISTRICT

RECEIVED

MAY 01 2017

SAN DIEGO
COUNTY GRAND JURY

April 26, 2017

Judge Jeffrey B. Barton
Presiding Judge
San Diego Superior Court
220 West Broadway
San Diego, CA 92101

Re: Grand Jury Report: "City of San Diego's Real Estate Assets Department Leasehold Management Has Weaknesses"

Dear Judge Barton:

Pursuant to California Penal Code Section 933.05(a), (b) and (c), the City of San Diego provides the attached response from the Mayor and City Council to the applicable findings and recommendations included in the above referenced Grand Jury Report.

If you require additional information or have any questions, please contact Erin Demorest, Director of Legislative Affairs, at 619-533-3920.

Sincerely,

Myrtle Cole

Myrtle Cole

- Encl: 1. City response to Grand Jury Report: "City of San Diego's Real Estate Assets Department Leasehold Management Has Weaknesses"
2. City Council Resolution R-2017-489

**City Response to
San Diego County Grand Jury Report Entitled
REAL ESTATE ASSETS DEPARTMENT LEASEHOLD MANAGEMENT HAS WEAKNESSES**

Pursuant to California Penal Code section 933(c), the San Diego City Council provides the following responses to the findings and recommendations pertaining to the City of San Diego that are included in the above referenced Grand Jury Report:

FINDINGS 01 THROUGH 04

Below are the City Council's responses to Findings 01 through 04:

Finding 01: *The lag in renewing expired leases does not allow the City to maximize its revenue potential on leased properties and prevents lessees from developing secure, long-term plans.*

Response: **The City Council partially disagrees with the Grand Jury's finding.**

Although the backlog of expired leases does create the potential for inefficient management of leased properties, the Real Estate Assets Department (READ), works to mitigate any negative impacts. Maximizing revenue for the City is a critical goal for READ; therefore, READ's Asset Management Division continually evaluates agreements that have expired or are approaching expiration in order to prioritize accordingly.

It is important to note that many City leases are held by non-profit entities that provide important services to City residents that the City is otherwise unable to provide, and many of these leases do not produce revenue. Over 50% of the City's expired or holdover leases/agreements are non-revenue agreements which do not impact revenue, or generate less than \$5,000 per year. Higher income producing properties, when approaching the end of their leases or upon becoming vacant, are given the highest priority.

In some circumstances, holdover agreements are kept month-to-month to allow the City the flexibility necessary to strategically review how those properties fit into anticipated future City needs. One example of this is the Naval Training Center site in Liberty Station: some leases remained on a month-to-month basis because the City expects to use some of those properties in the future as a component of the Pure Water program. Another example is a management agreement currently held on a month-to-month basis to operate the recreational vehicle park located at DeAnza Cove, as the City is currently evaluating the long-term uses for this location within Mission Bay Park.

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Finding 02: *READ's inability to bring the backlog of expired leases current demonstrates a lack of adequate resources.*

Response: The City Council partially disagrees with the Grand Jury's finding.

Resources provided to any City operation must be balanced against many competing urgent citywide priorities. Because of the need for additional resources to efficiently manage the workload, READ's Asset Management Division added two positions in FY 2017, including an Associate Property Agent and a Property Agent. After a period of training, education, and mentoring, the additional staff are now beginning to work on priority assets and toward reducing the number of agreements in holdover status. READ now believes it has adequate resources to maintain optimum workload and address the most critical asset management needs.

Finding 03: *A policy for time-sensitive issuance of RFPs would promote fairness and accountability.*

Response: The City Council partially disagrees with the Grand Jury's finding.

Many factors impact the prioritization of RFP issuances, and a standardized time frame for RFP issuance may not be realistic or efficient given the variety of properties managed by READ, and the many unique circumstances surrounding those properties. READ works to balance the goal of maximizing income with the City's future real estate needs for its departments and initiatives, and these goals have different timelines associated with them.

Processes that can impact the timeline for issuing RFPs include community plan updates and reviews of uses and future plans by other City departments and potential lessees. The importance of ensuring the proper use and disposition of properties is essential for a successful RFP. As noted in the response to Finding 01, the potential change in uses for the NTC properties and the DeAnza Cove site could be negatively impacted if RFPs for leases at those properties were to be issued immediately.

Finding 04: *Council Policy 700-10 is too rigid and needs revising, and Council Policy 700-12 is outdated, preventing READ officials from making sound leasing decisions that accurately reflect current economic conditions.*

Response: The City Council agrees with the Grand Jury's finding.

**City Response to
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REAL ESTATE ASSETS DEPARTMENT LEASEHOLD MANAGEMENT HAS WEAKNESSES**

RECOMMENDATIONS 17-01 THROUGH 17-03

Below are the City Council's responses to Recommendations 17-01 through 17-03:

Recommendation 17-01: *Within fiscal year 2018, provide resources to the Real Estate Assets Department – either additional personnel or through outsourcing – to develop a proactive strategy for bringing held-over nonprofit and for-profit leases current.*

Response: The recommendation has been implemented.

During Fiscal Year 2017, additional resources including two new staff positions were added to READ's Asset Management Division in order to assist with transition of holdover leases to new longer term agreements. READ has made substantial progress in transitioning agreements and will continue to make improvements. In Fiscal Year 2016, 27% of agreements managed by READ were on holdover status. In Fiscal Year 2017, READ is on track to reduce that amount to 25% and has a target of 20% for Fiscal Year 2018.

It is important to note that a goal of 0% leases in holdover or on a month-to-month status is unrealistic, because holdover leases are an important component of READ's overall real estate strategy for the City. This strategy allows the City to maintain flexibility and to balance the goal of obtaining the highest possible incomes with ensuring that land is available if it is needed for a future City use.

Recommendation 17-02: *Direct the Real Estate Assets Department to establish, within fiscal year 2018, a standard time frame for issuing RFPs on expiring leases.*

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

As noted in the response to Finding 03, a standard time frame for issuing RFPs would not be efficient or reasonable in most instances where RFPs are used. The variety of property types READ manages and unique property circumstances generally lead to timeframes specific to each site. Examples of varying property types include dedicated parks, hotels, museums, and recreational facilities. The unique nature of different properties must be considered to ensure their proper use and disposition.

READ did issue a portfolio management plan on May 23, 2016, which reviews the City's overall real estate portfolio, including the operating plan for the City's properties, a disposition plan for surplus property, and an overall strategy for City occupied real estate.

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Recommendation 17-03: *Work with the Real Estate Assets Department to revise and update Council Policies 700-10 and 700-12 within fiscal year 2018.*

Response: The recommendation has not yet been implemented, but will be implemented in the future.

READ is in the process of updating Council Policies 700-10 and 700-12, which it plans to present to City Council for consideration and adoption by June 30, 2017.

RESOLUTION NUMBER R- 311054

DATE OF FINAL PASSAGE APR 18 2017

A RESOLUTION OF THE COUNCIL OF THE CITY OF
SAN DIEGO APPROVING THE CITY COUNCIL'S RESPONSE
TO THE 2016-2017 SAN DIEGO COUNTY GRAND JURY
REPORT TITLED "CITY OF SAN DIEGO'S REAL ESTATE
ASSETS DEPARTMENT: LEASEHOLD MANAGEMENT HAS
WEAKNESSES"

WHEREAS, on December 13, 2016, the 2016-2017 San Diego County Grand Jury
(Grand Jury) filed a final report titled "City of San Diego's Real Estate Assets Department:
Leasehold Management Has Weaknesses" (Report) that requested a response from the City
Council (Council); and

WHEREAS, the Report discusses a number of issues related to tracking and managing
the inventory of City-owned property by the Real Estate Assets Department (READ); and

WHEREAS, the Report includes four findings and three recommendations directed to the
Council; and

WHEREAS, under California Penal Code section 933(c), within 90 days after the filing
of the report, each public agency which the Grand Jury reviewed, and about which it issued the
Report, must comment to the Presiding Judge of the Superior Court on the findings and
recommendations pertaining to matters under the control of the agency; and

WHEREAS, the comments required from the Council are due to be submitted to the
Presiding Judge of the Superior Court on May 1, 2017, as the City requested and received an
extension of time to respond; and

WHEREAS, the response to the Report required that the Council respond to Findings 01
through 04 and to Recommendations 17-01 through 17-03; and

WHEREAS, the Office of the Independent Budget Analyst has proposed a Council response to the Report as set forth in IBA Report No. 17-10, dated March 6, 2017, for the Council's consideration; and

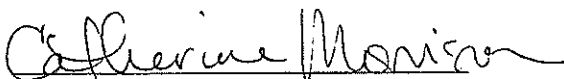
WHEREAS, on March 15, 2017, the proposed Council response to the Report was submitted as an informational item to the Smart Growth and Land Use Committee meeting; and

WHEREAS, under San Diego Charter section 280(a)(1), this resolution is not subject to veto by the Mayor because this matter is exclusively within the purview of the City Council and not affecting the administrative service of the City under the control of the Mayor; NOW, THEREFORE,

BE IT RESOLVED, by the City Council of the City of San Diego, that the Council approves and adopts as its own the response to the 2016-2017 San Diego County Grand Jury Report titled "City of San Diego's Real Estate Assets Department: Leasehold Management Has Weaknesses," as set forth in IBA Report No. 17-10, dated March 6, 2017.

BE IT FURTHER RESOLVED, that the Council President is authorized and directed, on behalf of the San Diego City Council, to execute and deliver the above-described response to the Presiding Judge of the San Diego County Superior Court no later than May 1, 2017.

APPROVED: MARA W. ELLIOTT, City Attorney

By 
Catherine C. Morrison
Deputy City Attorney

CCM:jvg
April 4, 2017
04/21/17 COR. COPY
Or.Dept: IBA
Doc. No.: 1490416

Passed by the Council of The City of San Diego on APR 18 2017, by the following vote:

Councilmembers	Yeas	Nays	Not Present	Recused
Barbara Bry	☒	☐	☐	☐
Lorie Zapf	☒	☐	☐	☐
Chris Ward	☒	☐	☐	☐
Myrtle Cole	☒	☐	☐	☐
Mark Kersey	☒	☐	☐	☐
Chris Cate	☒	☐	☐	☐
Scott Sherman	☒	☐	☐	☐
David Alvarez	☒	☐	☐	☐
Georgette Gomez	☒	☐	☐	☐

Date of final passage APR 18 2017.

(Please note: When a resolution is approved by the Mayor, the date of final passage is the date the approved resolution was returned to the Office of the City Clerk.)

AUTHENTICATED BY:

KEVIN L. FAULCONER
Mayor of The City of San Diego, California.

(Seal)

ELIZABETH S. MALAND
City Clerk of The City of San Diego, California.

By *Gina Driven*, Deputy

Office of the City Clerk, San Diego, California

Resolution Number R- 311054