

SAN DIEGO CITY REAL ESTATE ASSETS

SUMMARY

The City of San Diego currently owns 120,000 acres of land consisting of 3,400 properties. There are 680 ground leases for various pieces of City property. There are also offices, laboratories, repair shops, and other facilities for 11,000 city employees. Very few real estate organizations, either public or private, approach the size and diversity of the City's portfolio. In some cases, properties were combined to form an operating entity, such as Qualcomm Stadium. Numerous properties are leased to individuals and organizations for a variety of purposes. Sport complexes and hotels are typical examples. Other properties, such as parks and recreation areas, are maintained by the city. The city also owns properties, such as fire stations, police stations, etc. The City of San Diego is unique among municipalities in the size and diversity of its real estate portfolio.

The management of city-owned property, by the Real Estate Assets Department (READ), had been marginal at best for the past several years. The old organization lacked management direction, authority to manage its portfolio, and the systems necessary to provide timely information to decision makers. The hard working and dedicated employees, such as those in the records department, kept this marginal operation afloat. However, many pieces of property could not be properly accounted for. The actual number and identification of all city properties had been in question for some time. Many of the existing 680 leases have long since expired. Facilities for municipal use were provided on an as "needed basis" with no consideration for overall use and how they might best be integrated into an over all facility use-plan for the City.

The City has appointed a new Real Estate Assets Director who has been assigned the task to take appropriate action to correct all of the current problems with City-owned property. As a part of this effort, READ has recently been reorganized to better reflect its core lines of business.

READ hired the firm Grubb and Ellis Corporate Services, a commercial real estate advisory group, as a consultant to review its current operating procedures and recommend appropriate improvements to Policies and Procedures used by the Real Estate Assets Department. *The Best Practices Methodology for Real Estates Department* by Grubb and Ellis, which was released on January 31, 2007, defines numerous recommendations for revising the operations of the Real Estate Asset Department.

REPORT NO: 07-035 (the "Report"), dated February 2, 2007, to the San Diego City Council from the Committee on Land Use and Housing, provides an excellent overview of the Grubb and Ellis Report and its recommendations. The report also includes recommendations for revision of Council Policy 700-10 to maximize value received for the sale of city real estate. By using Real Estate brokerage techniques instead of a Public

Auction the City would have greater latitude in disposing of surplus assets at the best price.

READ is also reviewing all existing leases to determine validity and verify that the lease prices are fair market value. All expired leases will be renegotiated accordingly.

The READ Property Management Group is compiling a list of properties recommended to be sold in the near future.

READ has also begun consolidation of leased and owned properties, in use by city agencies, to reduce annual costs to the City. To date the changes made have saved the City approximately \$1 million.

The City of San Diego is in need of a new organization and revised business model to manage its unique real estate portfolio. The new organization is being assembled and the Grubb and Ellis Report offers an excellent approach to maximizing the value of this portfolio. As stated in the conclusion of the Grubb and Ellis Report: “The City of San Diego has an opportunity to adopt a portfolio management model and to rebuild its operations in support of that model. In doing so, it would improve customer service, increase financial return from assets, and position itself to provide superior facilities to City Operations....”

Following the recommendations will require an investment of time and money. READ’s competent staff requires update training, appropriate tools, and transition support to accomplish this transformation to the proposed new model. It will also require significant support from customer organizations in City administration.

Since implementation of this new model should mean additional financial returns to the City, the Grand Jury believes it is imperative that the Mayor and City Council support READ in this implementation.

Further the Grand Jury believes that, if the majority of recommendations of the Grubb and Ellis Report are implemented, READ will be able to properly manage the City’s portfolio in a manner which will maximize its value.

PURPOSE

- Evaluate the current organization and current updates of READ policies and procedures to determine if the goal is to provide the City of San Diego with fair market returns on property it owns and manages.
- Evaluate the results of the Grubb and Ellis report and its recommendations to READ.

- Evaluate the READ proposal to update the City Council Policies and Procedures to streamline the process for sale of surplus real estate.
- Evaluate the interface between READ and the City Attorneys Office.

PROCEDURES

Reviews:

- Studied the Grubb and Ellis Report dated January 31, 2007.
- Reviewed Report No: 07-035 to the City Council from the Committee on Land Use and Housing dated February 7, 2007.
- Read numerous newspaper articles on the subject from July, 2006 through February, 2007.

Interviews:

- Conducted four interviews with knowledgeable City officials.

Visits:

- Jury visited the READ records facility.

DISCUSSION

The city of San Diego is unique among municipalities in the size and diversity of the real estate portfolio that it owns and manages. The Real Estate Assets Department, which is the management entity, was in need of a new business model. The city's portfolio of income-producing real estate was managed without a formal portfolio plan. Departmental space was provided "as needed" without consideration of use by other departments, availability of alternate facilities or changes in status of portfolio assets. Public service properties were acquired on an as-requested basis without reference to an over-all plan. The old READ organization lacked the authority to manage its portfolio, and instead made small individual transactions to provide services as best it could.

The City's new READ management team hired Grubb and Ellis Corporate Services to study Best Practices Methodology for the department and provide recommendations for improvements.

The firm was commissioned to do the following:

- Provide improved processes and procedures based on private and governmental real estate industry standards for the management of the City's real estate assets.

- Provide performance measures (metrics e.g. transactions per month, leases reviewed per month, lease income per month etc.) for the department and its real property inventory.
- Provide an assessment of the organizations real property management practices and its ability as a lessor and provide recommendations to improve efficiency.
- Provide a review and analysis of existing authority (statutes, regulations, policies, and other documents) that govern the management of real property and recommend changes to the existing authority to improve required processes and maximize efficiency.
- Provide real property abstracts suitable for tracking each site in the City's real estate inventory.
- Provide a brief summary of available information technology systems that would be best suited to support the department.

The report included recommendations in the following areas:

The Current Condition of READ:

The Report addresses personnel, operations and authority and governance.

The Desired Condition of READ:

The Grub and Ellis report addresses the development of a Portfolio Plan, including the identification of major elements of a Portfolio, development of a Corporate Services (Occupancy) Strategy, development of an Asset Management Strategy, development of an Acquisition/ Disposition Strategy, development of a technology implementation plan, and development of Authority documents.

The report was well written and provided excellent recommendations. Implementations of these recommendations by READ should enable READ to manage the City's real estate portfolio in a manner which will maximize its value.

FACTS AND FINDINGS

Fact: The city of San Diego is unique among municipalities in the size and diversity of the real estate portfolio it owns and manages.

Finding: 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.

Fact: New personnel were hired by the City to manage the Real Estate Assets Department.

Finding: 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).

Fact: READ hired the firm Grubb and Ellis Corporate Services to study Best Practices Methodology for the department and provide recommendations for improvements. The *Grubb & Ellis Report* was delivered to the Real Estate Assets Department on January 31, 2007.

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

Fact: READ has recommended that Council Policy 700-10, regarding Sale of Surplus Real Estate, be changed to maximize the value received for the sale of the City's surplus Real Estate.

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

Fact: The original records are currently stored in moveable file cabinets in a rented facility where they are vulnerable to potential damage in a fire, flood earthquake or other unexpected event.

Finding: 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.

Fact: There has been reported friction between READ and the City Attorneys Office. The City Attorneys Office is required by law to review key documents regarding the sale, purchase, or lease of City Property.

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

RECOMMENDATIONS

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

07-19: Provide financial and administrative resources to implement the READ portfolio management model recommendations defined in the Grubb and Ellis Report.

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

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

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

The 2006-2007 San Diego County Grand Jury recommends that the City of San Diego and the San Diego City Attorney's Office:

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

REQUIREMENTS AND INSTRUCTIONS

The California Penal Code §933(c) requires any public agency which the Grand Jury has reviewed, and about which it has issued a final report, to comment to the Presiding Judge of the Superior Court on the findings and recommendations pertaining to matters under the control of the agency. Such comment shall be made *no later than 90 days* after the Grand Jury publishes its report (filed with the Clerk of the Court); except that in the case of a report containing findings and recommendations pertaining to a department or agency headed by an elected County official (e.g. District Attorney, Sheriff, etc.), such comment shall be made *within 60 days* to the Presiding Judge with an information copy sent to the Board of Supervisors.

Furthermore, California Penal Code §933.05(a), (b), (c), details, as follows, the manner in which such comment(s) are to be made:

- (a) As to each grand jury finding, the responding person or entity shall indicate one of the following:
 - (1) The respondent agrees with the finding
 - (2) The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion

of the finding that is disputed and shall include an explanation of the reasons therefor.

- (b) As to each grand jury recommendation, the responding person or entity shall report one of the following actions:
- (1) The recommendation has been implemented, with a summary regarding the implemented action.
 - (2) The recommendation has not yet been implemented, but will be implemented in the future, with a time frame for implementation.
 - (3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a time frame for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This time frame shall not exceed six months from the date of publication of the grand jury report.
 - (4) The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefor.
- (c) If a finding or recommendation of the grand jury addresses budgetary or personnel matters of a county agency or department headed by an elected officer, both the agency or department head and the Board of Supervisors shall respond if requested by the grand jury, but the response of the Board of Supervisors shall address only those budgetary or personnel matters over which it has some decision making authority. The response of the elected agency or department head shall address all aspects of the findings or recommendations affecting his or her agency or department.

Comments to the Presiding Judge of the Superior Court in compliance with the Penal Code §933.05 are required from the:

<u>Responding Agency</u>	<u>Recommendations</u>	<u>Date</u>
City of San Diego	07-19, 07-20, 07-22	08/09/07
San Diego City Council	07-21	08/09/07
San Diego City Attorney's Office	07-22	08/09/07