



THE CITY OF SAN DIEGO

M E M O R A N D U M

OFFICE OF THE INDEPENDENT BUDGET ANALYST

DATE: February 20, 2020
TO: Kris Michell, Chief Operating Officer
FROM: Andrea Tevlin, Independent Budget Analyst
SUBJECT: Scope of Work Suggestions for Hugo Parker-Led Team

It is my understanding that the City is in the process of engaging the Hugo Parker law firm to oversee an interdisciplinary team of experts to assess numerous issues particular to the 101 West Ash project. You have requested Council members and others to provide you with issues to consider as a part of that assessment. I recommend the assessment include a review and explanation of the City's current processes for acquiring significant real estate property (from the time City staff first identifies the potential need and purpose for such an acquisition through to the process for presenting the proposed acquisition to the City Council for consideration and potential approval).

Significant acquisitions of real property are typically driven by a public need, require a considerable initial expenditure and/or a plan of finance, involve workforce considerations and associated expenses, and the assumption of property risk and ongoing maintenance responsibilities. Given the importance of these considerations, we believe a prudent property acquisition process warrants thorough vetting by numerous City departments and offices including the Mayor, City Council, City Attorney's Office, IBA, Real Estate Assets Department, Department of Finance, Debt Management, Human Resources, Environmental Services and Public Works. Consideration should also be given to City employees and members of the public who would occupy or visit the acquired property.

In the last three years, two major City real estate acquisition projects (101 Ash Street and the Othello Avenue Fire Fleet Repair Facility - now known as Kearney Mesa Repair Facility) have encountered significant problems that were not foreseen by staff or presented for consideration when the City Council was asked to approve the acquisitions. These problems have included significant project delays, cost increases, operational impacts, confusion among City customers, and uncertainty for City employees.

Another major project (the Housing Navigation Center which opened last December) also faced an operational delay of almost two years following acquisition. In 2015 the City entered into a lease-to-own agreement for the Civic Center Plaza (CCP) building where many City employees were and still are housed. Staff estimated at the time that \$15-\$21 million in

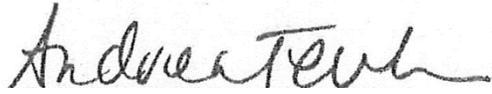
tenant improvements/repairs were necessary to maximize the space and accommodate an additional 245 employees, modernize elevators, implement ADA improvements and provide asbestos remediation. While the most critical maintenance and capital needs are being addressed year by year (e.g., approximately \$4.9 million in elevator modernization expense is planned for FY 2021), no tenant improvements have been done and there are no plans to do them in the future.

It appears there may be numerous explanations or causes leading to the challenges encountered with the aforementioned properties. Some causes were likely beyond the City's control. Nevertheless, we believe it would be useful and instructive going forward to request the Hugo Parker - led team to compare the City's current property acquisition processes/practices to their understanding of best practices for due diligence to be performed prior to making property acquisition decisions. This comparison should enable the team to provide the City with expert policy recommendations and identify opportunities for process improvement. Our Office believes the following actions/information are critical and need to be provided to the City Council before they are asked to approve a proposed purchase of real property.

- Identification of specific uses and needs for the property (short term and long term) including specific plans for occupancy to minimize future changes;
- Identify how proposed acquisition is holistically consistent with the City's real estate strategy;
- Use of appropriate outside experts to identify and report on potential risks in property condition reports, environmental reports, hazard materials reports;
- Use of a third-party expert to assist in space planning and identifying necessary tenant improvements (prior to and following property acquisition);
- Developing solid cost estimates for needed construction or tenant improvements;
- Identify any potential risks associated with acquiring the property as-is and any risks associated with making needed modifications to optimize or improve the property;
- Provide time table for all necessary work and occupation of facility;
- Present alternatives to the recommended acquisition and provide pros and cons for decision makers to consider;
- Ensure that critical information is provided to the City Council and the IBA well in advance of decision-making including but not limited to outside expert reports, appraisals, fiscal analyses, property purchase agreements;
- Allow sufficient time for the City Council and the IBA to fully vet the proposal;
- Following Council action, provide Council with regular updates on project status and notify Council timely of any new identified risks, cost overruns, changes in purpose, potential delays or other significant issues.

City Council Policy 700-10 establishes procedures and policies for the disposition of City-owned real property. This Policy has been updated numerous times since its inception in 1973. Alternatively, Council Policy 700-32 was adopted in 1975 to provide guidelines for City acquisition of real property. This Policy appears to provide guidelines for the acquisition of property using eminent domain powers. It does not provide guidelines to be followed when Council approval is sought for property acquisition resulting from arm's length negotiations. As Council Policy 700-32 has not been revisited since initially adopted, our Office recommends it be comprehensively updated, utilizing feedback from the Hugo Parker-led team and others, to provide guidance for all contemplated real estate acquisition processes.

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Kris Michell, Chief Operating Officer
February 20, 2020

A handwritten signature in black ink that reads "Andrea Tevlin". The signature is written in a cursive, flowing style.

Andrea Tevlin
Independent Budget Analyst

AT/jk

cc: Honorable Councilmembers
Jeff Sturak, Assistant Chief Operating Officer
Johnnie Perkins, Deputy Chief Operating Officer
Mara Elliott, City Attorney
Almis Udrys, Deputy Chief of Staff-Policy & Innovation, Office of Mayor
Cybele Thompson, Director, Real Estate Assets Department