

Performance Audit of READ – Asset Acquisition

Fiscal Year 2021 Audit Work Plan

TITLE: Interview with Scott Chadwick

PURPOSE: To understand the 101 Ash transaction

DATE/TIME: 9:30 a.m., 4/16/2021

LOCATION: Phone

PROGRAM PERSONNEL: Scott Chadwick, former City COO

AUDIT PERSONNEL: Andy Hanau, City Auditor
Kyle Elser, Assistant City Auditor
Megan Jaffery, Senior Performance Auditor
Carissa Nash, Performance Auditor

CONCLUSIONS: Note: Scott reviewed and confirmed the accuracy of the summary as-is. See I-1.31.1.

Purchasing 101 Ash was a mayoral initiative. In a strong mayor form of government, all of the decisions fall under the mayor as he is both CEO and mayor. The mayor makes decisions from both a department perspective and a citywide perspective.

Based on her resume and past experience, Cybele Thompson was viewed as the expert in real estate the City relied upon and deference was given to her expertise.

Jason Hughes did not have a contract with the City when working as an unpaid advisor to Mayors Filner, Gloria and Faulconer.

SUMMARY:

Overall Strategy and Background

- The client department on the 101 Ash acquisition was the City. The City was in need of space to house employees, due to the deteriorating conditions at COB. Purchasing CCP and 101 Ash were part of a strategy to concentrate employees downtown. The City's strategy at the time in purchasing buildings in the area near CCP and 101 Ash together was to potentially partner with a developer to develop the area occupied by the Plaza and CAB at low- or no-cost to the City and achieve the space the City needed.

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- Purchasing 101 Ash was a mayoral initiative. In a strong mayor form of government, all of the decisions fall under the mayor as he is both CEO and mayor. The mayor makes decisions from both a department perspective and a citywide perspective. Finding a long-term strategy for providing offices for the employee base is a fundamental role of the mayor.

Staff Roles and Oversight

- Although this was a mayoral initiative, Scott and the mayor relied on their staff to provide the necessary expertise. Based on her resume and past experience, Cybele Thompson was viewed as the expert in real estate the City relied upon and deference was given to her expertise. The Mayor had hired Cybele as READ director to move the department in a new direction. Cybele was ultimately responsible for ensuring the proper due diligence was conducted on 101 Ash.
- However, in the strong mayor form of government, there are appropriate checks and balances on all transactions like this. For example, for the 101 Ash purchase and sale agreements the City worked closely with the City Attorney's Office (CAO). The CAO is drafting and revising the purchase and sale agreement – not city staff. The additional check and balance is that the CAO is an independent department.
- If the CAO ever advised City staff that the as-is provision in the 101 Ash contract was risky, they never told Scott. At the time, to the best of Scott's knowledge, no one told Scott there was a concern about the building or the contract to acquire the building. Had staff told Scott to pump the brakes on moving forward with the transaction, Scott would have come to a halt on the acquisition because the main interest in acquiring 101 Ash was to save the City money. In hindsight, Scott believes that the CAO should have advised him of the contract risks and the shortcomings of the building condition assessments, which were done for the seller's financing purposes and were not the same type of assessments that a buyer should do.
- Additional checks and balances include the reporting structure. Cybele was overseen by DCOO Ron Villa.
- The CFO would have been involved on a transaction like this and Scott would have relied on their expertise as well.
- The IBA's office is another check and balance for this transaction.
- Scott relies on professional staff to present accurate information to City Council. For example, Cybele had the expertise to know the building grading scale. Cybele, Ron, and Jason Hughes were all telling Scott it's a Class A building and Cybele told him the inspections from 2014 and 2016 were sufficient.
- The appraiser was hired by the sellers, but at the City's request. Although the appraisal was done for the sellers, the appraiser would still provide a reasonable value estimate because they have to do that to keep their license.

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- Jason Hughes did not have a contract with the City when working as an unpaid advisor to Mayors Filner, Gloria and Faulconer.

Financing the Acquisition

- The City was looking at using bond proceeds initially to purchase 101 Ash. This was the approach that would have saved the City the most money.
- However, the mayor did not want to use bond proceeds for purchasing 101 Ash. The mayor believed the City's bond capacity should be used for capital improvement projects that benefit the public, not for purchasing a building that would have housed City employees.