

Performance Audit of READ – Asset Acquisition
Fiscal Year 2021 Audit Work Plan

TITLE: Interview with Kris Michell

PURPOSE: To understand the steps taken on the 101 Ash acquisition from the perspective of the former COO

DATE/TIME: 5/18/2021, 3:30 p.m.

LOCATION: MS Teams

PROGRAM PERSONNEL: Kris Michell, former Chief Operating Officer for City of San Diego

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

CONCLUSIONS:

- Note: Kris reviewed this summary and provided the track changes revisions below on 7/20/2021.
- Mayor Faulconer had lots of confidence in Jason Hughes.
- Post 101 Ash-acquisition, Hughes wanted to be project manager for the construction on 101 Ash; however, the CAO ultimately gave a final opinion stating that Hughes' involvement in City contract after his participation in the 101 Ash acquisition constituted a 1090 violation. It did not matter whether his participation was unpaid.
- There was no client department for the Housing Navigation Center because the City did not have homeless services department at the time. The City's elected officials made the decision to purchase the Skydiving Center.
- The Real Estate Assets Department (READ) was responsible for conducting the due diligence for the Housing Navigation Center. Acquiring departments do not have the expertise on necessary due diligence for acquisitions, READ should have fulfilled this role.
- The Economic Development Department (EDD) was responsible for the funding piece of the Housing Navigation Center. READ and EDD likely worked together to get the appraisal, especially because using CDBG funds would probably require an appraisal.
- The CAO would have been heavily involved in this transaction. CAO has lots of power in the City.

SUMMARY:

101 Ash Acquisition

- Kris said she was not involved in 101 Ash acquisition phase and she was only involved in the construction implementation phase. In December 2016, the City was in escrow for 101 Ash (escrow closed in January

2017) and hired Gensler to plan for the design of 101 Ash. The plan was always to renovate 101 Ash to house 1100 employees. The planning phase ended in August/September 2017.

- After the planning phase ended (late 2017/early 2018), the City created some rough construction drawings and put out a construction contract for bid. Most contracting firms did not respond because the bid drawings were not detailed enough, and the bid required a 24-hour construction schedule. Respondents had high bids because of the 24-hour construction schedule, and they had to pad their costs because of the lack of detail in the construction drawings. The contract and bids were eventually retracted, and the City hired a company to redesign the drawings and a new contract was put out to bid again. West Coast responded with the lowest bid and was hired (approved by City Council).
- For the acquisition of 101 Ash, Kris is not sure who made the decisions given that she was not with the City at the time.
- Kris was not briefed on why the City did not use bonds to directly purchase 101 Ash.

Jason Hughes

- Kris had heard that Mayor Faulconer had confidence in Jason Hughes.
- It is not unusual for elected officials to rely on outside experts.
- Post 101 Ash-acquisition, Hughes wanted to be project manager for the construction on 101 Ash; however, the CAO ultimately gave a final opinion stating that Hughes’ involvement in City contract after his participation in the 101 Ash acquisition constituted a 1090 violation. It did not matter whether his participation was unpaid.

Housing Navigation Center

- The City purchased the Housing Navigation Center primarily because of its location in an area of downtown with a high homeless population. The original plan for the center was for it to be a hub to co-locate all homelessness services (from local, state, and federal governments) where it could serve thousands of people. There was no discussion of using the center as an emergency shelter, which would only serve hundreds of people.
- There was no client department for the Housing Navigation Center because the City did not have homeless services department at the time. The City’s elected officials made the decision to purchase the Skydiving Center.
- Bob McElroy, David Malcolm, other homeless advocates, and staff on the 11th floor (of City Hall) thought a Housing Navigation Center was a good idea and that the center’s downtown location was a good property to be the center due to its location.
- The Real Estate Assets Department (READ) was responsible for conducting the due diligence for the Housing Navigation Center. Acquiring departments do not have the expertise on necessary due diligence for acquisitions, READ typically fulfilled this role.
- The Economic Development Department (EDD) was responsible for the funding piece. READ and EDD likely worked together to get the appraisal, especially because using CDBG funds would probably require an appraisal.
- The CAO would have been heavily involved in this transaction.
- Jason Hughes did not advise on the purchase of the Housing Navigation Center.
- Kris believes that the City Attorney’s Office (CAO) oversaw the transaction and would have opined on the legal risks of the transaction.

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Other

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The transition from the city manager form of government to the strong mayor system has changed City operations: The Mayor has effectively become the City Manager and is the final operational decisionmaker.

- The CAO has a lot of power in the City because they have to sign off on all transactions and staff reports to City Council. They can and do stop deals and projects because they refuse to sign off.