

**Performance Audit of READ – Asset Acquisition**

Fiscal Year 2021 Audit Work Plan

**TITLE:** Interview with Stephen Puetz, former Chief of Staff for former Mayor Faulconer

**PURPOSE:** To understand the steps taken on the 101 Ash acquisition from the perspective of the Mayor's Office

**DATE/TIME:** 5/13/2021, 3 p.m.

**LOCATION:** MS Teams

**PROGRAM PERSONNEL:** Stephen Puetz, stephenpuetz@gmail.com

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

**CONCLUSIONS:**

- *Note: Stephen did not respond to our requests to confirm the summary.*
- Stephen understood Jason Hughes to have a duty of loyalty to the City.
- Either the City Attorney's Office or someone in Finance saying bonds were not an option.
- The Mayor trusted the people he worked with and took their recommendations and expertise to heart.
- Real estate deals like this are complicated and the Mayor and Mayor's staff rely on their staff's expertise.
- Although everyone looked at the 101 Ash contract, the Mayor's staff deferred to the expertise of READ, the CAO's real estate lawyers, and the CAO. The CAO should have flagged that issue to the Mayor and City Council.
- The CAO was heavily involved in the 101 Ash acquisition.
- If the CAO is claiming they do not get involved, that's not accurate. The CAO effectively killed deals often by refusing to sign off on contracts that they didn't think were right. The CAO would have had a role in this transaction and would have had a say on the contract.

**SUMMARY:**

1. What was your role in the 101 Ash acquisition?
  - Because the acquisition was more than three years ago, Stephen does not necessarily remember all of the details of the acquisition and exact dates.

- At the time of the acquisition, Stephen was Mayor Kevin Faulconer’s Chief of Staff and in that role oversaw the Mayor’s Executive Office and worked with operations of major initiatives.
  - The 101 Ash acquisition was primarily run by operations staff – the City’s COO Scott Chadwick and his team. His team was on this was Scott Lewis, Mary Lewis, Cybele Thompson, and Ron Villa.
  - Other Mayor’s Office staff involved may have been Jaime Bradford and Mike Hansen.
2. From your perspective, who was the “client department” for the 101 Ash acquisition? Who was ultimately making the decisions on going forward with the building, the method of financing, due diligence, etc.?
- At the time, Stephen saw the client as the Development Services Department (DSD) because they were housed at the City Operations Building (COB), which was not in good condition and staff and private citizens were advocating for DSD to be relocated.
  - In terms of who was making decisions, Stephen agrees with the Mayor’s statement that the buck stops with the Mayor. At the same time, the COO, Scott Chadwick, was leading the briefings to the Mayor and was the head of operations. Scott presented information to the Mayor pulled together by operations staff. Mary Lewis would have provided the financing information and Cybele Thompson would have been responsible for the due diligence.
  - The role of the COO is oversight of the operations and the 101 Ash acquisition was a classic function of the COO.
3. Can you walk us through how the City first became interested in buying 101 Ash?
- Sandor Shapery came to the City and tried to convince the City to lease or buy 101 Ash. The City declined multiple times because the price was too high, according to operations staff.
  - Over time, the City’s situation changed. Executive Complex, which house many City staff, became an issue and many employees were displaced. There was a desire to keep employees downtown and near City Hall.
  - 101 Ash was near City Hall and future City Leadership could decide to renovate the whole parcel of land with CAB and 101 Ash and City Hall.
  - Before looking at 101 Ash again, the City was pursuing leasing or purchasing 110 W. A St. However, the federal government came in and outbid the City.
4. Why would Shapery insist on such a high price to the City but then agree to sell the whole thing to Cisterra for \$72 million?
- Stephen’s thought is that the owners of Sempra thought they would be able to sell the building for more than its value to the City because the City wanted a building close to City Hall and 101 Ash was ideally located. Further, Stephen thinks it’s possible the owners thought they would be able to sell the building to the City for a lot because the Mayor would give them a break and they could muscle the high price through. However, Stephen thinks this is crazy because the Mayor would not do anything that is not above board or even has optics like it was not above board.

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- Shapery and Manchester finally realized the City would not buy the building at the super high price and were pretty done with it, so they agreed to sell the building to Cisterra.

5. How did Cisterra become involved?

- Scott Chadwick, likely, or potentially Jason Hughes, brought in Cisterra.
- Cisterra had the rights to purchase the building, they did a lot of work with the City, and they wanted to be good civic partners, so they offered to assign their purchase rights to the City for the same price they were buying the building for, plus some nominal transaction fees.
- However, there was some sort of financing issue and the City could either fund the transaction through the lease-to-own structure or walk away.

6. Why did the City decide to go with a lease-to-own funding structure? Why?

- Cisterra had the rights to purchase the building, they did a lot of work with the City, and they wanted to be good civic partners, so they offered to assign their purchase rights to the City for the same price they were buying the building for, plus some nominal transaction fees.
- However, there was some sort of financing issue and the City could either fund the transaction through the lease-to-own structure or walk away.
- It was a strong recommendation from City staff (Scott Chadwick) to go forward with the lease-to-own option. Even if the lease-to-own structure was more expensive than using bonds, it was cheaper than the status quo.
- Stephen was not able to sit in on any closed sessions, if there were any, with the Mayor and City Council being briefed by the City Attorney's Office on this transaction.
- The City looked at the funding and the lease-to-own structure was the only structure that worked in the time frame. Cisterra's right to purchase the building was going to expire and the City had to fund the deal before it expired.
- The City Attorney's Office was heavily involved and City Council members were getting briefings on the deal.

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7. Who ultimately took the idea of buying the building with bonds off the table? Why?

- Either the City Attorney's Office or someone in Finance saying bonds were not an option.
- The Mayor trusted the people he worked with and took their recommendations and expertise to heart.
- Real estate deals like this are complicated and the Mayor and Mayor's staff rely on their staff's expertise.
  - The Mayor changed the City's policy after this to ensure the City hires outside experts to look at these large real estate deals.

8. In terms of due diligence, it appears the City largely accepted information from the seller and did not conduct its own appraisals or building assessments. From your perspective, whose responsibility was it to oversee due diligence and ensure the City knew everything it needed to know before acquiring the building?

- Stephen didn't realize the City didn't have everything you would normally need in a real estate transaction like this, or that the City relied on information provided by the seller.
  - READ was ultimately responsible for due diligence.
  - In hindsight, the biggest blunder in this transaction was READ.
  - Stephen does not recall anyone raising any concerns or recommending that the City hire its own appraisal or hire its own building assessment.
9. To your knowledge, to what extent was the City Attorney's Office (CAO) involved?
- Stephen does not recall CAO or READ raising any issues or concerns about the "as-is" clause in the contract.
  - Although everyone looked at the contract, the Mayor's staff deferred to the expertise of READ, the CAO's real estate lawyers, and the CAO. The CAO should have flagged that issue to the Mayor and City Council.
  - The CAO was heavily involved in the 101 Ash acquisition.
  - If the CAO is claiming they do not get involved, that's not accurate. The CAO effectively killed deals often by refusing to sign off on contracts that they didn't think were right. The CAO would have had a role in this transaction and would have had a say on the contract.
10. Did you have any interaction with Jason Hughes? What did you understand his role to be? Did you have any concerns about his role?
- Stephen did not have any concerns at the time – Stephen understood Jason Hughes to have an ethical responsibility to work for the City and that he had a contractual obligation to do right by the City, regardless of if his contract was for free, or for \$1, or whatever the arrangement was.
  - Stephen did not know Jason did not have a contract with the City.
  - Jason's motivation to work for free for the City was that if he got good deals for the City he would get good publicity as someone who could get you good deals, and then he would get more business.
  - The Mayor cared what Jason thought. If Jason said it was a great deal than that definitely would have had an impact on the Mayor's decision. If Jason said it was a bad deal, that would have had a significant impact on the Mayor's decision.
11. Were you involved in the planning for the acquisition of the Housing Navigation Center?
- No, that was largely after Stephen's time there.
  - Stephen would not have been involved also because of some conflicts on working on homelessness policies.
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- Stephen has not been contacted by the City's other investigation teams looking at the 101 Ash transaction.
  - Stephen will arrange for our team to discuss these transactions with the former mayor.