

**Date:** August 12, 2020

**To:** Audit Subcommittee of the Santa Monica City Council

**From:** Jennifer Taylor, Economic Development Manager

**Subject:** Moss Adams LLP – City of Santa Monica EDD Property Management and Leasing Review

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We would like to thank Moss Adams LLP for their thorough review and analysis of our team's property management and leasing efforts. As the report stated, we have experienced significant changes due to the City's budget deficit and associated restructuring. We have lost several staff members due to the restructuring and to retirement. At the same time, our real estate leasing portfolio has subsequently grown since the Moss Adams audit initially took place and now includes Santa Monica Beach and Airport property management. As such, we have now addressed the recommendation #1 for centralizing oversight of the City's real estate operations.

The timing of this report is critical. We are ready and positioned to undertake many of the recommendations provided by Moss Adams in order to achieve operational efficiencies, enhance customer service while helping to leverage the City's real estate assets more effectively in an effort to generate much-needed revenue for the City. We have inherited many old and antiquated systems and look forward to a streamlined leasing process. Thankfully we have a very talented and experienced team in place that also embraces change.

In particular, I would like to address the following Moss Adams report recommendations:

# 2 – Inventory and develop critical policies and procedures. We have inherited five sets of leasing guidelines – one specific to SM Pier, one for SM Beach, another to Downtown SM Inc, one for Bergamot Station Arts Center and another for SM Airport. We are in process now of reviewing the various guidelines and look forward to working with Finance and the City Attorney's Office to create a unified citywide leasing policy with standardized leasing templates. This is a high priority for us.

#4 – We are working closely with SM Airport staff, ISD and Finance to transition from YARDI to ProDIGIQ for tracking leases, collecting payments and providing month end reports. This new software should help streamline and optimize our efforts. As the Moss Adams report correctly identifies, EDD (and Airport) staff currently waste too much time manually entering the same data in different systems and cross checking. It is an extremely inefficient process. We will require support from our ISD Team to facilitate this transition and integrate the software with Tyler Munis. As leasing activity is a critical revenue generator for the City, this software integration effort needs to be a high priority for the City.

#6 + #8 – We welcome the opportunity to work with Council to review, amend and adopt new Citywide Leasing Guidelines and a Property Management Strategy. We currently have inconsistent, competing policy priorities within our leasing guidelines – such as leveraging City assets to generate market rents vs. utilizing City assets to support artists and non-profits at below-market rates. The variations within our leasing guidelines, by location, further complicate the process. Transitioning from a time-intensive RFP process to a more efficient system utilizing third party brokers, along with clear leasing guidelines to authorize staff negotiations for smaller properties, all will assist in realizing greater efficiencies and revenues and having happier tenants.

#7 – As we witness the impacts of COVID on commercial leasing, we anticipate more leases will transition into percentage-rent models with the City taking on a greater role as equity investor in its tenants. We have an existing audit process in place. Efforts to further refine it and pass along audit responsibilities to tenants utilizing approved City vendors could be a good solution. We will continue to evaluate the options and best practice efforts.

In conclusion, we are supportive of the Moss Adams report and recommendations. We look forward to implementing many of the recommendations in FY20/21 and FY21/22. Melissa Lindley, Principal Administrative Analyst, and I will be attending the Audit Subcommittee Meeting on August 18<sup>th</sup> and look forward to feedback and answering any questions.

Thank you for your consideration and support.