



**PRESS RELEASE**

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For Immediate Release

**Long Beach City Auditor Laura Doud Reveals City-owned Property Management & Oversight Needs Improvement to Ensure Maximum Community Benefit & Capitalize on Revenue**

Long Beach, CA – Long Beach City Auditor Laura Doud today released the [City Property Management and Oversight Performance Audit](#) that was conducted by Harvey M. Rose & Associates. The Property Services Bureau (Bureau) within the Economic Development Department oversees property including land, buildings, and facilities with a value of \$650 million. The Bureau is responsible for acquiring, leasing, selling, and transferring properties for departments under the City Manager. The audit assessed whether the City is managing and overseeing City-owned property effectively to best utilize the property for community benefit and ensuring that the City is capitalizing on potential revenue opportunities.

The audit had several key findings and made recommendations for improvements to assure that the City receives the most value from its property.

**Key Finding - No Documented Guidelines for Nonprofit Organizations Leases: Mental Health America (MHA) Lease**

The City does not have documented guidelines for leasing City-owned property to nonprofit and community organizations. The Bureau manages 14 historical leases to nonprofit organizations at \$0 or \$1 annual lease rates, in exchange for organizations providing public services for the City’s benefit. One example of a \$0 rent lease is with the nonprofit organization Mental Health America (MHA), who is a provider of homelessness services. MHA has a \$0 per year ten-year lease with a purchase option at lease end, whereby MHA will receive the property for \$1. The City also spent \$3.45 million in City funds for site and facility improvements so that MHA could provide health services for individuals experiencing homelessness, provide a 1,250 square foot meeting room open to the community, and operate a sit-down retail café.

The City Auditor’s Office found that MHA is not fully meeting lease terms as MHA:

- subcontracted with The Children’s Clinic (TCC), charging TCC rent an estimated \$100,000 annually while MHA has a \$0 lease, for a healthcare clinic that is only open one or two days a week; TCC stated that if they did not have to pay rent to MHA they could instead pay their healthcare professionals a more competitive rate which would lead to more clinic days open;
- did not previously advertise to the public or provide proof of community room use; and
- has not opened a sit-down retail café.

Additionally, the City Auditor’s Office found that no City department was aware of MHA lease term compliance. The Homeless Services Bureau (HSB) thought MHA owned the property and was unaware MHA was leasing from the City. As a result, HSB was also unaware whether MHA’s operations at the property were in compliance with lease requirements. The Property Services Bureau (Bureau) stated they were relying on HSB regarding MHA operations, but ultimately neither bureau knew who was responsible for enforcing lease terms and obligations.

The review of the MHA lease can be summarized as follows:

MHA Receives	City Receives
<ul style="list-style-type: none"> <li>• \$3.45M in City-funded site improvements</li> <li>• Free monthly rent for 10 years</li> <li>• Purchase option for \$1 for the facility and property at lease end</li> </ul>	<ul style="list-style-type: none"> <li>• Non-operational sit-down retail café with no known opening date</li> <li>• Healthcare clinic open only one or two days a week</li> </ul>

<ul style="list-style-type: none"> <li>Up to \$174,300 in annual sublease revenue</li> </ul>	<ul style="list-style-type: none"> <li>Unknown use of community room which was not previously advertised to the public</li> </ul>
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Without deed or continued use restrictions, MHA can choose to purchase the City property for \$1 at lease end without the City maximizing the intended community and social benefit.

“The audit found significant areas for improvement including the need for stronger guidelines and oversight for leases to ensure maximum benefit to the community,” said City Auditor Laura Doud. “It’s concerning that we found the City is not receiving the intended community benefit from a nonprofit organization that the City expected to receive. Without documented policies and procedures or oversight, the City now finds itself on the losing end of this lease deal.”

**Other Key Findings**

**1. Lack of a Citywide Comprehensive Property Inventory**

The City does not have a comprehensive inventory of all City-owned property. The Bureau needs to use existing data sets to create a comprehensive inventory of all City-owned property, which can help identify unused or underutilized property and opportunities to generate revenue.

**2. Key Documented Policies and Guidelines are a Work in Progress**

While policies and guidelines were not historically documented, the new Bureau Manager has started documenting procedures. Defining and documenting policies establishing guidelines for options to extend leases, tenant investments and improvement allowances, and internal guidelines on lease rent structures will help to ensure that the City and community is receiving the best value for the lease of public property.

**3. Defined Criteria is Needed to Maximize Value Received for Surplus Property**

Of 12 properties determined to be surplus prior to September 2019, four properties were sold to private entities without a competitive process, including two properties sold for affordable housing development. Additionally, the Bureau has three leases with nonprofit organizations with a tenant option to purchase the property. These options do not always have deed restrictions to ensure that the property when purchased will be used for public purposes. The Bureau needs to develop criteria including detailed guidelines for selling, purchasing, and transferring property to incorporate either competitive solicitations or independent appraisals so that the City receives market value for the property.

**4. No Formal Process for Evaluating and Planning Longer Term Space Needs**

The City does not have long-term property plans. The Bureau needs to develop long-term property plans to identify space needs for services and allow for coordination across different departments. Long-term planning will help the City from incurring unnecessary costs acquiring property when existing properties could meet the City’s space needs.

“I am pleased that the City has agreed to all 17 recommendations and stated they have started implementing them,” said City Auditor Laura Doud. “I have requested that the Economic Development Department provide an update in six months on the implementation of these recommendations.”

The City Property Management and Oversight Performance Audit can be viewed [here](#) and the Fact Sheet can be viewed [here](#).

**About the Long Beach City Auditor’s Office**

The Long Beach City Auditor’s Office’s mission is to make Long Beach better through independent audits and fraud investigations. The Office works to provide assurance City funds are spent as intended, promote transparency and accountability of City operations, and prevent fraud, waste and abuse of City resources. For more information visit [CityAuditorLauraDoud.com](http://CityAuditorLauraDoud.com) and connect with the Office @LBCityAuditor on [Facebook](#), [Instagram](#) and [X](#). Sign up to receive email [updates](#) and download the MyAuditor App at the [App Store](#) or [Google Play](#).