



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: June 21, 2012 **REPORT#:** 12-078
ATTENTION: Council President and Members of the City Council
Docket of June 25, 2012

SUBJECT: Report from the Office of the Mayor regarding REORGANIZATION OF CCDC AND SEDC TO CREATE CIVIC SAN DIEGO, APPROVAL OF FY 2012-2013 CIVIC SAN DIEGO BUDGET, AND APPROVAL OF TWO CONSULTANT SERVICES AGREEMENTS WITH CIVIC SAN DIEGO

REQUESTED ACTION:

Adopt a resolution approving the Restated Articles of Incorporation of Centre City Development Corporation, Inc. ("CCDC"), approving the Certificate of Amendment of Restated Articles of Incorporation of Southeastern Economic Development Corporation ("SEDC"), approving the Amended and Restated Bylaws of each of Civic San Diego (formerly known as CCDC) and SEDC.

Adopt a resolution approving the Fiscal Year 2012-2013 Administrative Budget of Civic San Diego.

Adopt a resolution authorizing the execution of a Four Year Agreement for Consulting Services By and Between the City of San Diego and Civic San Diego for Successor Agency and Housing Successor Agency Services.

Adopt a resolution authorizing the execution of a Four year Agreement for Consulting Services By and Between the City of San Diego and Civic San Diego for Implementation of the Downtown Community Plan and Certain Planned District Ordinances, the Downtown Community Parking District and Specified Economic Development Services.

STAFF RECOMMENDATION:

Approve Requested Actions

EXECUTIVE SUMMARY OF ITEM BACKGROUND:

In response to the California Supreme Court's decision to uphold the constitutionality of AB 26, the legislation eliminating redevelopment a new corporate structure for the City of San Diego's (the "City's") two non-profit corporations that have provided redevelopment and economic

development services in downtown and southeastern San Diego, is proposed. The structural changes will ultimately result in a single corporation to be named Civic San Diego that will continue to perform existing functions of the two non-profit public benefit corporations on behalf of the City, including assisting in the wind down of redevelopment, continued land use permitting and planning, existing management of the downtown parking district, and economic development activities in the downtown and southeastern areas. The proposed Fiscal Year 2012-2013 ("FY 13") budget for Civic San Diego is approximately \$5.9 million, a decrease of \$3.9 million from the combined Fiscal Year 2011-2012 Administrative Budgets of SEDC and CCDC, and a combined reduction in staffing levels of those corporations by 45.5 percent or 26.8 positions.

In order to (1) assist the City in its capacity as the designated successor agency to the former Redevelopment Agency of the City of San Diego ("Successor Agency") in performing its obligations, (2) continue to provide economic development, and (3) maintain currently authorized planning and permitting functions for downtown, it is proposed that the operations of CCDC and SEDC be combined and restructured. To this end, SEDC will become a subsidiary corporation of Civic San Diego. The remaining staff of SEDC will become employees of Civic San Diego. At such time that any remaining liabilities and duties of SEDC are released, that corporation may be dissolved. The revitalization of the neighborhoods formerly serviced by SEDC may be assigned to Civic San Diego, at the City's discretion. Recognizing the temporary nature of the wind-down of redevelopment this new corporate structure will continue to assist the Successor Agency in implementing some of its AB 26 duties and will maintain the existing buffer from City liability. The proposed new structure will provide a cost-effective means for the parent and subsidiary corporations to share resources such as office space, administrative functions (i.e. accounting/finance, human resources and information technology), and promote an environment of collaboration among staff and the communities that are currently represented.

To accomplish these changes, amendments are required to the Articles of Incorporation ("Articles") and Bylaws of CCDC and SEDC. As the sole member of both non-profit corporations, the City Council has the authority to implement these changes. However, the CCDC and SEDC Boards have also held hearings to consider the proposed reorganization. On June 11, 2012 the SEDC Board unanimously approved moving in the direction of reorganization as outlined in this report. On June 12, 2012 the CCDC Board unanimously approved revising the Articles of Incorporation and Bylaws of the organization to create Civic San Diego as outlined in this report.

The required changes to the governing documents of the two non-profit corporations are discussed separately below.

Changes to CCDC and the Beginning of Civic San Diego

CCDC and SEDC currently perform similar functions on behalf of the City, in two distinct geographic areas, and have similar structures. In order to gain the desired operational efficiencies, one corporation will become the subsidiary of the other, which parent-subsiary structure can be achieved by simply revising the Articles of both corporations. With regard to CCDC, its Articles will be changed to reflect its new name, Civic San Diego, and an updated statement of purpose that clarifies the ongoing functions of the organization on behalf of the City. Given the fact that Civic San Diego will be engaged with the City rather than the

Successor Agency, several revisions will occur. As mentioned earlier, its purpose will be revised and will now be to “engage in economic development, land use permitting and project management services which under California law, can be done by contract with or delegated by the City of San Diego...or the City [as] ‘Successor Agency.’” The City will remain the sole member of the Corporation and will have significant oversight authority to ensure that Civic San Diego’s activities are transparent, protect the public trust, further the public good, and are consistent with all applicable laws.

As reflected above, one purpose of Civic San Diego will be to continue to provide downtown land use permitting services currently provided by CCDC in accordance with the Centre City Planned District Ordinance, the Gaslamp Quarter Planned District Ordinance and the Marina Planned District Ordinance (“PDOs”). Because this action proposes to restructure two existing non-profit corporations and not the creation of a new, separate legal entity, no immediate amendments to the PDOs are required to allow Civic San Diego to implement the PDOs. Language has been included in the resolution to make clear that the City Council intends Civic San Diego to perform the functions currently provided by CCDC under the PDOs. At a later date, the PDOs could be amended to reflect CCDC’s name change to Civic San Diego. This action does not grant any additional permitting or planning authority to Civic San Diego beyond the authority currently exercised by CCDC as authorized in the San Diego Municipal Code, nor does this action authorize the expansion of the geographic scope of those activities.

Changes are also required to CCDC’s Bylaws to implement the change to Civic San Diego. These changes include the new name and the revisions to the purposes of the corporation. Changes have also been made to the required qualifications of the board of directors of Civic San Diego in order to ensure that the directors reflect a broad spectrum of disciplines and fully represent the areas in which Civic San Diego will provide services. For example, the Bylaws now require that a director be appointed who has experience in affordable housing. Other technical changes to the Bylaws are proposed to reflect the revised purposes of Civic San Diego, to conform to existing law, and to streamline operations. However, all of the City’s significant oversight authorities and the important transparency requirements of the existing Bylaws remain.

One other significant change should be noted. Due, in part, to the complexity of the process required to appoint a president under CCDC’s current Bylaws, CCDC has remained without a president for more than three (3) years. The revised Bylaws for Civic San Diego would allow for the appointment of the president by the Mayor and the City Council by a two-thirds vote. It is believed that this process will allow for a more timely selection of a president while maintaining the safeguard that any such president could not be appointed until approved by both the Mayor and the City Council. The powers of the Mayor to terminate with or without cause, the appeal process requiring a two-thirds vote of City Council to override that termination, and the ability for the City Council to terminate for cause, all remain. The Mayor and the City Council will also retain the right to cause the suspension and removal of the president.

Changes to SEDC

Changes are also proposed to the governing documents of SEDC. Because the funding constraints presented by AB 26 render it financially infeasible for SEDC to continue in its current form, it is proposed that SEDC’s Articles be amended to assign Civic San Diego as SEDC’s sole member, replacing the City. This will increase efficiency of both corporations,

provide for cross corporation knowledge sharing, and provide more efficient support for the City on the duties currently assigned to SEDC.

Similar changes are also proposed to the SEDC Bylaws. These changes reflect the role of Civic San Diego as the sole member and alleviate the duplicative requirements that currently exist in the SEDC and CCDC Bylaws. The removal of these duplicative requirements will significantly reduce the costs to operate SEDC and thus, will allow the entity to continue to exist. To ensure the community served by SEDC has a voice in the operations of Civic San Diego, the Bylaws have also been changed to require that at least one (but not more than four) SEDC board members also serve as Civic San Diego board members.

One other change to the SEDC Bylaws that should be noted is that SEDC will no longer be required to provide separate audited financial statements as its auditing will occur as a part of the overall organization. SEDC will be the wholly-owned subsidiary of Civic San Diego going forward and thus, SEDC's financial statements will be provided to Civic San Diego and reported in Civic San Diego's audited financial statements as required by Civic San Diego Bylaws. Eliminating the duplicative auditing requirement from SEDC's Bylaws exemplifies the cost savings and operational efficiencies to be obtained via this reorganization of the two corporations.

If approved by the City Council, the new Civic San Diego and SEDC Articles and Bylaws will be executed and all required filings with the California Secretary of State and Attorney General will be carried out. The changes may also require updates with the Internal Revenue Service and the State of California to maintain the tax-exempt status of the two corporations. Although the legally required process will take time to complete, it is not anticipated that the process will present impediments to the implementation of the changes. Importantly, it is not anticipated that the legally required process will delay the ability of Civic San Diego and SEDC to continue to perform their functions.

Consultant Agreements

To establish the contractual relationship between the City and Civic San Diego, two agreements are proposed, both generally consistent with the activities previously authorized under the operating agreements of both corporations and reflecting the role of providing continuing support to the Successor Agency. These agreements establish the terms and conditions under which Civic San Diego will provide AB 26 implementation services to the City, in its role as Successor Agency, and, separately, at the direction of the City and consistent with the City Charter and all applicable law continue to provide City planning and development permitting for downtown, management of the Downtown Parking Management District, and economic development currently performed by CCDC and SEDC. These two agreements generally follow the City's standard agreement for consulting services, with minor modifications to reflect current practices and activities of the corporations and the combined non-profit public benefit corporation, of which the sole member is the City of San Diego. Each of these two agreements is described in greater detail below.

The proposed *Successor Agency Services* agreement requires services to wind down and/or complete the projects of the Former RDA; the term for which is unknown due to the temporary nature of the wind-down activities. Commencing on July 1, 2016 individual Successor Agency Oversight Boards will be replaced by a countywide Oversight Board. Consistent with that deadline, the term for this agreement is four years. Prior to the expiration of the term of the agreement, the agreement may be extended, or the City's Right to Terminate for Convenience may be exercised. The *Planned District Ordinance Services, Parking District Services and Economic Development Services* agreement proposes a four year term. Prior to the expiration of the term of the agreement, the agreement may be extended, or the City's Right to Terminate for Convenience may be exercised.

Successor Agency Services

The first consultant agreement is for Successor Agency and Housing Successor Agency services. Pursuant to this agreement, Civic San Diego will continue the existing support provided by CCDC and SEDC to Successor Agency in the redevelopment wind-down required by AB 26 or successive clean-up legislation. Given the temporary nature of the wind-down of redevelopment, the uncertainty of the effects of future legislation, and the volatile nature of the funding sources for such activities, it is anticipated that Civic San Diego will continue to assist the City on many of the projects and services within the Downtown and Southeastern areas that are listed on the currently approved Recognized Obligation Payment Schedule. Funding for these services would be provided through an annual budget approved by the Council, and paid to Civic San Diego through the monthly reimbursement process currently used by the non-profit corporations. Funding for these services would be provided from administrative funds pursuant to AB 26, program income from the remaining Successor Agency and Housing Successor Agency assets and programs and other non-general fund sources.

Planned District Ordinance Services, Parking District Services and Economic Development Services

The second consultant agreement is for administration of the Downtown Community Plan, the Centre City PDO, the Gaslamp PDO, the Marina PDO, the Downtown Community Parking District and economic development services within the Downtown and Southeastern San Diego areas. Through this agreement, the City may request that Civic San Diego provide certain services that Civic San Diego is uniquely positioned to provide. Such services include the downtown permitting functions currently provided by CCDC pursuant to the PDOs, management of the Downtown Community Parking District, and ongoing economic development in downtown and southeastern San Diego. These services would be as requested by the City and performed in accordance with a City Council-approved budget and approved in accordance with applicable law. Funding for these services would be provided as follows: (1) current development permitting services would be provided through application processing fees paid by the private sector; (2) existing management of downtown parking district projects would be paid from downtown parking revenues; and (3) economic development services as assigned by the City paid from City-authorized sources or other revenues authorized during the City's annual budgeting process and consistent with applicable law.

Proposed Fiscal Year 2012-2013 Budget for the New Corporation

The corporation's administrative budget for Fiscal Year 2012-2013 totals \$5.9 million, which represents a decrease of \$3.1 million when compared to the combined budgets of SEDC and CCDC ("Combined Budgets") for Fiscal Year 2011-2012 ("FY 12"). The FY 13 budget includes a total of 32 full-time positions. When compared to the Combined Budgets for FY 12, full-time staff positions have decreased by 45.5 percent or 26.8 positions. The new corporation's budget will be comprised of Personnel Expense (salaries and benefits) and Non-Personnel Expense (general administration costs to operate the corporations) and are reflected in the table below.

	Combined Budgets FY 2011-2012	Civic San Diego Budget FY 2012-2013	Change
Positions	58.8	32.0	(26.8)
Personnel Expense	\$ 7,106,000	\$ 3,980,000	(\$ 3,126,000)
Non-Personnel Expense	<u>\$ 2,777,000</u>	<u>\$ 1,915,000</u>	<u>(\$ 862,000)</u>
Total	<u>\$ 9,883,000</u>	<u>\$ 5,895,000</u>	<u>(\$ 3,988,000)</u>

Included in the FY 13 Non-Personnel Expense are certain one-time expenditures related to FY 13 that are not expected to continue into the future. The first such expenses are cost associated with the subleasing of office space. CCDC, pursuant to a seven-year lease expiring in June 2015, occupies one full floor at its office in the Wells Fargo Building and space within Westfield's Horton Plaza Mall for the Downtown Information Center (DIC). The DIC was officially closed as of March 2012, but the lease runs through June of 2015. Steps have been taken to minimize ongoing costs associated with the former DIC, which include pursuing tenants to sublease the space as well as negotiating a potential buyout of the lease with Westfield. Assuming a buy-out option is the preferred course of action, it is anticipated that an amendment to the FY 13 Budget may be necessary in the future to accommodate the buy-out. It would be the intent of the corporation to have resolution to the former DIC space within the fiscal year. Additionally, as it pertains to the space located within the Wells Fargo Building, CCDC has taken steps to sublease unneeded space at its office location due to the downsizing of staff. The lease for the Wells Fargo space also expires in June 2015. While subleasing space may offset rental costs long term, it is anticipated that during FY 13 certain costs such as broker commission to obtain a subtenant and tenant improvements associated with subdividing the space, will need to be incurred during the fiscal year. Finally, due to the merger of SEDC and CCDC and the renaming of the merged corporation, certain costs associated with collateral material to reflect the new entity name will need to be created and purchased, as well as costs informing the public of the change. These costs have been included in the FY 13 budget, but such costs in large quantities is not anticipated in the future.

Anticipated revenues to fund the FY 13 Budget include revenues from permit fees, parking meter revenues, and Successor Agency administrative and project management income. On May 1,

2012 the City Council authorized CCDC to charge permit fees to applicants seeking downtown development and land use entitlement permit reviews. The fee becomes effective July 1, 2012, and CCDC or if approved, Civic San Diego, will be authorized to begin to charge those fees. It is estimated that the permit fee income could range from \$800,000 to \$1.3 million annually depending on the activity of downtown permit applications. In addition to the corporation's permit review fees Civic San Diego will seek reimbursement from parking meter revenues associated with CCDC's current activities serving as the Downtown Community Parking District. It is estimated that Civic San Diego could seek reimbursement from parking meter revenues of approximately \$200,000 to \$400,000 for FY 13. Civic San Diego may continue to perform economic development work downtown and in southeastern to create a model for investment to replace former RDA funds, relying on \$80,072 of the \$250,000 allocated in the FY 2012-2013 City Budget by the City Council. Finally, a major portion of the new corporation's activities for which reimbursement will be sought is for activities associated with the wind down of redevelopment in the form of administrative and project management reimbursement.

In order to facilitate the functions of the organization, this action will authorize the City Chief Financial Officer or designee to, (a) establish the necessary accounts, (b) appropriate all monies available up to the amounts shown in the FY 13 Budget, (c) record the expenditures of funds and the recovery of all accrued costs subject to the amount of available revenues, (d) provide advances to Civic San Diego for operating expenses related solely to permitting functions, up to an amount equal to fifty percent (50%) of the permit-related services reflected in the FY 13 Budget, and (e) provide advances to Civic San Diego for operating expenses related to all functions other than permitting, up to an amount equal to fifteen percent (15%) of the non-permit-related services reflected in the FY 13 Budget. In making the advances to Civic San Diego described in clauses (d) and (e) of the immediately preceding sentence, the City may utilize a portion of the property tax revenue distributed to the City on or about June 1, 2012, as part of the distribution of the residual balance of the Redevelopment Property Tax Trust Fund under Assembly Bill x1 26, which is approximately \$2.4 million, or may utilize such other available City funds as deemed appropriate by the City Chief Financial Officer. Such an advance would be subject to the Working Capital Advance and Reimbursement clauses of the Consultant Services Agreements.

FISCAL CONSIDERATIONS:

Civic San Diego's FY 13 Budget is a significant reduction from the previous combined budgets of CCDC and SEDC estimated at approximately \$5.9 million and will primarily be funded through permit application fees, parking meter revenues, and revenues from administrative and project management fees performed for the City solely in its capacity as the designated successor agency to the Redevelopment Agency of the City of San Diego ("Successor Agency") in the wind-down process underway pursuant to AB 26.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (IF APPLICABLE):

Civic San Diego is a Government Agency, and as such, is exempt from submitting Work Force Reports. Refer to San Diego Municipal Code Section 22.2703 (c).

This agreement is not subject to the City's Equal Opportunity Contracting (San Diego Ordinance No. 18173, Section 22.701 through 22.2708) however it is subject to the City's Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

On June 11, 2012 the SEDC Board unanimously voted to support reorganizing the corporation to create Civic San Diego. On June 12, 2012 the CCDC Board unanimously voted to approve recommendations to amending the Bylaws and Articles of Incorporation of the corporation consistent with this staff report.

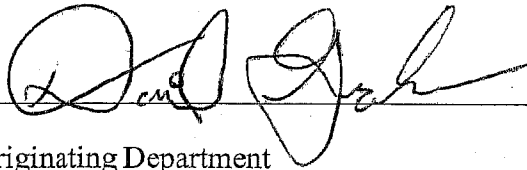
COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

Public hearings of the SEDC Board and CCDC Board have been held to discuss the reorganization of both corporations.

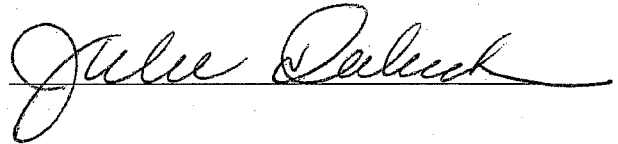
KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Key stakeholders include residents and businesses in the former Redevelopment Project Areas. The projected impacts should not be considerable as the current activities of the non-profit public benefit corporations will continue in a structure that is more cost-effective and efficient.

Respectfully submitted,



Originating Department
David Graham
Deputy Policy Director, Office of the Mayor



Julie Dubick
Chief of Staff, Office of the Mayor