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# REPORT

**DATE ISSUED:** July 17, 2006

**ITEM 2**

**REPORT NO.:** SDMSDA 06-116  
For the Agenda of July 20, 2006

**SUBJECT:** Termination of the San Diego Model School Development Agency

**RECOMMENDATIONS:** That the SDMSDA Board 1) vote to recommend to their respective Member-Agencies adoption of a resolution to terminate the SDMSDA; and contingent upon approval of Recommendation 1 by the Member-Agencies, 2) authorize staff to proceed with financial procedures to close out the SDMSDA budget; 3) assign all work products and the BRG contract to the Redevelopment Agency; and 4) authorize staff to take all reasonable and necessary actions to terminate the Joint Powers Agreement and to make all appropriate filings and to execute all appropriate documents to effectuate such termination.

## **BACKGROUND**

In 1998, San Diego voters approved Proposition MM, a \$1.5 billion dollar bond measure to fund the construction and repair of schools. The community of City Heights was a focal point of the bond due to severe overcrowding resulting from years of population growth. As a result of the bond measure, City Heights was allotted four new elementary schools. While the award was fortunate and beneficial for the community, there were drawbacks. Because the urban community was almost fully built-out, hundreds of housing units would have to be removed to accommodate the new schools. This was a significant concern because San Diego was experiencing a severe shortage of affordable housing. Many of the homes that would be removed were available at affordable rates and their removal could result in extreme hardship for residents.

The Model School project was initiated out of a desire to minimize the loss of housing. Further, it was envisioned that the addition of a new school could serve as a cornerstone in the community and that this public investment could act as a catalyst to be leveraged to maximize other public and private reinvestment. As such, San Diego represented the leading edge of a developing national movement.

The mechanism for advancing these goals would be the San Diego Model School Development Agency which was created in July 2002. The San Diego Model School is a collaborative partnership of the San Diego City Schools, the City of San Diego and the city's Housing Authority and Redevelopment Agency. The entities signed a joint powers agreement to form the San Diego Model School Development Agency which was charged with facilitating the planning, financing and construction of the model project. The Board was established with seven members: one-member each, representing the City, Redevelopment Agency and Housing Authority; three-members representing the School Board; and one-member representing the community of City Heights. The partnership was a new model for collaboration among these public agencies. It was envisioned as a more efficient model to coordinate the public improvements being provided by multiple agencies and to foster relationships to serve as a foundation for future collaborative work. In addition the JPA could also establish a single point of contact for the community, facilitating community involvement.

## **DISCUSSION**

At the San Diego Model School Development Agency's June 22, 2006 meeting, the Board discussed whether the Agency should be terminated and asked that the matter be included on the agenda for the Board's July meeting. At its July 7, 2006 meeting the OPA/ENA Committee recommended that negotiations with the development teams cease, negating the need for the JPA's continued existence. This report is provided to facilitate the discussion about disbanding the SDMSDA.

## **TERMINATION PROCEDURES**

The Joint Exercise of Powers Agreement that exists between the City of San Diego, the Housing Authority of the City of San Diego, the Redevelopment Agency of the City of San Diego and the San Diego Unified School District, dated July 1, 2002, guides the operations of the SDMSDA. This document provides for the rescission or termination of the JPA under the provisions of Section 38. The section provides that all Members acting unanimously may terminate the JPA provided that there are no outstanding bonds or other debts or lease obligations of the Agency. Procedurally, the termination can be initiated by a vote of at least five SDMSDA Directors.

Upon an affirmative vote, the recommendation would be forwarded to each Member Agency by its representative(s) for consideration and action. Each Member Agency would, in turn, provide notice of their consent in writing to the Chief Executive Officer of the Agency by submitting a resolution of its action.

As stated above, termination may only occur if there are no outstanding bonds, lease agreements or other debts. Currently there are no outstanding bonds or lease agreements. A discussion of outstanding debts can be found below under "Closing the Financial Books".

In the event that any Member Agency or Agencies wished to continue the JPA, the Joint Exercise of Powers Agreement provides for the potential withdrawal of individual Members of the Agency in Section 39. This Section provides that any Member may withdraw from the Agency upon giving each other Member written notice thirty days prior to the end of a fiscal year. The JPA could continue to function until all but one of the Members had given notice of its withdrawal.

If the Board and their respective Member Agencies affirmatively vote to recommend that the JPA be disbanded, several steps will need to be taken to conclude the Agency's business. These steps are discussed below.

### **CLOSING THE FINANCIAL BOOKS**

The Joint Exercise of Powers Agreement states that the Agency may be terminated provided that there are no outstanding bonds or other debts or lease obligations of the Agency. As stated above, there are currently no outstanding bonds or lease obligations. However, there are outstanding debts and some activities that would generate financial obligations that must be settled in order to terminate the Agency.

As of the date of this report, the SDMSDA budget consists of approximately \$80,000 in administrative carryover from the 2006 Fiscal Year and approximately \$70,000 in programmatic carryover. In the event the JPA is terminated, a final financial audit must be completed in order to close the books. Prior to closing, the level of these funds will be impacted by outstanding and ongoing commitments. It is expected that the administrative funds will be depleted modestly by 1) salaries, benefits, and overhead; 2) attorney fees; and 3) accounting costs associated with audits to close out the FY06 and FY07 budgets and a full accounting for a closing audit.

Additionally, there is an outstanding programmatic obligation payable to CityLink Corporation for \$20,000 for services performed in the preparation of a Feasibility Study.

As part of the environmental document review process, the JPA was required to submit a deposit to the City of San Diego's Land Development Division. Currently, there is a balance of \$2,256.82 to be paid from the programmatic budget. In the event, that the JPA is disbanded, this account could be closed or assigned to the Redevelopment Agency.

Once these outstanding commitments have been paid and the closing audit is completed, each member agency would be reimbursed according to their initial contribution. Unspent administrative monies would be distributed on a prorated basis to each of the member partners according to their contribution.

All unspent programmatic monies would be remitted to the Redevelopment Agency, pursuant to a Memorandum of Understanding (MOU) with the Agency. Most costs for

environmental analysis, project management, and other operational costs have been borne by the Redevelopment Agency. Under the MOU, initially dated June of 2004, the Redevelopment Agency set aside \$700,000 for SDMSDA project-related expenses. Of that amount \$527,000 was contracted in an MOU between the Redevelopment Agency and SDMSDA sufficient to contract with Sedona Pacific. These monies also supported environmental consulting services and the preparation of environmental documentation by BRG, and some of this amount remains unspent (as described below). The MOU was amended in 2005 for an additional \$20,000 for a topographical survey that was utilized. A second amendment to the MOU was approved April 6, 2006 in the amount of \$73,000. However, the MOU amendment has not been executed to date and the additional monies have not been drawn down from the Agency.

The SDMSDA has made some notable accomplishments since its inception. Most tangible among these are the work products prepared in order to support the planning and entitlement process. These include substantial project area research and analysis completed by Sedona Pacific and environmental documentation prepared by BRG, an environmental planning consultant. Sedona Pacific's contract was terminated; however, there are outstanding services that could be finalized under the contract with BRG.

BRG's contract is for the preparation of an Environmental Impact Report/Environmental Assessment (EIR/EA). The work performed to date has culminated in the preparation and submittal of a 1<sup>st</sup> Screencheck EIR/EA, based on the original project footprint, to the City of San Diego Environmental Analysis Section in March 2005, incorporation of City comments on the 1<sup>st</sup> Screencheck EIR/EA, and reassessment of the project scope and approach due to significant project changes. After the Board reduced the scope of the potential model school project in October 2005, BRG was asked to submit a proposal to perform additional environmental analysis not contemplated at the time of the initial contract for environmental services.

In February 2006, BRG submitted a revised proposal for additional environmental services based on the reduced project scope at a cost of \$58,927.00. Currently, approximately, \$25,000 remains in the existing budget for environmental processing by BRG, Inc. as well as an additional approximate \$700 for sub-consultants. A cost augmentation of \$33,031.47 was approved by the Board to bridge this gap. However, the work has not been reinitiated to date. The balance of the work product proposed by the contract is detailed in SDMSDA report 06-098. In the event that the JPA is terminated, BRG's contract could be terminated or the contract could be assigned to the Redevelopment Agency as discussed further below.

The Redevelopment Agency is typically charged with overseeing development projects within the boundaries of the City Heights Redevelopment Project Area; particularly when the developer is seeking public assistance with the project, such as use of tax increment funds or eminent domain. In the event that any component of the Model

School development plan were to continue to be pursued, including those elements intended to benefit the community such as canyon improvements and traffic calming, the Redevelopment Agency could assume responsibility for their support.

Over the course of the discussions and negotiations both development entities (CityLink Corporation and City Heights CDC/Bridge) have worked diligently to be responsive to the requests of the Board. Throughout the process, they have remained exceedingly cooperative and patient. Most commendably, both have maintained a strong desire to create the most beneficial project for the community. Despite the difficult logistics and less than ideal development circumstances, both parties have been receptive to finding ways to combine their development efforts and have been eager to facilitate all of the Board's goals. In fact, both development teams have dedicated extensive time and resources to be responsive to the Agency's requests. In the event that either development team desires to continue to pursue some component of the project, they would likely seek support of the Redevelopment Agency. In order to facilitate these activities and minimize further delays to the developer(s), it is recommended that SDMSDA work products be turned over to the Redevelopment Agency. This would include any rights pursuant to the solicitation processes (Request for Master Developer Proposals and Owner Participation Proposals) undertaken by SDMSDA.

Finally, there will be additional administrative steps that should be taken to make the dissolution official. These include a notice to the state of the dissolution, posting appropriate notices, among other tasks. It is recommended that the Board authorize staff to take all reasonable and necessary actions to terminate the Joint Powers Agreement and to make all appropriate filings and to execute all appropriate documents to effectuate such termination.

### **THE VISION IS INCREASING RELEVANT – UTILIZE THE LESSONS LEARNED**

Even if the JPA is disbanded, there are many positive outcomes of the venture, beyond the work products listed above. The participating agencies have developed a fuller understanding and respect for the community. Over the life of the JPA, community residents have been involved and outspoken about the development. In response to community concerns, the footprint first expanded, and then substantially reduced in size as new community relationships emerged. The workshop on public agency acquisition of private property fostered better understanding and prepared materials that will be of value to the Agency in the future. Some members of the community remain strong advocates for components of the development such as the new school, canyon restoration, traffic improvements or affordable housing. Momentum to produce needed and potentially valuable community improvements has been initiated. These will continue to contribute to the future well-being of City Heights.

Beyond value in the current setting, the SDMSDA was a laboratory – a new and untested model - for coordination among all the agencies involved. It proved to be a complex undertaking and difficult to navigate. Nonetheless, it is a highly relevant model. Many urban areas such as San Diego are facing the challenge of building schools where there is little vacant land available. Many, too, are also struggling to learn to plan in a more comprehensive manner by coordinating their public agencies. The concepts espoused by SDMSDA have already become a model for other cities facing similar issues.

Because the model is worthy of being replicated, it is helpful to review the process to learn lessons for future endeavors.

The model relies on true collaboration and cooperation between the partners. Proposition MM provided a great opportunity for San Diego to improve the quality of its school facilities; naturally, with the opportunity came great accountability. The School Board was required to adhere to a strict time schedule in bringing forward new schools. In order to meet its deadline, the School Board was unable to coordinate the design or construction of the school with the overall Model School project. As a result, the school facility could not be fully integrated into the overall project. This compromised the integrity and quality of the overall program which was not able to capture design or financial efficiencies.

The ideals and vision of the Model School project were naturally most strongly held by those that initiated the project. Over the course of the project life, many of these participants left the Board due to changes in jobs or other factors. As these players left the table, some of the momentum for the project was lost. Furthermore, there was a loss of passion and institutional memory within the Member-Agencies. In order for the project to run most smoothly and effectively, consistency in its Board-membership and staff is critical. Changes in Agency representation, though outside the control of any of the Member-Agencies, has been an added challenge to the success of the program.

*The lessons learned* from these issues are that there needs to be clear time and resource-commitments and complete “buy-in” from all the partners.

The organizational structure of the JPA has presented some challenges. First, the City’s political system changed from a City Manager form of government to a strong-Mayor form of government, demonstrating at a grassroots level how each system functions. After working through the transition, it is clear that the strong-Mayor form provides a better framework for the project due to the ability to centralize and coordinate decision-making. Had this been in place at the outset, a formalized JPA might not have been necessary.

Second, the formalized legislative structure of the body made it subject to public expectations and all accountability requirements. The SDMSDA was intended as a “one-stop shop” so that the public could address one public body about the progress of the

project, rather than having to address four separate bodies. This should have created efficiencies, saving both time and money. Instead, the process became very bogged-down and slow moving with burdensome meeting and reporting procedures. Although there is a clear desire to keep the public informed about and involved with the activities of the Agency, there is a need to find a less cumbersome mechanism for carry it out.

Third, the very sort of streamlining that the JPA was intended to promote has limitations. One significant task of the SDMSDA was anticipated to be land acquisition, and it was assumed that placing responsibility for acquisition in one public body rather than four would facilitate this process for all concerned. However, public agency land acquisition is a very sensitive concept, especially if eminent domain is to be used. Directors of the SDMSDA are appointees rather than elected officials. This caused grave concerns among some that this power could be exercised with minimal accountability.

*The lesson learned* here is that central decision-making is good, but additional bureaucracy is bad. Informal interagency collaboration, when it can be achieved, may more effectively promote close working relationships than a formalized structure. Further, the roles of elected and appointed officials need to be carefully considered.

There are a number of lessons to be learned in the area of community relations and the administration of the project. In an effort to minimize administrative costs, significant staffing was not dedicated to the operations of the project, until very recently. This meant that staff was available only for essential functions, leading to many challenges. First, it made it very difficult to build strong relationships in the community. Without strong relationships, there is a lack of trust. It takes a commitment of staff time for a robust give and take with the community to develop in a project of this size and complexity, and it is important to staff accordingly.

In recent months, there has been a growing frustration and in some cases, a sense of distrust, because progress on the project has been slow. This frustration has been exacerbated by poor communication. The lack of progress has led some to speculate that decisions were being made outside of the public domain and led to rumors being circulated within the community. Again, dedicated staff could have worked more closely with the community to remedy this. Recent outreach and responsiveness by the new Community Director has shown that this position improves communication and can enhance the level of trust and working relationships.

In addition, the developer selection process was very time consuming and might have happened sooner with dedicated staffing. Getting to an earlier decision regarding the professional development team would have demonstrated momentum. Moreover, engaging profit motivated private developers with skills in navigating the entitlement process and building community trust would have accrued to the overall Model School project beyond what was achieved through contracted development services.

*The lesson learned* is to devote resources and engage experts early in the process. An active conduit (through staff, development teams and Community Director) is imperative for effective community interaction. Spend a sufficient amount of money to ensure credibility early on, so that the project doesn't pay much more in the long-term.

Board Directors, community residents, development teams, and staffs of the four agencies have all invested significant time and energy in the Model School concept. Their involvement has been indispensable. An invitation is extended for them to add to the "lessons learned" in order to benefit future interagency and community efforts.

Respectfully submitted by,

Approved by,

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**Signature on File  
With Original Document**