OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Land Use & Housing Committee Agenda Date: August 9, 2006

Item Number: 3

Item: Redevelopment Restructuring

OVERVIEW:

Redevelopment is a process authorized under California law to assist local governments in revitalizing their communities. The City of San Diego Redevelopment Agency was created by the City Council in 1958 to alleviate conditions of blight in older, urban areas and improve economic and physical conditions in designated areas of the City. The Redevelopment Agency is a separate, legal entity, with the City Council serving as the legislative body.

The Redevelopment Agency consists of a City internal Redevelopment Division and two public, nonprofit corporations, Centre City Development Corp. (CCDC) and Southeastern Economic Development Corp. (SEDC). The City Redevelopment Division manages 11 project areas and one survey area throughout San Diego. The Redevelopment Division serves as staff to the Agency with duties that include coordinating budget and reporting requirements. CCDC administers two project areas and focuses on Downtown San Diego. SEDC administers four project areas and one study area that covers several neighborhoods in the southeastern portion of the City.

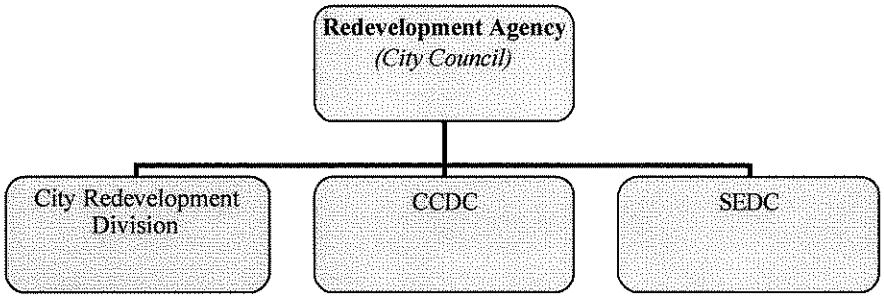
Under the new Mayor-Council trial form of government, the Mayor is no longer a member of the Redevelopment Agency Board. This structure represents a significant change from the prior form of government, when the Mayor was Chair of the Redevelopment Agency with voting rights. Concerns have been raised about the Mayor's role under the current structure. This report discusses several options regarding the restructuring of the Redevelopment Agency and the Mayor's role to the Redevelopment Agency.

FISCAL/POLICY DISCUSSION

The City Council's Committee on Land Use and Housing is looking at options to restructure the Redevelopment Agency to maximize efficiencies. As discussed at the Land Use and Housing Committee hearing on March 29, 2006, the concept of restructuring the Redevelopment Agency including the Mayor's role to the Agency is essential for the future of the Redevelopment Agency. In Memorandum #M-06-04-04, dated April 7, 2006, Councilmember Jim Madaffer requested that the IBA provide a feasibility report of the following potential structures and any other viable options:

- *Move the City employees who currently administer the 11 project areas under the direct employment of the Agency, outside the City workforce.*
- *Retain the contract relationship with CCDC and SEDC for their project areas.*
- *Establish a redevelopment commission under the Agency. The Mayor would appoint members to the commission subject to confirmation by the City Council.*
- *Consider the Mayor sitting as a member of the Agency in an ex-officio capacity.*

Current Redevelopment Agency Model



Under the City's prior form of government, the Mayor presided at the Council meetings with voting rights as a member of the Council. Under this form, the Mayor served as chair of the Redevelopment Agency, with the same power and authority in conducting the affairs of the city. The City Manager served as executive director, the City Attorney served as general counsel and the Director of Community and Economic Development served as the assistant executive director.

With the transition to the Mayor-Council form of government, and the concurrent amendments to the City Charter, the Mayor is Chief Executive Officer of the City of San Diego. The amended Charter expressly grants the Mayor the authority to appoint members of City boards, commissions, and committees, subject to Council confirmation; and sole authority to appoint City representatives to boards, commissions, committees and governmental agencies, unless controlling law vests the power of appointment with

the City Council or a City Official other than the Mayor. Under the Mayor-Council form of government, the Mayor no longer serves as member or chair of the Redevelopment Agency Board. The City Council appointed the Mayor as Executive Director of the Agency in the interim until a decision is reached regarding the restructuring of Redevelopment Agency. This is consistent with the San Diego Charter that states all executive authority, power, and responsibilities conferred upon the City Manger shall be transferred to, assumed, and carried out by the Mayor.

The current structure implemented with the transition to the Mayor-Council form of government has raised concerns pertaining to the Mayor's long-term role in the Redevelopment Agency. The primary focus of this report is to allow the Mayor's input and recommendations to be expressed in the Redevelopment structure.

Redevelopment agencies are local government entities with oversight usually provided by the city council, county board of supervisors or a separate appointed board, all accountable to the public. The redevelopment agency assigns its own staff and advisors to carry out its day-to-day operations as well as to help formulate and implement redevelopment plans.

Currently in the City of San Diego, the City Council serves as the board of the Redevelopment Agency. This model exists in Oakland, Pasadena and San Jose. The Redevelopment Agency consists of a City internal Redevelopment Division and two public, nonprofit corporations, CCDC and SEDC. The City division coordinates the work of the nonprofit corporations (CCDC and SEDC), and City personnel serve as staff to the Agency. Although this model has been operable for quite some time, adjustments are recommended for long-term inclusion of the Mayor under the Mayor-Council form of government and to allow for enhanced Agency oversight and efficiencies.

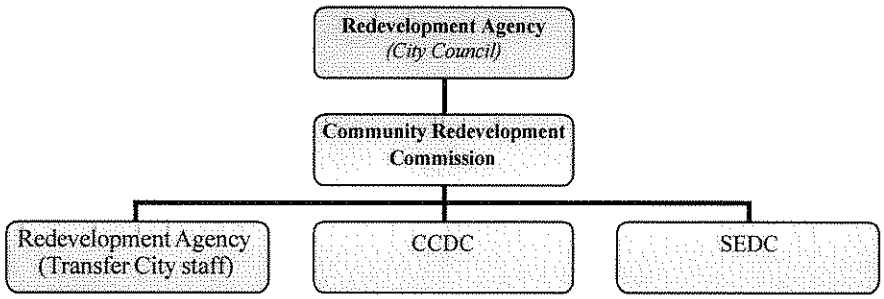
The Office of the IBA has performed a survey of other comparable cities across the nation that operate under the Mayor-Council form of governance. The survey results, combined with information acquired from other sources, demonstrate various Agency structures.

The following alternate models, suggested earlier in this report, are utilized in these survey cities and are discussed below:

1. Establish Redevelopment Commission under the Agency;
2. Appoint a separate board as the Redevelopment Agency; and
3. Create Redevelopment Corporation 501(c)(3) – Appointed Board Members.

Optional Models for the Redevelopment Agency

I. Establish Redevelopment Commission under the Agency (City Council)



California Health and Safety Code section 33201 states:

> *"A legislative body which has declared itself to be the agency pursuant to Section 33200 may by ordinance create a community redevelopment commission. The ordinance shall establish the number of members of the commission, but not less than seven, their terms of office, and the method of their appointment and removal."*

Establishing a Community Development Commission under the Redevelopment Agency (City Council) would provide a community with the option of operating and governing its redevelopment agency. A Community Development Commission can focus on creating effective new relationships with neighborhood councils and other groups and improving existing partnerships with Project Area Committees (PACs). California Law states:

> *"The nature, power, authority, functions and jurisdiction of the commission include, but are not limited to, all of the nature, power, authority, functions, and jurisdiction of redevelopment agencies.... The commission also has the nature, power, authority, functions, and jurisdiction relating to community development as may be delegated to the commission by the legislative body, subject to such conditions as may be imposed by the legislative body."*

In addition to a Commission having all power and authority to function as a Redevelopment Agency Board, they can also be vested with additional authority relating to community development by the Council. Commissions may also delegate to a community any of the powers or functions of the Commission, thereby allowing for community inclusion. In this model, appointments would be made by the Mayor and confirmed by City Council. This model exists in San Francisco, where the

Redevelopment Commission is established under the Redevelopment Agency with the Mayor appointing all members of the Commission.

Under this option, City staff would be transferred from the City to a Redevelopment Agency outside the City structure. The Executive Director of this new Agency would report to the Commission rather than the City Council or Mayor. By establishing a Commission and transferring City staff under the direct employment of the Agency, a more balanced governance would be provided.

Creating a Commission allows for additional oversight of the Agency, with members possessing sufficient experience and having a broad understanding of Redevelopment activities.

Members of the Commission would serve without compensation, so there is no fiscal impact in regards to Commission member salaries. (There could be minimal necessary expenses as stated in the California Redevelopment Law along with staff time in creating the Commission.)

II. Appoint a separate board as the Redevelopment Agency

California Health and Safety Code section 33203 states:

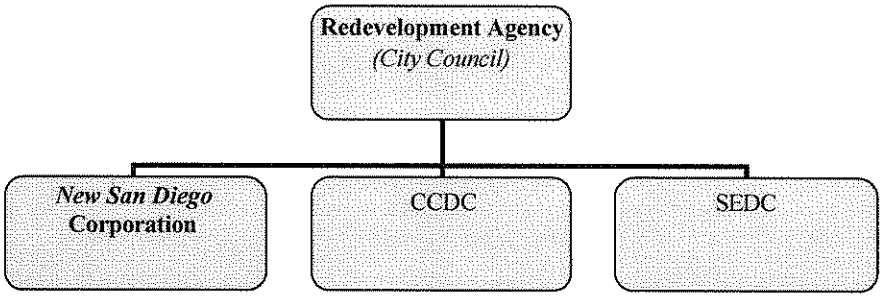
> *" A legislative body which has declared itself to be the agency pursuant to Section 33200 may at any time by resolution determine that it shall no longer function as an agency, in which event, the mayor or chairman of the board of supervisors with the approval of the legislative body shall appoint five or seven resident electors of the community as members of the agency, and upon such appointment, the community redevelopment commission, if any, shall no longer function."*

Another model would be to have the Mayor appoint a separate board as the Redevelopment Agency with Council confirmation rather than the Council serve as the Redevelopment Agency Board. The appointed board of the Redevelopment Agency would be composed of five to seven members, all or most of whom would be members of the community possessing sufficient experience and having a broad understanding of Redevelopment. A similar model exists in Denver, Houston, Los Angeles and Portland, where the board of the Agency is appointed by the Mayor and confirmed by Council to serve the terms of office specified in the City Charter and/or California Redevelopment Law.

Members of the appointed Board would serve without compensation, so there is no fiscal impact in regards to Board member salaries. There could be minimal necessary expenses as detailed in the California Redevelopment Law along with staff time in actions such as developing the resolution as stated above.

This model slightly differs from the Development Commission in that both models have appointed members who oversee the Redevelopment activities in the city. With both of the models, Council is delegating their power and authority to the appointed Board members and to the members of the Commission. In addition, the Council can delegate additional authority relating to community development to the Commission.

III. Create Redevelopment Corporation 501 (c)(3) – Appointed Board Members



Retaining the contract relationship with both CCDC and SEDC along with establishing one or more nonprofit corporations for the 11 project areas administered by the City, would allow corporate oversight of all redevelopment districts in the City of San Diego. The Board members of the corporation would be appointed by the Mayor. Mayor-Council cities such as Denver, Indianapolis and Seattle all have development corporations.

The duties of these corporations include providing over-all executive direction for the redevelopment projects and making recommendations to the Agency through the corporations' Chief Executive Officer. The Board of Directors oversee corporation activity and make decisions regarding project implementation activities to be recommended to the Agency for final action. The Board of Directors set the tone and manner in which redevelopment activities are carried out.

Members of the appointed Board would serve without compensation, so there is no fiscal impact in regard to Board member salaries, although, there could be costs associated with forming a corporation.

The City may consider transferring City staff from the Redevelopment Division to the direct employment of the new corporation similar to the CCDC or SEDC models.

Additional Recommendations for the Restructuring of Redevelopment

Regardless of the model selected, the IBA recommends the following as part of the Redevelopment Agency restructuring.

Mayor's Role

The Mayor appoints all members of either the board of the Redevelopment Agency, which includes the Chairman, or the Redevelopment Commission. Although the Mayor would not have voting rights, he would have an active role in promoting programs for the social, physical, economic and cultural development of the City.

Current City Staff/Redevelopment Division

In 2006, the City's Redevelopment Division's administrative costs were transferred out of the General Fund and budgeted within the City Redevelopment Fund. The FY 2007 Redevelopment Budget is $96 million, with $13 million budgeted for the administration of 28.60 employees.

The City may consider transferring City staff from the Redevelopment Division to the direct employment of the Redevelopment Agency. California State Law states the following:

> *"An Agency may select, appoint, and employ such permanent and temporary officers, agents, counsel, and employees as it requires."*

This option could impact represented employees and therefore all appropriate personnel procedures would need to be followed. If staff is directly employed by the Agency, other compensation, health and retirement benefits will need to be explored. A similar model exists in San Francisco, Portland and Los Angeles.

Tax Sharing

A portion of the revenues received by the Agency are subject to sharing with other taxing agencies impacted by the formation of the project areas. For Fiscal Year 2007, tax-sharing allocations amounted to $28 million. In 1993, the State of California enacted reforms of redevelopment financing, regulations and laws. Actions were taken to address the distribution of the tax increment. Tax increment is the property tax revenue generated from *an increase* in property values after the adoption of a redevelopment plan. Prior to 1993, redevelopment law did not distinguish between property tax growth due to redevelopment activity and normal growth due to the economy. To address this, along with other issues, AB 1290 established specific property tax set-asides for counties and school districts. Any set-asides for cities were left to the discretion of the cities, as detailed in the California Health and Safety Code section 33607.5(b):

> *"Commencing with the first fiscal year in which the agency receives tax increments and continuing through the last fiscal year in which the agency receives tax increments, a redevelopment agency shall pay to the affected taxing entities, including the community if the community elects to receive a payment, an amount equal to 25 percent of the tax increments received by the agency after the amount required to be deposited in the Low and Moderate Income Housing Fund*

has been deducted. In any fiscal year in which the agency receives tax increments, the community that has adopted the redevelopment project area may elect to receive the amount authorized by this paragraph."

As part of the Redevelopment reorganization, the IBA is recommending the City review current tax sharing practices and options as allowed by State law.

CONCLUSION

All of the models present viable options for the City of San Diego with the Mayor-Council form of governance. It should be noted that although the Mayor-Council form of government was implemented on a trial basis, the restructuring options would apply to either the trial form of government or the prior form of government.

As previously stated in IBA Report 06-25, as the Mayor's office continues to evaluate the restructuring of the Redevelopment Agency, several issues will need to be considered during this reorganization process such as:

- Standardization of all budgets for similar content information and format;
- Detailed justification for budget changes and requests;
- Projects to include Gross Tax Increment information along with all associated costs including annual yield to City;
- Review of Developer contracting and Consultant services; and
- Review of subsidies.

Although this report may have superseded the Mayor's evaluation of the various options for restructuring the Agency, it is designed to facilitate discussion regarding the reorganization of the Agency. There are many other issues that will be considered as part of the reorganization of the Redevelopment Agency and will be addressed in subsequent IBA reports.

[SIGNED]

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