



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: July 24, 2012

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Item Number: 151

San Diego Data Processing Corporation Dissolution and Potential Plan for Assets

OVERVIEW

On May 2, 2013 the Board of Directors for San Diego Data Processing Corporation (SDDPC) voted to dissolve the corporation. In order for the dissolution of SDDPC to move forward, the City of San Diego as the sole member must vote affirmatively via the City Council for dissolution. The dissolution of SDDPC was briefly discussed at the Budget and Finance Committee (B&FC) meeting on March 27, 2013 and on May 8, 2013 during the City's budget hearings. At the June 12, 2013 B&FC meeting, committee members voted to forward the dissolution of SDDPC to the full Council with a recommendation to approve the dissolution resolution. Our office was asked to review the staff report and associated documents on SDDPC's dissolution prior to the full Council meeting on July 29, 2013.

FISCAL/POLICY DISCUSSION

Contingent upon City Council approval of the SDDPC dissolution resolution and subsequent processing by the State Attorney General's Office, SDDPC's assets will revert to the City, consistent with SDDPC's Articles of Incorporation and the current SDDPC Bylaws. Following receipt of these assets, the Mayor may propose a recommendation for their use to the Council for their consideration. If the City Council votes affirmatively to dissolve the corporation at the July 29, 2013 City Council meeting, staff anticipates the final dissolution certificate to be issued by mid December 2013.

Current estimates of SDDPC's assets are approximately \$18.8 million, with about \$8.6 million being in the form of cash. This \$8.6 million is the anticipated value that will revert to the City after payment of SDDPC's liabilities and expenses (outlined in the staff report's Exhibit A and B). Upon dissolution, these cash assets would fall to the General Fund.

A large portion of the assets are made up of property, which includes two buildings currently owned by SDDPC. As of July 2013, the unofficial appraised value of the buildings at 5975 and 5965 Santa Fe Street are estimated at approximately \$4.3 million and \$4.1 million, respectively,

for a total of about \$8.4 million. This is about a \$300,000 increase from an outdated appraisal conducted in 2010 which was included in previous documents to estimate the value of these properties.

The Real Estate Assets Department (READ) is overseeing any negotiations for the potential sale of these properties during the process of SDDPC's dissolution, and will continue to manage these discussions if the buildings were to revert to the City. READ is currently working to finalize the recent appraisal. Once the appraisal is finalized, they may continue discussions with any parties interested in one or both of these properties, in addition to working with SDDPC to potentially marketing the sale of the building(s). It is important to note that the City is obligated to house approximately 125 third party vendor employees per their service agreement. SDDPC and READ are working to balance any reasonable offers against the cost of potentially relocating these employees if one or both buildings are sold. The City Attorney's Office is expected to release a memo commenting on the City Council's role in the disposition of SDDPC property prior to the July 29, 2013 Council meeting. At the time this report was issued, our office had not yet received this memo.

Due to the nature of the negotiations and the need to finalize the appraisal, it is unclear at this time if one or both of these buildings will be sold prior to the official dissolution of SDDPC. The timing of the potential sale of the properties will dictate whether this portion of the funds will go to the General Fund or to the Capital Outlay Fund. If one or both of the buildings are sold prior to SDDPC's official dissolution, revenue received from the sale of the building(s) would increase the cash assets of SDDPC, resulting in an increased amount of cash that would revert to the City and into the General Fund. If the buildings are not sold prior to dissolution, and the City decided to sell them, revenue from the sale of this City-owned property would fall to the Capital Outlay Fund per City Charter Section 77. Monies utilized from this fund may only be used exclusively for the acquisition, construction, and completion of permanent public improvements.

The remainder of the assets are comprised of various equipment and hardware, at an estimated value of about \$1.7 million. SDDPC is actively engaged in selling this equipment and hardware, and there is a process in place for its sale. The Executive Director of SDDPC signs off on the sale of all equipment, and the City of San Diego's Comptroller and Director of Information Technology act as co-signers. Cash resulting from the sale of any equipment occurring before the final dissolution of SDDPC will add to its cash balance, increasing the cash assets that will revert to the City and into the General Fund.

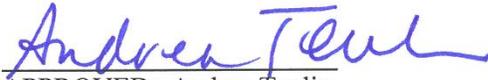
CONCLUSION AND RECOMMENDATION

Contingent upon City Council's approval to dissolve SDDPC, its assets will revert to the City upon dissolution. Currently, the estimated value of SDDPC's assets are approximately \$18.8 million, with \$8.6 million being in the form of cash. Considering that the potential distribution of these assets to the City may occur as soon as December 2013, and they would provide a significant resource, we recommend that the Mayor's Office bring forward a plan for the proposed use of these assets, working with the City Council and the IBA, at the time the First Quarter Budget Monitoring Report is presented. This funding will be a one-time resource and therefore should be restricted to one-time expenditures. A priority consideration for funds that fall to the General Fund is increasing the City's General Fund Reserve.

Consistent with the motion made during City Council's approval of the FY 2014 Budget on June 10, 2013 (R-308247), the First Quarter Budget Monitoring Report was requested to be presented along with the Five-Year Outlook, no later than November 30, 2013. Although the official dissolution of SDDPC may not yet be complete, the discussion of the utilization of the estimated assets may ensure that a plan is in place for the timely use of these resources.



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