

# San Antonio Express-News

## Taxpayers picked up Centro tabs

Records show that public money went for lobbying, meals and trips

**BY RICHARD WEBNER STAFF WRITER**



Tom Reel / San Antonio Express-News Pat DiGiovanni helped make Centro a major force in downtown's recent development boom during his nearly five years as its CEO.



Bob Owen / San Antonio Express-News

One of the “ambassador amigos” crosses Broadway at Houston Street. Since October 2013, the city has given Centro San Antonio \$18.9 million.



Tom Reel / San Antonio Express-News

On at least two occasions, Centro used PID funds on the family members of Pat DiGiovanni. In July, the PID spent \$586 to fly him and his wife to Chicago for a convention, and in 2015 it paid his son \$281 for social media work, the records show.



Mike Fisher/San Antonio Express-News

Centro San Antonio's bill for membership and meals at the ritzy Plaza Club on the 21st floor of the Frost Tower: \$2,350.

A trip to Chicago to meet with a company vying for the city's river barge contract: \$3,274.

Sponsorships of music festivals that happened outside of its downtown boundaries: \$8,000.

Centro, the nonprofit that's being overhauled after its staff accountant was tied to the embezzlement of \$291,000, paid for all that since fall 2015 with money it got from the city to manage the downtown public improvement district, or PID, to its accounting records show.

The San Antonio Express-News received the records under a Texas law that requires nonprofits to show financial documents to the public.

The alleged embezzlement led to the resignation in November of Pat DiGiovanni, who helped make Centro a major force in downtown's recent development boom during his nearly five years as its CEO.

He was a protégé of City Manager and Centro board member Sheryl Sculley, who brought him here in 2006 to serve as her deputy from Kalamazoo, Michigan, where they both served as city managers.

The downtown-focused nonprofit, a public-private organization, also used property tax dollars to lobby for city bond money last year, the records show.

It paid \$54,400 for research from consulting firms MIG, TXP and Greener Cities Consulting Solutions that recommended new infrastructure for the 3.1-mile Broadway corridor, only 15 percent of which is in the PID.

Because most of the thoroughfare is outside its boundaries, the PID funded 17.2 percent of the consultants' research, with the rest picked up by local developers such as GrayStreet Partners and Pearl builder Silver Ventures, Centro board members said.

Research for potential bond projects in the Zona Cultural area of west downtown cost the PID \$141,000. Another \$11,000 went to Ultrate, a local consulting firm headed by former Pearl managing director Darryl Byrd, for work that included bond strategy.

Centro hired the consultants after a committee it formed decided to focus its bond efforts on Broadway, Zona Cultural and Hemisfair. The committee included representatives of five developers that own vacant land along Broadway and another with large holdings in west downtown.

In essence, the PID spent city property tax dollars on research and strategy it used to lobby the city for a slice of the \$850 million bond. And it worked —the Broadway corridor, Hemisfair, San Pedro Creek and Zona Cultural got a total of \$140 million.

Centro oversees two nonprofits with separate functions: One, the Centro Alliance, acts as an advocate for downtown developers and businesses, and the other manages the PID on the city's behalf.

The PID money isn't supposed to be used for lobbying — the nonprofit's mission is to promote downtown, keep it safe and clean, and recruit businesses for the district.

Yet some of the PID's payments seem to blur the division between Centro's two roles. Centro has spent thousands of PID property tax dollars on fundraisers, mixers and award shows for the Alliance, which is structured in its bylaws to be dominated by downtown's biggest businesses, hotels and property owners, the records show.

Last March, for example, the Alliance held a fundraiser at La Margarita Restaurant & Oyster Bar in west downtown. The bill came out to \$3,117, and \$2,337 was charged to the PID, according to the accounting records.

Trish DeBerry, who sits on Centro's board, said Centro's executives exhibited "bad judgment" in its accounting practices. The board wasn't involved in the PID's "day-to-day billing," she said.

"There was a lack of oversight, obviously, when it came to accounting," said DeBerry, who's CEO of local PR firm the DeBerry Group. "You see what we see as a board. It's disappointing, and there's a reason why Pat (DiGiovanni) tendered his resignation."

In response to questions from the Express-News, Centro realized a \$1,314.75 bill from Ácenar and a \$918.90 bill from Alonti Catering Kitchen for catering a golf tournament fundraiser shouldn't have been charged to the PID, DeBerry said. It was "sloppy oversight," and Centro will reimburse the PID for them, she said.

But DeBerry questioned whether the PID's spending on consultants for the bond qualified as lobbying, calling it "outreach" and "education."

"I think advocacy is a more appropriate term for what we do," developer and PID board member David Adelman said. "We're advocating for better design for downtown, we're advocating for bond investments in the urban core, we're advocating for clean and safe streets and sidewalks."

Adelman said it isn't appropriate for PID funds to be used for an Alliance fundraiser. But DeBerry defended Centro's use of PID dollars on Alliance events, which accomplish the nonprofit's goal of energizing the downtown community, she said.

"That being said, moving forward, will the board and a new CEO be taking a very strong, robust, close look at what we deem as reimbursable and not reimbursable? Absolutely," she said.

County Judge Nelson Wolff, who helped create Centro in 2011 with then-Mayor Julián Castro, said the county stopped contributing to the nonprofit three years ago over

concerns about how it was mixing public dollars with lobbying. He and Centro also had different views on downtown streetcars and a potential baseball stadium.

“They did a very effective job lobbying the city,” he said. “I’ve always wondered, how could you be handling city tax dollars from the PID and also doing all the lobbying. ...Those two things didn’t seem to me to go together right.”

### **Funds for family members**

The PID gets nearly all its revenue from property taxes the city collects from landowners in the PID, which spans most of downtown. The city and its municipally owned utility, CPS Energy, also pay property taxes into the PID, although their land holdings usually are tax-exempt — in fiscal year 2018, that amounted to \$291,000. The amount is the same as the alleged embezzlement, but only by coincidence.

Every month, Centro sends invoices of its PID expenses to the city, which reviews and reimburses them, said DiGiovanni, who has not been implicated in any wrongdoing, but missed the alleged embezzlement scheme that went on for more than two years.

Since October 2013, the city has given Centro \$18.9 million. Centro pays most of that money to subcontractors who wash the streets, take care of landscaping and manage the “ambassador amigos” — the yellow-shirted workers who pick up litter and give directions to tourists.

On at least two occasions, Centro used PID funds on Di-Giovanni’s family members.

In July, the PID spent \$586 to fly him and his wife to Chicago for a convention, and in 2015 it paid his son \$281 for social media work, the records show.

DiGiovanni said his son was hired by other Centro staff members without his involvement. The PID recouped the cost of his wife’s flight by not charging him for a phone bill that it usually would cover, DeBerry said.

“I don’t think that’s the proper way to do it,” DeBerry said about the reimbursement. Centro will ask DiGiovanni to write a check covering the cost of his wife’s ticket, she said.

DiGiovanni said that when he returned from Chicago, he told Centro’s staffers that he could write them a check for the cost or they could deduct it.

“I don’t know why they even put that flight on the bill. ... If someone charged it to the PID, that’s on them, that’s not on me,” he said. “I have not taken one dime from Centro that I wasn’t entitled to.”

The PID has spent tens of thousands of dollars since 2015 on sponsorships of local events, including some that didn’t take place within its boundaries, such as \$7,500 on the 2016 Mala Luna Music Festival at the Lone Star Brewery and \$1,500 on the 2016 Richter Fest music festival held on Broadway north of the Pearl.

“I see no justification for the PID contributing to that,” Adel-man said. The PID’s board wasn’t consulted for those expenses, he said.

DiGiovanni said he wasn’t aware of the PID spending money on a sponsorship to Mala Luna and that Centro’s staff would have made that decision. The expense might have been determined to be appropriate because it created exposure for the downtown brand, he said.

## Changes at Centro



**Bob Owen / San Antonio Express-News**

**The section of Broadway between McCullough Avenue and Houston Street was targeted to be fixed up by Centro San Antonio with city bond money.**

Centro officials discovered in November that the former staff accountant and office manager, Alicia Henderson, was tied to the theft of \$291,000 through an elaborate fraud during the three years she worked there.

The nonprofit hired her without running a background check, so it didn’t learn she’d pleaded guilty to felony bank fraud and been charged twice with theft by check.

Since then, Centro has gone over its books and is confident that no more than \$291,000 was stolen, its attorney Michael Bernard said. All the money was taken from the Centro Partnership, the nonprofit that oversees the PID and the Alliance, not the PID itself, he said.



**File photo / San Antonio Express-News**

**Trish DeBerry said Centro’s board wants to create stricter financial policies and narrow the nonprofit’s focus to a few key projects, such as rejuvenating Houston Street. Also, she said it’s evaluating Centro’s current 13 staff positions.**

But some money that came from the city was exposed to the fraud. The Centro Partnership gets a portion of its revenue from management fees charged to the PID, Bernard said. He wasn’t sure how much.

In 2014, the last year for which information is available, \$791,720 of the Partnership’s \$1.66 million of revenue came from management fees, its IRS filing shows.

Centro’s board wants to create stricter financial policies and narrow the nonprofit’s focus to a few key projects, such as rejuvenating Houston Street, DeBerry said. It is evaluating the nonprofit’s current 13 staff positions, she said.

Adelman said Centro should have a simpler structure that would make it easier to manage.

“It’s easier for good people to make mistakes, and it’s easier for bad people to steal” when organizations have complicated structures, he said. “As we retool, I think we need to focus on a few key priorities, not be so stretched out.”

Centro recently hired Margaret Moore, the former vice president and controller of the Nix Health Care System, to serve as its controller and look after its finances, DeBerry said. Moore is working with the board to come up with new policies.

Last week, the board interviewed three candidates to become the nonprofit's interim COO. The current CFO, Tony Piazzi, who was supposed to oversee Henderson, is expected to leave by the end of this month, she said.

"Once we've got much tighter financial protocol in place ... (and) PID policies established, we feel like then at that point we can then be very diligent and very earnest about a new CEO," DeBerry said.

The city and SAPD also are investigating. SAPD still is working on the case and no arrests have been made, spokeswoman Romana Lopez said.

So far, the city's audit hasn't uncovered any fraud of PID funds, but if it does, the city will ask for reimbursement from Centro, according to a statement from city spokeswoman Thea Setterbo. The city declined to comment further on Centro's use of PID funds.

### **Administration expenses**

The amount of money the PID spent on general and administration expenses — including salaries, office space, meals and travel — rose from \$67,307 in October 2015 to \$123,341 in April 2017, before plummeting to \$8,081 the next month.

In June, the amount dropped again to \$4,057, and then to zero in July, where it remained the rest of the fiscal year, the PID's invoices show.

The PID had started reclassifying those expenses as being for marketing, planning, business recruitment and district operations.

In July, the PID marked all of its rent, meals, office supplies, phone bills and employee salaries in those categories, as well as a flight for DiGiovanni to Chicago for an International Downtown Association retreat as well as \$2,900 in other payments for the International Downtown Association, an organization that promotes downtowns.

In April, the PID came close to reaching the amount it told the city it would spend on management and administration in fiscal year 2017, the invoices show. Centro told the city in its service plan that it expected to spend \$742,000, and by the end of April it had spent \$722,645. The fiscal year stretched from October 2016 to September 2017.

It's unclear, though, if the "management and administration" category in the service plan is the same as the "general and administration" category in the PID's invoices.

DiGiovanni said the expenses were reclassified for "greater specificity" and to show the PID's property owners that Centro was spending money on the services it said it would bolster when it raised the district's tax rate in 2013. That year, the City Council voted to increase the PID's taxes and broaden its mission after 54 percent of its property owners pledged their support for the PID.



“This was a shift to begin to account for and show the property owner that we are indeed following the original plan for the public improvement district expansion,” he said.

About 28.7 percent of the PID’s expenses in fiscal year 2017, or \$1.3 million, were for administration expenses such as salaries, rent, office supplies, meals and travel, the accounting records indicate.

Centro subcontracts much of its work on the PID to other companies. Forty-seven percent of its expenses in fiscal year 2017, or \$2.16 million, went to Block by Block, the company that manages the “ambassador amigos,” the invoices show. Another \$352,000 went to a company called Benchmark Landscapes that handles landscaping.

### **Accounting policy**

For many expenses — including office supplies, flights, hotels, restaurants, bar tabs, consultant fees and membership dues to trade associations — Centro followed a policy of charging 75 percent to the PID and 25 percent to the Centro Partnership.

But that policy often wasn’t followed, according to the PID’s invoices. The entire cost of the \$7,500 Mala Luna sponsorship was charged to the PID, for example.

“If it’s going to be 75 percent, then it needs to be 75 percent consistently. But I think that was left to the discretion of the CEO,” DeBerry said. “Do we think that needs tightening up? Yes. More documentation.”

DiGiovanni said some expenses were fully charged to the PID because their entire impact would be within the district’s boundaries.

“We didn’t use PID dollars to support areas outside of the PID boundaries,” he said. “We were pretty meticulous in keeping expenses appropriately charged so that there wouldn’t be (an accusation) by a property owner that you were using our PID dollars outside of the public improvement district.”

Centro follows a similar policy for the salaries of its employees. The PID pays at least 75 percent of employees’ salaries, or more depending on how much work they do on the PID versus the Alliance, DeBerry said. That includes an employee whose job is to engage Alliance members.

The expenses aren’t typically charged to the Alliance, which gets its revenue from membership dues. But the Alliance does give money to the Partnership — in 2014, it collected about \$267,000 in membership fees and paid \$251,000 in management fees to the Partnership, according to its IRS filing.

The Alliance has a tiered membership structure, according to its bylaws, which Centro provided to the Express-News. There are five tiers, with the top one consisting of members who own more than \$25 million worth of property downtown; retail and office tenants with more than 50,000 square feet of space; and hotels with more than 450 rooms.

Seven of the Alliance's 12 original board seats are reserved for members of the first and second categories, while anyone can be elected to the other five seats, according to the bylaws. The board has since expanded to have more members.

## **PID expenses**

The two plane tickets to Chicago were booked with only a few days to spare, so they cost the PID a hefty \$2,337.

DiGiovanni and Centro's VP of innovation and strategic alliances Noah Almanza flew to the Windy City in April to meet with executives of Entertainment Cruises, which was lobbying fiercely for the \$100 million contract to manage San Antonio's fleet of river barges, according to the accounting records.

Earlier that spring, Centro lent its support to the company's bid, raising eyebrows by throwing its weight into such a fraught bidding process. The company and Centro formed a partnership in which they agreed to work together to improve the river. (The partnership did not win the contract, though city staff had recommended it).

DiGiovanni and Almanza spent one night in Chicago, charging the PID \$764.37 for two rooms at the Sheraton Grand on the city's riverfront. They paid \$100 for a meal for two at an Italian restaurant, \$95 for a sushi dinner and \$31.22 for a beer, a bourbon and a martini at a steakhouse, the invoices show.

The PID spent almost \$12,500 on meals in fiscal year 2017, according to its invoices. Roughly \$12,000 of PID money paid for flights and hotels during that time.

In fall 2016, the PID spent at least \$89,000 on a massive launch party for its new downtown brand that included \$25,500 for murals and a \$775 stilt walker.

Another major expense for the PID was the International Downtown Association. Since 2015, the PID has paid thousands to send Centro employees to IDA conferences.

The PID paid \$15,000 in January 2017 to contribute to an IDA study on the "value of a downtown." DiGiovanni said the study provided Centro with data it can use to measure downtown's progress.

"The IDA is the premier association regarding models and best practices for downtown revitalization," DeBerry said. She pointed out that the IDA is holding its 2018 conference and trade show in San Antonio.

Last June, not long after voters passed the city bond package, the PID paid \$275 to nominate Centro for the IDA's Downtown Achievement Awards for its work on the bond process.

Centro ended up getting a certificate of merit, IDA's website shows. [rwebner@express-news.net](mailto:rwebner@express-news.net)