

DATE ISSUED: November 18, 2009

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Council President and City Council
Docket of November 23, 2009

ORIGINATING DEPT.: Centre City Development Corporation

SUBJECT: Villa Montezuma Rehabilitation (1925 K Street) – Memorandum of
Understanding between the City of San Diego and the Redevelopment
Agency of the City of San Diego for the Rehabilitation of the Villa
Montezuma – Southeast San Diego Planned District – Dells Imperial
Study Area

COUNCIL DISTRICT: 2

REFERENCE: None

STAFF CONTACT: Eli Sanchez, Senior Project Manager, 619-533-7121

REQUESTED ACTION: That the Redevelopment Agency of the City of San Diego (“Agency”) and the City Council of the City of San Diego enter into the proposed Memorandum of Understanding (MOU) between the City of San Diego (“City”) and the Agency for the historic rehabilitation of the Villa Montezuma cultural facility (“Project”) owned by the City and located outside the Centre City Redevelopment Project area in the adjacent Sherman Heights neighborhood.

STAFF RECOMMENDATION:

That the Agency adopts a resolution:

1. approving the MOU for the rehabilitation of the Villa Montezuma, a City owned facility;
2. authorizing the Chief Financial Officer, as delegated, to appropriate and transfer \$550,000 from the Agency to the City (into CIP#: A-BT.00001, CIP Title: City Facility Improvements and Fund #200355, Fund Title: CCDC Contribution to the City for the purpose of rehabilitation of the Villa Montezuma) upon certain conditions precedent in the MOU being fulfilled; and
3. making certain findings for the expenditure of Agency funds for the construction of the improvements for the rehabilitation of the Villa Montezuma.

And, that the City Council adopts a resolution:

1. approving the MOU for the rehabilitation of the Villa Montezuma, a City owned facility;
2. authorizing the Chief Financial Officer to accept up to \$550,000 from Agency into Fund #200355, Fund Title: CCDC Contribution to the City;
3. authorizing an increase up to \$550,000 in the Fiscal Year 2010 Capital Improvements Program Budget in CIP#: A-BT.00001, CIP Title: City Facility Improvements and Fund #: 200355, Fund Title: CCDC Contribution to the City;

4. authorizing the Chief Financial Officer to appropriate and expend up to \$550,000 from CIP#: A-BT.00001, CIP Title: City Facility Improvements and Fund #200355, Fund Title: CCDC Contribution to the City for the purpose of rehabilitation of the Villa Montezuma, contingent upon receipt of funds from Centre City Development Corporation; and
5. making certain findings for the expenditure of Agency funds for the construction of the improvements for the rehabilitation of the Villa Montezuma.

SUMMARY: The City has requested that the Agency fund a portion of the rehabilitation of Villa Montezuma ("Villa") located at 1925 K Street, southwest corner of 20th and K streets, in Sherman Heights (Attachment A). The Villa is on the National Register of Historic Places and is a San Diego landmark. It is owned by the City of San Diego and has been operated as a museum and cultural center since 1972.

Over the course of 37 years of City ownership, the Villa has undergone numerous restoration and preservation repairs. However, the Villa has been closed to the public since February 2006 due to safety concerns. In recognition of the Villa's being a significant cultural and historical resource, the MOU provides for the Agency to contribute \$550,000 toward the historic preservation and restoration effort. The proposed MOU further provides for the agreement between the City and the Agency to rehabilitate the site to a level that will allow the public to use the site as a historical and cultural resource (Attachment B).

The Villa is a cultural facility owned by the City and will be operated as a museum featuring the cultural and societal history of San Diego. The City plans to reopen the facility and make it available for use as a center for the development of educational, cultural and historic interpretive programs, and for related activities, available to downtown residents and the greater San Diego community.

The use of Agency tax increment funding for the Project will require that the Agency and San Diego City Council ("City Council") make certain findings and determinations in accordance with California Community Redevelopment Law (CRL) Section 33445 regarding payment for publicly owned buildings, facilities structures or other improvements.

FISCAL CONSIDERATIONS: Agency funds in the amount of \$550,000 are available in the Fiscal Year 2009 Budget, in the Historic Mitigation line item. These project expenditures were included in the Fiscal Year 2010 budget, and were taken into account when determining the project area's ability to fund the State's ERAF payment.

CENTRE CITY DEVELOPMENT CORPORATION RECOMMENDATION: On October 21, 2009, the Corporation voted 5-0 to approve the MOU and authorized the Executive Vice President to mutually resolve the revisions proposed to the MOU by the City and proceed to the Agency with the Corporation recommendation to approve the MOU.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

Centre City Advisory Committee Recommendation: On October 14, 2009, the Centre City Advisory Committee (CCAC) voted 17-0 and the Project Area Committee (PAC) voted 17-0 to recommend approval of the Memorandum of Understanding including provisions that the Operation and Maintenance Program would demonstrate how the improvements identified in the Parsons Report would be timely addressed, include a capital repair and replacement plan and provide for use by nonprofit organizations located in the Centre City and Horton Plaza Redevelopment Project areas.

OTHER RECOMMENDATIONS: None.

BACKGROUND

This proposed project advances the Visions and Goals of the Downtown Community Plan and the Objectives of the Centre City Redevelopment Project by:

- Supporting the City in the preservation of a historical and architecturally significant cultural facility, which serves the needs of the entire downtown area;
- Protecting historic resources to communicate downtown's heritage;
- Keeping history alive through interpretive programs; and
- Assisting with the elimination of blight through the rehabilitation and upgrade of a significant historic structure.

The Villa is located at 1925 K Street on the southeast corner of 20th and K streets in the Southeast San Diego Planned District within the Sherman Heights Historic District of the City of San Diego. The Sherman Heights Historic District is separated from the East Village by Interstate 5 and is within Sherman's Addition, named for Matthew Sherman. Matthew Sherman, mayor of San Diego from 1891 to 1892, purchased the land next to Horton's Addition. Sherman's Addition begins at approximately current-day 14th Street, which is now in the East Village.

The 3,720-square-foot structure was built in 1887 as the private residence of Jesse Shepard, a noted historical figure in San Diego. The facility was designed and built during the Victorian period by noted architects Comstock & Trotsche, is on the National Register of Historic Places and is a San Diego landmark. The facility is a unique construction; many of the materials are one-of-a-kind in design and construction.

The Villa was acquired by the City in 1972 and in the past has been operated by the San Diego Historical Society ("Historical Society") as a museum featuring the cultural and societal history of San Diego. Over the course of 37 years of City ownership, the Villa has undergone numerous restoration and preservation repairs.

However, the Villa has remained closed to the public since February 2006 due to safety concerns. In 1976 the City replaced two-thirds of the foundation, leaving one-third of the original 1887 brick along the western foundation wall. That brick is now failing. In 2005 the basement kitchen display was removed so that the building could be shored up. The original 1887 chimneys also must be stabilized for earthquake preparedness. Other building deficiencies have been identified by a Facilities Condition Assessment Report dated October 17, 2008 ("Parsons Report").

DISCUSSION

The Villa is a historical site that has deteriorated to a level which precludes use by the public. The facility requires extensive preservation and restoration work to save and preserve it to historical standards. To maintain the historical classification and integrity of the facility, all materials and craftsmanship must adhere to the U.S. Department of Interior (DOI) Guidelines for the Preservation and Maintenance of Historical Structures.

In October 2008, the City received the Parsons Report that analyzed every system in the museum, including electrical, plumbing, mechanical, and HVAC. The Parsons Report estimated the cost to repair current deficiencies found in the building to be approximately \$3 million.

In recognition of the significant cultural and historical resource of the Villa, the MOU provides for the Agency to contribute \$550,000 and for the City to contribute \$500,000 toward the historic preservation and restoration effort. The use of the combined \$1,050,000 will include, but not be limited to, design and construction of improvements to prevent further deterioration, rain infiltration, further damage due to potential seismic events and, more importantly, to make the building safe to open to the public.

The proposed MOU provides for the agreement between the City and the Agency to rehabilitate the site to a level that, upon completion of the improvements, will allow the public to use the site as a historical and cultural resource.

The City will be responsible for all administrative and professional services required for design and construction of the Project. The City will act as lead agency with full authority to execute and comply with the terms of design and construction contracts authorized and appropriated by the City Council and/or Agency, as appropriate, in advance of contract awards. Upon approval of the construction contract for the Project, the \$550,000 from the Agency will be transferred to the City to be placed in an account for the Project ("Project Account"). The City will be able to draw down on the Project Account for direct construction and permitting costs only. Direct construction costs will be only for construction contractor costs associated with the Project's construction. Any City costs for administering the Project will be considered soft costs and cannot be paid out of this Project Account.

The City shall reopen, operate, maintain and repair the Villa in accordance with an Operation and Maintenance Program approved by the Agency before the expenditure of any Agency funds. The Operation and Maintenance Program shall demonstrate that the Villa can be operated and

maintained in a financially feasible manner by a qualified and financially capable operator with expertise in (i) the areas of maintenance and preservation of a historical museum site(s), and (ii) the development and management of recreational, educational, cultural, social, and historical interpretative programs. The City shall also be responsible for the care and maintenance of the Villa, the cost of any and all capital repairs and/or replacements of capital improvements to the Villa.

The City plans to make the facility available for use as a center for the development of educational, cultural, and historic interpretive programs and for related activities available to downtown residents and the greater San Diego community. The preservation and rehabilitation of the Villa benefits the Centre City Redevelopment Project Area in that the historically significant Villa will be preserved and reemerge as a cultural facility owned and operated by the City as a house museum featuring the cultural and societal history of San Diego.

Project Financing – The Agency will contribute \$550,000 to the preservation and rehabilitation of the Villa. The City will contribute \$500,000. These funds will be expended in the first phase of preservation and rehabilitation, intended to prevent further deterioration, rain infiltration, further damage due to potential seismic events and, more importantly, to make the building safe to open to the public.

Disposition of Property – The City owns the Villa and will continue to be responsible for the operation and maintenance of the facility.

Participation by Agency – Agency funding of \$550,000 toward the preservation and rehabilitation of the Villa will require that certain findings be made pursuant to CRL Section 33445, “Payment for publicly-owned buildings, facilities, structures or other improvements.” This will require a Joint Public Hearing by the Agency and City to adopt a resolution making certain findings and determinations. The findings and determinations would include that:

- The project is of benefit to the Centre City Redevelopment Project and to the immediate neighborhood;
- There are no other reasonable means of financing the project available to the community; and
- Payment of funds by the Agency for the costs related to the Villa rehabilitation will assist in the remediation of one or more blighting conditions, and is consistent with the Implementation Plan for the Centre City Redevelopment Project.

California Senate Bill 93 – The passage of Senate Bill 93 further restricts on the Agency’s ability to fund public facilities outside of the project area effective January 1, 2010. The Agency may contractually be obligated to fund public facilities outside of the project area in accordance with current law, provided that such obligation is entered into prior to December 31, 2009.

Proposed Schedule of Performance – Staff currently anticipates that the MOU will be considered by the Centre City Advisory Committee on October 14, the Corporation Board on October 21 and the Agency on November 17.

Environmental Impact – This activity is categorically exempt from CEQA pursuant to State CEQA Guidelines Section 15331. The activity does not fall within any of the classes of projects for which a categorical exemption may not be applied. (Pub. Resources Code Section 21084.) Moreover, the activity triggers none of the exceptions to the application of a categorical exemption set forth in CEQA Guidelines Section 15300.2. Therefore, the application of the categorical exemption(s) set forth under CEQA Guidelines section 15331 is appropriate for this activity.

CONCLUSION

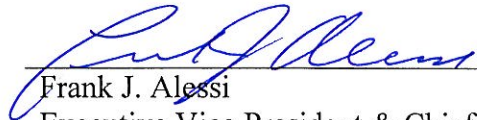
Villa Montezuma is a cultural facility owned by the City and will be operated as a museum featuring the cultural and societal history of San Diego. This historically and architecturally significant cultural facility serves the needs of the entire downtown area. The preservation of the historic Villa Montezuma assists with the elimination of blight in the downtown area and is of benefit to the Centre City Redevelopment Project and the East Village neighborhood. Approval of the MOU for the expenditure of \$550,000 by the Agency toward the historic rehabilitation of the facility is recommended.

Respectfully submitted,

Concurred by:



Eli Sanchez
Senior Project Manager



Frank J. Alessi
Executive Vice President & Chief Financial
Officer

Attachments: A – Site Map
B – Memorandum of Understanding