



City of Palo Alto

City Council Staff Report

(ID # 5879)

Report Type: Consent Calendar

Meeting Date: 6/29/2015

Summary Title: Palo Alto Historical Museum Option To Lease for the Roth Building

Title: Approval of a One-Year Extension of the Option to Lease Agreement Between the City of Palo Alto and the Palo Alto History Museum for the Roth Building Located at 300 Homer Avenue and Approval of a Budget Amendment Ordinance in the Capital Improvement Fund to Establish a Roth Building Historical Rehabilitation Reserve in the Amount of 3.88 Million Dollars

From: City Manager

Lead Department: Administrative Services

RECOMMENDATION

Staff requests that Council approve the following recommendations:

1. Approve a one year extension of the Option to Lease Agreement between City of Palo Alto and the Palo Alto History Museum.
2. Approve a Budget Amendment Ordinance (Attachment "A") in the Capital Improvement Fund to recognize \$2,880,000 in transfer development rights revenue and a transfer from the General Fund Budget Stabilization Reserve in the amount of \$1,000,000 to establish the Roth Building Rehabilitation Reserve in the amount of \$3,880,000.

EXECUTIVE SUMMARY

In the past ten years, the Palo Alto History Museum (PAHM) has been utilizing various strategies and activities including raisings funds from private and public sources to raise sufficient capital to renovate the Roth Building and to operate a historical museum. The Palo Alto History Museum proposes to restore, preserve, and rehabilitate the City's Roth Building as a museum.

After several recent presentations to Council requesting public funding, on December 15, 2014, City Council passed a motion instructing staff to identify \$1.0 million to fund rehabilitation costs for the Roth building. All potential sources were examined and staff recommends that the Budget Stabilization be drawn down to provide the \$1.0 million. Historical Museum

representatives asserted that with this contribution and the sale of Transportation Development Rights (TDRs), further fundraising would gain traction.

Prior to this action, Council approved the designation of the Roth Building as a “Sender Site” in the TDRs program. At a specified, minimum price of \$200 per square foot, the TDRs were put to bid and were sold at \$300.25 per square foot. This raised \$2.88 million.

During the last presentation to Council the History Museum stated it privately had raised \$3.5 million (excluding the projected revenue of TDRs and Library Impact Fee – Archives) toward total estimated construction costs of \$9.1 million dollars. Since that time, in addition to the City and TDR funding, PAHM has raised \$113,530 in new pledges, restricted and unrestricted donations since the beginning of the year. PAHM continues to work on fundraising, and has an expectation of a major donation in the very near future that is prompted by the City’s support of the building.

While staff has completed the above designated assignments, the Conditional Use Permit (CUP) and Architectural Plan Review that allowed the historical museum to move forward expired at the end of December of 2014. With these expirations, new applications (whose processing time typically takes three to six months) must be activated. PAHM will be applying for City’s customary planning reviews to update the expired Conditional Use Permit (CUP).

Staff requests that Council review the History Museum’s request for another one year extension of the option to lease agreement on the Roth building. With an extension, staff requests that a Budget Amendment Ordinance for \$1.0 million be approved as well. In summary, a total of \$3.8 million is being earmarked with interest by the City for the renovation of the Roth Building.

BACKGROUND

Background information on the development of the Roth Building since the City’s acquisition in April 2000 is extensive. Since 2007, Museum personnel and City staff have examined a variety of proposals to fund the capital and operating needs of the Roth Building historical museum. Additional background information can be found by referring to CMRs: 2197, 2891, 4703, 5365 and 5551.

Briefly, the Palo Alto Historical Museum (PAHM) proposed project is to renovate the existing building and add 1,398 square feet to the existing square footage. This would accommodate: a basement egress stairway; additional first floor level area for additional gallery space; new second floor space for exhibits and archives; and add space at roof level to have an open roof area. For a detailed description of rehabilitation plans, please note Report to Historical Resource Board & Architectural Review Board on February 16, & 17, 2011.

After rehabilitating the Roth Building, PAHM would operate the building and conduct its programs. The last business plan submitted by PAHM indicated that an operating budget of

\$1.9 million would be needed. These expenses would be funded through fees, rentals and donations.

Over the past few meetings between the Historical Museum and the City Council, the Council directed staff to take two actions to support the capital needs for the Roth Building: 1) the sale of TDRs and 2) the identification of \$1.0 million from available City resources. Staff has completed these assignments.

DISCUSSION

City Activity on Funding

Since the Roth Building has historical designation, staff followed the provisions for eligible City-owned buildings to participate in the TDR program as outlined in Chapters 18.18.080 and 18.28.060 of the Palo Alto Municipal Code (PAMC). The program allows a Category 2 resource, (the Roth Building) to be eligible as a “sender site” for a 9,592 square foot floor area bonus. City staff prepared and issued a request for bids (RFB) to market the Roth Building TDRs on Monday April 20th 2015 and closed the bidding on Tuesday May 5, 2015. The minimum price set was \$200 per square foot and the highest bid received was for \$300.25 per square foot. This resulted in a sale for \$2.88 million. The funds will be set aside in the Roth Building Rehabilitation Reserve and be available when PAHM has fulfilled its fund raising goal for the construction phase of the project from other potential sources.

In addition to the sale of TDRs, staff has identified \$1.0 million in funding for Roth Building capital costs. All potential sources were examined and staff recommends that the Budget Stabilization be drawn down to provide the \$1.0 million. Historical Museum representatives asserted that with this contribution and the sale of Transportation Development Rights (TDRs), further fundraising would gain traction.

The Option to Lease between the City and PAHM will expire on June 30, 2015 and it will need to be extended to allow for the museum project to move forward. The Conditional Use Permit (CUP) and Architectural Review expired at the end of December of 2014. The application processing time to re-activate these permits is typically three to six months. PAHM is in the process of applying for an updated Conditional Use Permit (CUP).

PAHM Activity on Funding

PAHM has focused on moving this project forward by raising funds from private donors and applying for grants from various sources. It has hired a new executive director to work on new strategies for fundraising and for program development at the Museum. Details on the capital budget for Roth Building renovation and financial progress can be found in (Attachment “B”). The projected rehabilitation cost is \$9.1 million. The TDR sale and \$1.0 million drawdown of the GF Budget Stabilization Reserve provide \$3.88 million of capital funds required. Since December of 2014, it appears that PAHM has raised \$113,530 in new pledges, restricted and unrestricted donations and according to PAHM, there is an expectation of a major donation in the very near future. Creation of exhibits and programs for the Museum are estimated at \$9.0

million and annual operating costs, expected to be covered by fees, rentals and fundraising are estimated at \$1.9 million.

Staff requests that Council review the History Museum's request for another one year extension of the option to lease agreement on the Roth building. With an extension, staff requests that a Budget Amendment Ordinance (BAO) for \$1.0 million be approved as well.

TIMELINE

Staff will return to Council in the future with periodic updates. In the meantime, the Palo Alto Historical Museum will continue its effort for fund raising until it is ready to exercise its option to enter into lease with the City for Roth Building.

RESOURCE IMPACT

TDRs from the Roth Building sold for \$2.88 million, which will be set aside in the Roth Building Rehabilitation Reserve. If Council approves the attached BAO, an additional \$1.0 million will be available for Roth Building capital costs increasing the amount to \$3.88 million. These funds plus interest earned will be available for capital costs incurred for the rehabilitation of the Roth Building.

POLICY IMPLICATIONS

This recommendation is consistent with existing City policy.

ENVIRONMENTAL REVIEW

Designation of the Roth Building site as an eligible TDR "sender" site is Categorical Exempt from California Environmental Quality Act (CEQA) review under CEQA guidelines section 15305, Minor Alterations in Land Use Limitation. The rehabilitation project is Categorical Exempt from CEQA review pursuant to CEQA guidelines section 15331, Historical Resource Restoration/Rehabilitation, as a project limited to maintenance, repair, and rehabilitation in accordance with the secretary of interior standards for historic preservation.

Attachments:

- Attachment A: Budget Amendment Ordinance to Establish Roth Building Rehabilitation Reserve (DOCX)
- Attachment B-Letter PAHM to City Progress Report June 2015 (PDF)

ATTACHMENT A

Ordinance No. XXXX

ORDINANCE OF THE COUNCIL OF THE CITY OF PALO ALTO AMENDING THE BUDGET FOR FISCAL YEAR 2015 IN THE CAPITAL IMPROVEMENT FUND AND THE GENERAL FUND TO RECOGNIZE \$2,880,000 IN TRANSFER DEVELOPMENT RIGHTS REVENUE IN THE CAPITAL IMPROVEMENT FUND, REDUCE THE BUDGET STABILIZATION RESERVE IN THE AMOUNT OF \$1,000,000 IN THE GENERAL FUND AND TRANSFER THAT AMOUNT TO THE CAPITAL IMPROVEMENT FUND, AND ESTABLISH A ROTH BUILDING REHABILITATION RESERVE IN THE AMOUNT OF \$3,880,000 IN THE CAPITAL IMPROVEMENT FUND.

The Council of the City of Palo Alto does ORDAIN as follows:

SECTION 1. The Council of the City of Palo Alto finds and determines as follows:

A. Pursuant to the provisions of Section 12 of Article III of the Charter of the City of Palo Alto, the Council on June 16, 2014 did adopt a budget for fiscal year 2015; and

B. The Palo Alto History Museum (PAHM) proposed to restore, preserve, and rehabilitate the City's Roth Building at 300 Homer Street as a Museum. PAHM's proposal was accepted by the Council in April 2004; and

C. In the past ten years, PAHM has been utilizing various strategies and methods to raise sufficient capital to renovate the Roth Building and to operate a historical museum. On June 22, 2007, the City granted PAHM a two year Option to Lease which has since been extended several times and currently expires on July 1, 2015; and

D. PAHM plans to continue its fund raising process and meet all the other remaining option conditions in order to exercise the Option and enter into a long term lease with the City of Palo Alto; and

E. As part of its development plan to begin work on the Building, the Palo Alto Historical Museum (PAHM) has requested additional assistance to raise funding toward the cost of historical rehabilitation and seismic work of the Roth building.

F. On December 15, 2015, City Council approved a one-time contribution of one million (\$1,000,000) toward the cost of historical rehabilitation and seismic work for City owned Roth Building located at 300 Homer Avenue; and

G. On March 2, 2015, the City Council approved the designation of 300 Homer Street known the Roth Building to be eligible as a "Sender Site" in the Transfer Development Rights (TDRs) program and the sale release of 9,592 square feet of TDRs at the price of \$200 per square foot in the market in order to raise funds for the rehabilitation and seismic improvement of the Roth Building; and

ATTACHMENT A

H. City staff issued a request for bids to market the TDRs on April 20, 2015 and bidding closed on Tuesday, May 5th. The highest bid was for \$300.25 per square foot resulting in the total of \$2,880,000 of proceeds from the sale of the TDRs. The proceeds of the sale will be deposited in the Roth Building Rehabilitation Reserve to be used toward the rehabilitation of the Roth Building. The funds will be available when PAHM has fulfilled its fund raising goal for the construction phase of the project from other potential sources; and

SECTION 2. Therefore, the General Fund Budget Stabilization Reserve is reduced by One Million Dollars (\$1,000,000) and One Million Dollars (\$1,000,000) is transferred to the Capital Improvement Fund.

SECTION 3. The Roth Building Rehabilitation Reserve in the amount of Three Million Eight Hundred and Eighty Thousand Dollars (\$3,880,000) is hereby established in the Capital Improvement Fund funded with Two Million Eight Hundred and Eighty Thousand Dollars (\$2,880,000) in Transfer Development Revenues and a transfer of One Million dollars (\$1,000,000) from the General Fund.

SECTION 4. As provided in Section 2.04.330 of the Palo Alto Municipal Code, this ordinance shall become effective upon adoption.

SECTION 5. As specified in Section 2.28.080(a) of the Palo Alto Municipal Code, a two-thirds vote of the City Council is required to adopt this ordinance

SECTION 6. The Council of the City of Palo Alto hereby finds that this is not a project under the California Environmental Quality Act and, therefore, no environmental impact assessment is necessary.

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ATTACHMENT A

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INTRODUCED AND PASSED: Enter Date Here

AYES:

NOES:

ABSENT:

ABSTENTIONS:

NOT PARTICIPATING:

ATTEST:

City Clerk

APPROVED AS TO FORM:

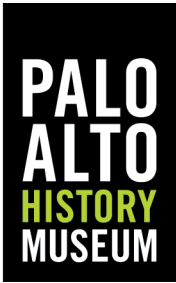
Senior Assistant City Attorney

Mayor

APPROVED:

City Manager

Director of Administrative Services



June 9, 2015

Lalo Perez
Director of Administrative Services
City of Palo Alto

Dear Mr. Perez,

I am pleased to send you this letter to both update the City on the progress of the Palo Alto History Museum and its plans for the historic Roth Building, and to request an extension of the current lease option.

We are currently in the process of re-submitting plans to renew the Conditional Use Permit. Once the CUP is issued, we will work with a contractor to value engineer the plans with the expectation of lowering costs. We request a one-year extension of the lease option to complete the permit process, reach the Phase One funding goal, and commence work on the building once we have permits. With that in mind, we expect work to begin on the building in roughly six months.

Fundraising

In December of last year we reported a need of \$4.3 million in capital to begin Phase One of the project. That need has shrunk to \$1.30 million, and we continue to work diligently to close the gap.

Estimated project cost:

Phase One: Roth Rehabilitation (Contractor’s estimate)	\$9.1 M
Phase Two: Archives, Museum Exhibits and Programs	\$9.0 M
Operating Costs through 2018	\$1.9 M
Capital Expenditures to Date	(\$0.67 M)
Total	\$19.33 M

To date, PAHM has gathered \$7,762,229.87 in donations, pledges and fees, including an appropriation by the City of Palo Alto of \$1,000,000 for the seismic reconstruction of the Roth Building’s back wall, and \$2,879,998 resulting from the sale of the Roth Building’s Transferable Development Rights. Since January 1, PAHM has raised \$113,530 in new pledges, and restricted and unrestricted donations for the Capital Campaign, and to support operations and fundraising activities. Fundraising is ongoing, and we currently have an expectation of a major gift in the near future that is prompted by the City’s support of the building. Of the funds it has raised, PAHM has spent approximately \$670,000 on architectural drawings and city permit fees.

ATTACHMENT B

We look forward to commencing rehabilitation of the Roth Building, which will provide many community benefits when completed:

- The historic Roth building is listed on the National Register and designed in the Spanish Colonial Revival style by native son, Birge Clark. The rehabilitation preserves a significant historic structure, including the preservation of murals painted by Victor Arnautoff.
- A City building will be brought up to LEED gold standard.
- An expanded home for the City Archives will be created and accessible to all Palo Altans at no charge. As the permanent home of the City Archives, the Palo Alto History Museum will showcase the remarkable heritage of Palo Alto through the careful collection, preservation and continued social engagement with precious local artifacts and documents.
- The Museum provides a location to fill the need of a tangible resource for third and fourth grade PAUSD students studying state and local history.
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- The rehabilitated building will provide a public restroom for park visitors.
- The building will contain a community meeting room available for scheduling by community members at no charge.
- The Museum provides an additional and unique venue for public and private events.
- The Museum will preserve the history of Palo Alto, and be the repository for artifacts currently scattered and vulnerable to loss or destruction.
- The new History Museum will be a free cultural destination in the heart of historic Palo Alto, with exhibitions and programs on the story of Palo Alto and its legacy of innovation and world-changing impact. Additionally, the museum will provide resources, space and opportunities for a variety of non-profits to create, and partner on, programs that enhance Palo Alto's quality of life. The space design will inspire community participation, attracting the diversity of our local history-makers while reaching out to the next generation of inquisitive school children.

Thank you for your support, and for your consideration of this request.

Myron Freedman
Executive Director
Palo Alto History Museum