



# Agenda Report

**MEETING DATE:** Tuesday, June 28, 2022

**TO:** City Council

**FROM:** CITY MANAGER PRO TEMPORE VIDES  
Raunel Zavala, Sr Administrative Analyst

**SUBJECT:** It is recommended that the City Council approve the disposition and development agreement between the City of Watsonville and Pajaro Valley Arts Council

---

## **STATEMENT OF ISSUES:**

The City intends to sell the Porter building and has developed a disposition and development agreement with the buyer.

## **RECOMMENDED ACTION:**

It is recommended that the City Council approve the disposition and development agreement between the City of Watsonville and Pajaro Valley Arts Council for the City owned property, the Porter Building, located on 280 Main Street in Watsonville, CA and authorize the City Manager to execute and enter into such DDA.

## **BACKGROUND:**

On November 12, 2019, the City issued a Request for Proposals (RFP) seeking qualified parties interested in purchasing or leasing the historic Porter Building at 280 Main Street. The Porter Building is a City owned property acquired in 1966. It is a historic building located in the heart of Watsonville's downtown commercial core area. The building was constructed just before the 1906 San Francisco Earthquake and was once occupied downstairs by Daly Bros. Dry Goods with offices upstairs.

The City issued an RFP seeking proposals from qualified firms, supported by a professional architectural/engineering team with the objective of entering into an Exclusive Negotiating Agreement for the purchase or lease of this property. The development objectives outlined on the RFP include a mixed-use commercial project, i.e. retail or restaurant on the first floor and office or residential use on the second floor of the ~15,000 sq. ft. building. The structure is a historic building and any modifications to the building will be subject to historic preservation review. Along with the RFP, an appraisal of the Porter Building conducted by Pacific Appraisers in August 2018, in which they valued the property at \$1,350,000, was included. The City was searching for a buyer who can activate the building and maximize the economic

activity at this important location in the downtown by bringing an entertainment and retail related user to the first floor.

Two proposals were received by the deadline of January 3, 2020. Staff reviewed both proposals, confirmed they were complete and met the outlined development objectives in the RFP. On March 13, 2020, the City and County declared an emergency due to the COVID-19 Pandemic and these efforts were put on pause for a few months.

On October 22, 2020 both applicants were invited to present their development proposal to the Council and the Public. The first proposal was from

Pajaro Valley Arts Council, a non-profit charitable corporation (PV Arts) established in 1984. The articles of incorporation of PV Arts say its purpose is to sponsor and encourage artistic, cultural, historical, scientific and educational activities in North Monterey County and mid to South Santa Cruz County and their surrounding areas in the public interest.

The PV Arts proposal is to establish a gallery exhibit and retail space (approximately 1700 square feet) on the ground floor. The retail space will support local artists for cash and carry sales that will provide revenue for PV Arts and artists. The ground floor will also include a multipurpose room for performances, meetings, events, receptions, workshops, and additional special exhibits (approximately 1000+ square feet). Upstairs will be used as classroom space for seniors and youth (500-800 square feet) and artist studios (approximately 3000 square feet). The remainder of the space will be used for a warming kitchen, office space, storage, bathrooms, and hallways.

The Second Proposal was from WatsNews, LLC, a limited liability company (WatsNews) established on June 14, 2019. As of July 8, 2019, the sole officer is Manager Dan Pulcrano. WatsNews is in the newspaper publishing business.

WatsNews proposed an investment in the building that was also consistent with the development objectives of this property and was innovative. The proposal included: a casual dining restaurant emphasizing locally sourced ingredients; a destination wine bar and food market highlighting Santa Cruz Mountains vineyards, Pajaro Valley farms and artisanal producers. The top floor would house a boutique micro-hotel and a creative space for community institutions as well as the Pajaronian newspaper business offices. This business proposal included the support of the Pajaronian newspaper's media partners for marketing purposes.

After evaluating the proposals, the City began exploring due diligence and preliminary negotiations with PV Arts.

Following analysis of the 2019 changes in the State Surplus Land Act (Government Code Section 54220 et seq.) ("Surplus Land Act"), the City paused the RFP developer selection process and on March 23, 2021, by Resolution 78-21, in Compliance with the Surplus Land Act the City Council declared the Building Property to be surplus. The City issued a notice of availability and allowed 60 days for any eligible party to respond.

On September 29, 2021, the City of Watsonville and PV Arts entered into an Exclusive Right to Negotiate Agreement to negotiate the terms of a proposed agreement regarding PV Art's purchase of the Porter Building from the City in order to rehabilitate and refurbish the Building to create a performing arts space and an art gallery exhibit space, coupled with ancillary uses on the ground floor and artist studio space and ancillary office space on the second story as fully explained in the PV Arts development proposal submitted to the City in response to the request for proposals.

## **DISCUSSION:**

The City began negotiations with PV Arts soon after to determine the terms of the sale. Negotiations continued up until April 2022 when the preliminary terms of the purchase were agreed upon by both parties. PV Arts followed up with Pacific Appraisers for an updated appraisal, which determined the current market value of the property to be \$1,150,000. The City accepted the new appraised value. A closing date of no longer than July 29, 2022 was decided on. This is due to the fact that PV Arts was awarded a \$540,000 grant funded by the Hewlett Foundation and administered by Community Vision Capital and Consulting (CV), for the acquisition of the Porter Building, with the requirement that funds are to be disbursed into escrow by July 31, 2022.

It is in the City's best interest for the Porter building property to be developed into something that brings value to the City and that fits in with the City's Downtown specific plan, as it was proposed on PV Art's response to the City's RFP. In order to ensure the best interest of the community, the City has placed conditions to ensure the proposed project is completed.

Those conditions are:

- A covenant on the grant deed, stating that until the 30<sup>th</sup> anniversary of the date of the Grant Deed the building property may only be used as a performing arts space and an art gallery exhibit space with ancillary uses on the ground floor and artist studio space and ancillary office space on the second floor, as more fully set forth in PV Art's development proposal submitted to City in response to City's request for proposals. If within those 30 years, PV Arts decides to sell the property, the City has the "Right of first offer."
- PV Arts will use diligent, good faith efforts to commence and complete construction of the restoration project as soon as possible.
- Grant of an easement to City for utility access as well as for access to City's employees, officials, contractors, representatives, guests and invitees with ingress and egress to and from Maple Ave. as noted on Attachments 2 and 3 of the grant deed. This will help support any future development on the remaining City parcel.

- Within 180 days following closing, PV Arts shall provide City evidence that it has selected a manager for its fundraising campaign for the renovation work and ongoing maintenance of the building property.
- PV Arts will also provide the City with quarterly progress reports regarding the funds raised by the Capital Campaign and construction progress with the first due not less than 30 days after the expiration of the first full calendar quarter following the Closing. These will continue until the Capital Campaign is complete.

### **Summary of Terms:**

**Buyer:** Pajaro Valley Arts Council, a California nonprofit public benefits corporation.

**Purchase price:** \$1,150,000.00

**Closing date:** Closing shall occur on or before July 29, 2022.

**Use of the building property:** Property may only be used as a performing arts space and an art gallery space with ancillary used on the ground floor and artist studio space and ancillary office space of the second floor until the 30<sup>th</sup> anniversary of the date the grant deed is signed.

**Right of first offer:** The City reserves the right of first offer if at any time prior to the 30<sup>th</sup> anniversary of the signed grant deed, PV Arts wishes to sell the property.

**Progress report:** Quarterly progress reports will be provided to the City.

### **STRATEGIC PLAN:**

This action is consistent with the City's goal of strengthening the City's economy by attracting new businesses and revitalizing our downtown while engaging residents to create a more vibrant, engaged and thriving city.

### **FINANCIAL IMPACT:**

The City's General Fund will receive the purchase price of \$1,150,000(minus portion of closing costs paid by the City).

### **ALTERNATIVE ACTION:**

The City Council may choose not to approve the Disposition and Development agreement with PV Arts.

### **ATTACHMENTS AND/OR REFERENCES (If any):**