



CITY OF VALLEJO

OFFICE OF THE CITY MANAGER

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September 5, 2007

The Honorable David E. Power
Presiding Judge of the Superior Court
Solano Superior Court
600 Union Ave
Fairfield, CA. 94533

Reference: 2006-2007 Grand Jury Report Entitled: City of Vallejo and Mare Island Historic Park Foundation Preservation of St. Peter's Chapel and Other Historic Properties. Report Date: June 12, 2007

Dear Judge Power,

In response to the Foreman of the 2006-2007 Solano County Grand Jury's letter of June 12, 2007 the following responses are provided:

Finding 1 - Portions of Mare Island have been designated as national, state, and city landmarks, including St. Peter's Chapel, Quarters A and B, and Building 46 – the Smithery.

Recommendation 1 - Every effort should be made to maintain and support these most significant historic properties on Mare Island.

City Staff Response: The City staff concurs with the Grand Jury's recommendation. The recommendation has been implemented. As evidenced below, the City is making considerable efforts to support and maintain these historic structures.

Finding 2 - The extent and nature of any underlying structural issues which may threaten the preservation of St. Peter's Chapel is beyond the expertise of the Grand Jury. Experts presently disagree as to whether these windows are in imminent danger or whether it is sufficient to develop a long-term plan for their permanent preservation.

Recommendation 2 - The City of Vallejo should make public the Historic Structure Report when completed. The City of Vallejo, as the ultimate owner of St. Peter's Chapel, is responsible for its preservation and should consider all options, be they public, private, local, state or federal, to ensure that the Chapel is properly cared for and made accessible to future generations.

City Staff Response: The City staff concurs with the Grand Jury's recommendation. The City has posted the Historic Structure Report on the City's website: www.ci.vallejo.ca.us.

City staff has explored with the appropriate State and Federal organizations their interest in assuming operational and/or maintenance responsibility for St. Peter's Chapel and Chapel Park. These organizations have no interest at this time due to financial and management constraints.

City staff recently started a process to seek technical assistance on St. Peter's maintenance from the State of California on areas where the Historic Structure Report indicated areas of deficiency.

Finding 3 - Under existing agreements, Lennar is in the process of transferring title of St. Peter's Chapel, Quarters A and B, and Building 46, to the City of Vallejo.

Recommendation 3 - The City of Vallejo should ensure that these properties are conveyed to the City as soon as is feasible.

City Staff Response: The City staff concurs with the Grand Jury recommendation. The recommendation has not yet been implemented, but will be implemented as indicated below. The ability of Lennar Mare Island to transfer the title of any property on Mare Island is principally dependent on completion of remediation of hazardous substances and certification by the California Department of Toxic Substances Control (DTSC) that no further action is required to meet health and safety standards. Once a "no further action certification" is achieved, Lennar Mare Island must then complete a series of actions to comply with the State of California's Subdivision Map Act. Once a Final Map is recorded, Lennar Mare Island is free to transfer the property to the ultimate owner.

St. Peter's Chapel & Chapel Park have been remediated and the California Department of Toxic Substances Control (DTSC) has certified that the remediation meets their standards. Lennar Mare Island has recorded a Final Map for the Chapel parcel. As part of the Final Map approval process, Lennar Mare Island agreed to make minor improvements and repairs to Chapel Park grounds before transfer of ownership. It is anticipated that the repairs will be completed in the next few months and the City expects transfer of this property to the City not later than December 2008.

Quarter A and B have also been remediated and DTSC has certified that they meet residential standards. Lennar Mare Island is in the process of completing the requirements of the Map Act for both Quarters A and B. It is currently anticipated that the Final Map will be filed in approximately 12 months. City anticipates transfer of this property to the City not later than September 200.

For planning purposes, Building 46 is scheduled for remediation in mid to late 2008. Typically the completion of Map Act requirements require an additional 18 months. Currently, staff anticipates transfer of Building 46 and associated land in July 2010.

Finding 4 - The City of Vallejo has entered into long-term lease agreements with the Mare Island Historic Park Foundation to manage St. Peter's Chapel, Quarters A and B, and Building 46, and as part of these leases, has placed the burden of responsibility for capital improvements, repairs, maintenance, and Mare Island common area project expenses and operating costs, including Community Facilities District 2002-1 assessments on the Foundation.

Recommendation 4a - The City of Vallejo should perform a financial and performance audit of the Mare Island Historic Park Foundation to determine whether the Foundation has sufficient financial resources, expertise, and staffing to continue operating and managing these historic buildings.

City Staff Response: The City staff concurs with the recommendation and will continue to monitor the Foundation's financial status. The Memorandum of Agreement between the City of Vallejo and the Mare Island Historic Park Foundation dated April 11, 2001, requires the Foundation to provide the City with a certified annual financial report. The Foundation has routinely provided the required financial report to the City which is reviewed by the City's Finance Department. To date, the Foundation has met its financial obligations to the Community Facilities District payments and provided regular maintenance to leased facilities. Additionally, the Foundation is not in default on any of its responsibilities under their subleases and agreements. City staff is currently preparing a "path forward" proposal for consideration by the City Council which will address the Foundation's future capacity.

Recommendation 4b - The City of Vallejo should consider one or more of the following options: 1) limiting the Foundation's operation to a portion of its current activities; 2) issuing a request for proposals to locate another operator for all or a portion of the historic resources now being managed by the Foundation; 3) studying the feasibility of having certain portions of the historic properties transferred to a federal or state entity, such as the Golden Gate National Recreation Area, which may be better able to preserve, maintain, and operate these landmark properties.

City Staff Response: The City staff partially concurs with the recommendation and the recommendation is partially being implemented. As the Grand Jury is aware, the City of Vallejo and the Foundation have a series of agreements and leases which defines the City's and the Foundation's rights and responsibilities. In order to execute all of the three Grand Jury recommendations, the Foundation would have to (1) voluntarily terminate its leases and return control of the property to the City or (2) default on their agreements and/or leases..

As staff indicated in Recommendation 2, we have contacted appropriate State and Federal organizations to determine their desire to be part of the long-term management and operations of St. Peter's Chapel. The Foundation has informally indicated acceptance of an appropriate State and/or Federal organization role in the management of the properties. City will continue to work with the Mare Island Historic Park Foundation to narrow and focus the Foundation's responsibilities.

Finding 5 - In many communities, including the City of Vallejo, museums and similar non-profit activities are often supported wholly or in part with public funding. Although the Mare Island Historic Park Foundation pays no rent for St. Peter's Chapel, and \$1 per year in rent for Quarters A, Quarters B, and Building 46, the Foundation must nevertheless pay Mare Island common area project expenses, operating costs, and assessments to the City, amounting to over \$150,000 per year.

Recommendation 5 - Whether the City of Vallejo decides to continue its current arrangement with the Mare Island Historic Park Foundation or to seek another or an additional operator to maintain and operate these historical sites, the City of Vallejo should eliminate or substantially mitigate the Island operating expenses and assessments presently paid by the Foundation or by any future non-profit operator.

City Staff Response: The City staff does not agree with the Grand Jury's recommendation. The recommendation cannot be implemented at this time for the following reasons. In 1994, during the process of developing the Mare Island Final Reuse Plan, the City Council established six reuse goals for the long-term development of Mare Island. The second of the six goals was to

create a self-sustaining and multi-use community.

In April 2001, the City entered into a Memorandum of Agreement with the Foundation with the stated purpose of setting forth the rights and obligations of each party regarding the use of a number of facilities on Mare Island. In January 2002, in furtherance of the Agreement, the City executed long-term leases (31 years) for four buildings on the Island and one 2-year lease for a warehouse with the Foundation. The Memorandum of Agreement and all five leases clearly specified that the Foundation would be responsible for their proportionate share of the Island's services and maintenance expenses. On June 11, 2002, in furtherance of the City Council's goal to develop a self-sustaining, mixed-use community, the Council approved the formation of the Community Facilities District 2002-1 (CFD). The purpose of the CFD was to levy a Special Tax on the landowners within the boundaries of the CFD for City provided services and maintenance. As was allowed in the leases and agreement between the City and the Foundation, the Foundation was levied its proportionate share.

Even though the Foundation had agreed to cover their proportional share of the CFD, the City Council provided to the Foundation, in Fiscal Year 2002/2003 \$30,000 in General Fund revenue to offset a portion of the levied amount. In January 2003, the Foundation requested additional assistance with CFD expenses. On March 18, 2003, the City Council approved an additional funding solution whereby the City and Lennar Mare Island, LLC shared a portion of the Foundation's CFD levy. For an 18-month period, the City and Lennar Mare Island contributed \$2,238.50 each per month, toward the Foundation's CFD levy, for a total additional contribution of \$80,586.00. The terms of this additional contribution specified that the Foundation complete a series of actions that, over an extended period of time, would enhance the Foundation's management and financial position so that the Foundation would be able to completely fund their pro-rata share of the CFD levy at the end of the 18-month period.

Responding to the Foundation's publicly stated concerns about its CFD levy, City staff has offered to cancel the leases on one or more of the Foundation's properties. Specifically, staff has suggested that the Foundation relinquish Building 215 (warehouse) and move their artifacts into the museum building, Building 46. Staff has also suggested that the Foundation return Quarters B (one of two Victorian mansions) to the City. Finally, staff has suggested that the Foundation relinquish Chapel Park to the City which would, in turn, operate it as a City-maintained park with unrestricted public access. The City will continue to pursue the Foundation's relinquishment of Quarters B thereby lowering its CFD contribution. The Foundation has expressed its desire to continue with the current lease arrangements.

As indicated above, the City has provided the Foundation with over \$110,000 of direct financial assistance. The Foundation's requirement to pay the CFD levy was very clearly expressed in the Memorandum of Agreement and the 5 leases. In recognition of the Foundation assuming the cost of maintenance, improvements and CFD cost for the leased property, the City continues to provide the buildings and land at a \$1.00 per building per year lease rate.

Other than decreasing its property holdings, there are two other possible solutions to alleviate the Foundation's current and future CFD levy burden:

- (1) Change the CFD Rate and Method of Apportionment of the Special Tax. In order to change the CFD's apportionment process, the City would have to obtain the approval of 66.66% of the registered voters on Mare Island. If approved by the registered voters, the*

Foundation's proportionate share would then be levied on all remaining landowners.

- (2) *A third party could pay for the Foundation's levy. As the City is currently paying approximately \$594,000 a year in CFD levies for City-owned and controlled properties on Mare Island, the City does not have funding to assume the Foundation's long-term CFD costs. Staff is not aware of any third party funding sources.*

Finding 6 - The U.S. Navy has loaned the Mare Island Historic Park Foundation naval artifacts for display in Building 46 and other buildings on Mare Island, with the condition that the City of Vallejo be a co-borrower. The U.S. Navy has expressed concern that the Foundation is not meeting its obligations under this agreement.

Recommendation 6a - The Mare Island Historic Park Foundation should comply with the requirements of the Navy for loan of naval artifacts, including proper and prompt reporting, hiring of a full-time curator, better care and display of artifacts, and sufficient insurance.

City Staff Response: The City staff concurs with the Grand Jury's recommendation. City staff has encouraged the Foundation to diligently comply with this requirement.

Recommendation 6b - Should the Navy determine the Foundation is in default and require the City of Vallejo to manage the artifacts or return them to the Navy, the City should consider issuing a request for proposals for a caretaker that has the financial stability and professional experience to oversee the Museum and to care for the artifacts.

City Staff Response: The City staff concurs with the Grand Jury's recommendation. Should, at some point in the future, the U. S. Navy Historic Center (NHC) determine that the Foundation is in default, it is the intention of the City staff to recommend to the City Council one of three actions:

- a. City assumes responsibility for maintaining and displaying the artifact collection.*
- b. With the approval of the NHC and Lennar, city turns over artifact responsibility to Lennar Mare Island LLC.*
- c. With the approval of the NHC and concurrence of Lennar Mare Island, LLC, recruit a financially stable and professionally experienced third-party operator to maintain and display the collection.*

Finding 7 - The Mare Island Historic Park Foundation is dependent on volunteers and does not have adequate financial resources or professional staff to sustain its long-term objectives. Financial shortfalls are subsidized by personal loans and generous donations from a few Foundation board members. The promotion and marketing of St. Peter's Chapel and Quarters A and B as sites for weddings, receptions, social events, or sightseeing are inadequate. The general public is mostly unaware of and can not easily tour these historic sites. Once on the Island, signage to the historic properties is either non-existent or minimal. The Navy artifacts at the Museum in Building 46 are not maintained and displayed at modern museum standards.

Recommendation 7a - If the Mare Island Historic Park Foundation is to continue as caretaker and manager over these public trusts, it should develop realistic business and operational plans that provide for the long-term financial support necessary to maintain, preserve, and promote the

historic sites. To assist the Foundation in developing these plans, it should seek assistance from other museum experts, such as the American Museum Association and its Museum Assessment Program (MAP).

City Staff Response: The City staff concurs with the Grand Jury's recommendation. City staff has encouraged the Foundation to diligently comply with this requirement. The performance of this recommendation is within the purview of the U. S. Navy Historic Center.

Recommendation 7b - The Mare Island Historic Park Foundation should hire one or more persons, including a museum curator and staff experienced in accounting, administration, fundraising, and promotion.

City staff response: The City staff concurs with the Grand Jury's recommendation. The performance of this recommendation was addressed in the U. S. Navy Historic Center's April 10, 2006 and February 27, 2007 letters to the Foundation. City staff has encouraged the Foundation to diligently comply with this requirement.

Recommendation 7c - St. Peter's Chapel, Quarters A and B, and the Museum should be accessible to the public. The Mare Island Historic Park Foundation should adopt and publicize when these historic sites are open to the public.

City Staff Response: The City staff concurs with the Grand Jury's recommendation. The performance of this recommendation as it relates to the museum was addressed in the U. S. Navy Historic Center's letter of February 27, 2007 to the Foundation. City staff has encouraged the Foundation to diligently comply with this requirement.

Recommendation 7d - The Mare Island Historic Park Foundation should improve the marketing of St. Peter's Chapel, Quarters A and B, and the Museum.

City Staff Response: The City staff concurs with the Grand Jury's recommendation and encourages the Foundation to increase its marketing outreach.

Recommendation 7e - The City of Vallejo should work with Lennar and the Mare Island Historic Park Foundation to ensure that there is better signage directing visitors on the Island to St. Peter's Chapel, Quarters A and B, and the Museum.

City Staff Response: The City staff concurs with the Grand Jury's recommendation. Lennar Mare Island, LLC has an approved and established directional sign program that complies with the City's Mare Island sign ordinance. City staff encourages the Foundation to participate in this existing program.

Recommendation 7f - The Mare Island Historic Park Foundation website should be expanded to include specific information on St. Peter's Chapel, the Quarters, and the Museum, including reservation information for the Chapel and the Quarters, and hours of operation for the Museum.

City Staff Response: The City staff concurs with the Grand Jury's recommendation and encourages the Foundation to improve its website.

Finding 8 - The City of Vallejo and the Mare Island Historic Park Foundation are required to carry specific insurance coverage for the historic properties on Mare Island and for the naval

artifacts on loan from the Naval Historic Center.

Recommendation 8 - The City of Vallejo should evaluate the insurance coverage currently maintained by the Mare Island Historic Park Foundation and by the City to ensure that there is sufficient coverage for the historic buildings and the naval artifacts.

City staff Response: City staff concurs with the Grand Jury's recommendation and will conduct a review of the City's and Foundation's insurance coverage.

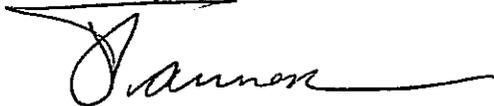
Finding 9 - Under the agreement between the City of Vallejo and the Mare Island Historic Park Foundation relating to the loan of naval artifacts, the City must appoint one or more representatives to serve as ex-officio members on the Foundation's board of directors. The representatives appointed by the City, have seldom, if ever, attended the Foundation meetings.

Recommendation 9 - The ex-officio member or members appointed by the City of Vallejo should attend meetings of the Mare Island Historic Park Foundation on a regular basis.

City Staff Response: The City staff concurs with the Grand Jury's recommendation. One primary and an alternate Economic Development Division staff member will be assigned as an ex-officio member of the Foundation's Board of Directors prior to their next quarterly meeting.

The Vallejo City Council approved submission of City's response on September 11, 2007. A copy of the Council's Resolution is attached for your records.

Sincerely,



Joseph M. Tanner
City Manager

Cc: Solano County Supervisor John Silva
Solano County Supervisor Barbara Kondylis
Mayor and Members of the City Council
Tom Sheaff, President, Lennar Mare Island LLC
Mark Wertheimer, Curator, Naval Historic Center
Kenneth Zadwick, President, Mare Island Historic Park Foundation
Craig Whittom, Assistant City Manager/Community Development
Fred Soley, City Attorney
Susan McCue, Economic Development Program Manager

