



PUBLIC HEARING
REVIEW EVIDENCE OF DEFAULT BY
CORNERSTONE COMMUNITIES II, LLC,
410 B ST. SANTA ROSA APN 010-045-025

City Council Meeting

July 8, 2025

Background

- On August 27, 2021, the City sold the public parking lot at 410 B Street (the “Property”) to Cornerstone
- Unlike the City’s typical property conveyance process, this transaction did not include a Disposition and Development Agreement (DDA)
- A DDA typically requires the buyer/developer to meet specific obligations – entitlements, design approval, and financing – prior to the conveyance of the property
- Instead, Cornerstone requested that the City transfer ownership before these obligations were fulfilled to secure a timely investment in the Opportunity Zone.
- To mitigate risk, the City included post-closing obligations as conditions of the sale.



Contract Obligations and Extensions

Under the terms of the agreement, Cornerstone is required to develop the Property and two other nearby sites owned by Cornerstone in a timely manner.

Contract Obligation:

1. Cornerstone must submit complete building plans for Phase 1 of their SMART Site project (34 6th Street)
 - Original Deadline: within 6 months of the August 27, 2021, sale date.
 - Deadline: **February 27, 2022**
 - Extensions: 3 extensions approved

1st Extension

Requested: October 5, 2022

Approved by City Manager

New Deadline: August 27, 2023

2nd Extension

Requested before August 2023

Approved by City Manager

New Deadline: August 24, 2024

3rd Extension

Requested in late 2024

Approved by Council December 10, 2024

New Deadline: April 10, 2025



Contract Obligations and Extensions

2. Cornerstone must submit all required planning and zoning entitlement applications for 410 B Street as outlined in the Agreement.

- Original Deadline: 18 months from Close of Escrow
- Deadline: **February 27, 2023**
- Extensions: 2 extensions approved

1st Extension

- Requested: October 5, 2022
- Approved by City Manager
- Impact: Extended entitlement deadline by **a total of three years** from the date of sale
- New Deadline: **August 27, 2024**

2nd Extension

- Requested in late 2024
- Approved by Council December 10, 2024
- New Deadline: **April 10, 2025**



First Notice of Default

Eighteen days before extended deadline
City staff emailed Cornerstone
requesting a meeting, as no required
applications or extension requests had
been received.

August 9, 2024

August 26, 2024

August 29, 2024

The City issued a First Notice of Default to
Cornerstone. The notice explained the
basis for default and that the City Council
would hold a public hearing to review the
matter

City staff met with Cornerstone to
assess the status of all projects. No
progress was reported, and it was
determined that timely progress on the
Property was unlikely.



Public Hearing and Additional Extensions

On December 10, 2024, Council held a public hearing to consider these defaults. At the public hearing, Council considered the following options:

- find that there has been no material default; or
- elect to purchase the Property from Cornerstone for the Call Purchase Price (which is equal to the original purchase price of \$1,340,000); or
- establish a revised schedule for the performance of Cornerstone's obligations.

Council elected to revise the schedule for performance and allow Cornerstone an **additional 120-day extension** to renegotiate terms with Staff and meet the requirements of the Agreement.



Litigation

The City has been made aware that the individuals that established Cornerstone and many related entities are currently involved in active litigation with one another.

- This internal legal dispute may affect their ability to:
 - Meet obligations under the City's contract
 - Secure financing for development projects

City attorneys have reviewed public court documents and identified the following:

- Cornerstone Communities II LLC (the owner of the Property) is one of the defendants in the lawsuit
- The lawsuit alleges 18 causes of action against defendants, including breach of contract, civil theft, intentional misrepresentation, constructive fraud and others
- The litigation is ongoing, and it is unknown when or how it will be resolved



Public Meeting Follow-up Timeline

December 10, 2024

Public Hearing
120-day extension
granted

March 25, 2025

At Cornerstone's request, a meeting was held with the City Manager and Mayor to discuss the proposed project details.

April 9, 2025

Cornerstone submitted applications for Conceptual Design Review and a pre-application neighborhood meeting—initial steps in the development review process.

February 18, 2025

City Staff and Cornerstone meet.

April 8, 2025

City Staff and Cornerstone met to discuss the timelines of all 3 projects.

May 21, 2025

City issued 2nd Notice of Default to Cornerstone

No further submittals required under the Agreement have been received on the SMART site and the Ross Property.



Key Factors Impacting Project Viability

1. Request to Unbundle Projects

- Cornerstone requested that the City release Cornerstone from any obligation to develop the SMART Project and Ross Project.
- The City agreed to sell the B Street Property early—based on a contractual commitment that all three projects would move forward in a timely manner to support downtown housing goals.

2. Unresolved Legal Disputes

- The City requested updates to ensure ongoing litigation between Cornerstone partners would not delay construction.
- Cornerstone was unable to provide assurances regarding timing or their ability to proceed under the proposed new schedule.

3. Concerns Over Financing

- Due to the active legal dispute, it appears unlikely that Cornerstone is in a position to secure financing or move forward with development at this time.



Ensuring Downtown Housing Progress

After multiple extensions and a continued lack of performance and given the ongoing uncertainty surrounding Cornerstone's ability to meet its obligations in part due to unresolved legal and financing issues, staff recommends exercising the City's right to repurchase the Property to avoid further delays in advancing a critical downtown housing opportunity.

Next Steps if the property is repurchased:

- Initiate the Surplus Lands Act Process in compliance with State Law.
- Issue an open Request for Qualifications and Proposals (RFQ/P) to identify qualified developers who can deliver a timely, community-serving housing project.
- Cornerstone may participate in the RFQ/P process if their legal matters are resolved and they are in a position to move forward with a viable development proposal.



Staff Recommendation

It is recommended by the City Managers Office that the Council 1) conduct a public hearing to review evidence of the defaults by Cornerstone Communities II, LLC (“Cornerstone”) on the property located at 410 B Street, APN 010-045-025 (“Property”) in connection with the Agreement of Purchase and Sale for Future Infill Development and Joint Escrow Instructions (“Agreement”), 2) elect to repurchase the Property for the Call Purchase Price in accordance with the terms of section 23 (d) of the Agreement and 3) direct the City Manager to deliver a Call Exercise Notice to Cornerstone within ten (10) days, and 4) further authorize the City Manager, in consultation with the City Attorney, to execute any and all agreements and documents as necessary to carry out the City Council’s direction and to complete the repurchase of the Property from Cornerstone in accordance with the terms of Section 23 of the Agreement.



Questions?

