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January 18, 2023

Megan Basinger
Housing and Community Services Executive Director
Housing and Community Services Department
City of Santa Rosa
90 Santa Rosa Ave, Santa Rosa, CA 95404
Email: mbasinger@srcity.org

RE: 3555 Sonoma Hwy -The Stonehouse
Sonoma County APNs 181-120-033 and 181-120-034

Dear Ms. Basinger:

The California Human Development Corporation (“CHDC”) asks the Housing Authority to accept the early repayment of the Note between CHDC and the Housing Authority and to terminate and release the Regulatory Agreement encumbering the Stonehouse parcel in order to facilitate the sale of the Stonehouse parcel and its contiguous parcel, as more fully described below. Funds from this sale will be reinvested in the Santa Rosa community to help our underserved community members. Despite valiant efforts to sell its property that is subject to the existing Regulatory Agreement, along with the contiguous parcel, CHDC has not been able to sell the property, which means that funds are not being reinvested in the Santa Rosa community to help farmworkers, those who need help finding jobs and affordable housing, and those who need help with immigration and citizenship services. As described below, the uniqueness of the Stonehouse property and its lack of surrounding amenities provide the foundation and backdrop of CHDC’s request after shuttering the Athena House.

The Property

The parcel restricted by the Housing Authority’s Regulatory Agreement is 3555 Sonoma Hwy., APN: 181-120-033, consisting of 0.71+/- acres. This property is known as the “Stonehouse” for the well-recognized and historic stone structure erected on the site in the early 1900s. CHDC purchased the property to operate the Athena House, a residential treatment program for women that was established shortly after the 2008 housing crisis which saw domestic violence and substance abuse rise exponentially with the loss of homes.

CHDC also purchased the larger adjacent contiguous parcel, 3111 Sonoma Hwy., APN: 181-120-034, consisting of 1.32+/- acres. This adjacent parcel is directly west of the Stonehouse parcel and is **not** encumbered by the Regulatory Agreement. CHDC has listed both parcels for sale. Thus, the proposed sale includes a total of +/- 2.03 acres (Total Property), of which 34% consists of the Stonehouse parcel restricted by the Regulatory Agreement, and 66% of the Total Property remains unrestricted by the Regulatory Agreement¹.

The Stonehouse is a historical structure built by the Italian stonemason Massimo Galeazzi in 1909. Galeazzi was one of four Italian stonemasons important to Santa Rosa's history for their structures and their place in economic and ethnic history. Massimo Galeazzi also built the train depot, Carnegie Library, La Rose Hotel, and St. Rose Church, all readily recognizable and iconic. The Stonehouse began as a boarding house for Italian stonecutters and was rumored to be a speakeasy during prohibition. Chet Galeazzi, Massimo's grandson, was born and lived in the Stonehouse and went on to build a beverage distribution company that grew into Eagle Distributing Company. Chet Galeazzi also co-founded the Luther Burbank Center for the Arts, now called the Wells Fargo Center. More recently, after its purchase in 2010, Stonehouse hosted the Athena House, a substance abuse treatment center for women operated by CHDC.

The parcels sit at the foot of a well-established neighborhood on Highway 12 between Brush Creek Road and Farmers Lane. The property faces the highway and lacks sidewalks and access to a readily available bus station. Access to both parcels is available only by traveling westbound on Highway 12.

Regulatory Agreement

The Regulatory Agreement between the Housing Authority of the City of Santa Rosa (Housing Authority) and CHDC was recorded on September 28, 2010. (Sonoma County RDN 2010083086.) Even though the Stonehouse parcel's General Plan land use designation does not allow residential uses and the Policy Statement for the Stonehouse Parcel requires a use permit for any use, the Regulatory Agreement restricts the Stonehouse parcel to operating a residential treatment facility with 14 bedrooms (each with a private bathroom), dining room, commercial kitchen, and meeting areas for use as a residential drug and/or alcohol treatment program. The Regulatory Agreement also restricts twenty-eight (28) of the forty (40) beds that are to be placed in the 14 bedrooms to occupancy by low-income persons with incomes not to exceed 80% of Area Median Income. The term of this Regulatory Agreement is 30 years, or from August 17, 2012 to August 17, 2042.

¹ Housing Authority staff voluntarily told us that the City obtained an appraisal for the Stonehouse parcel in 2018. According to staff, the Stonehouse parcel was appraised between \$2.2-\$2.4 million. Since the Regulatory Agreement does not encumber the contiguous property, presumably, this appraisal amount did not include the value of the contiguous parcel. Thus, the City's own records reflect that the Stonehouse parcel was appraised at between \$2.2-2.4 million in 2018.

Marketing

The Stonehouse and adjacent parcels were listed for sale in July of 2022. Marketing efforts included using the Loopnet/Costar commercial listing service as well as local MLS. In addition, there is an extensive effort to direct market towards uses that are permitted or can be permitted, either with or without a conditional use permit, in the existing zoning. This resulted in a mailing of approximately 2,000 postcards to targeted users. This mailing was carried out three times during September and October of 2022. This list of end users included a focus on both *for profit and non-profit organizations*. The parcels were also marketed electronically, directly to end users with SIC codes that match the uses permitted with and without a conditional use permit. This list included approximately 875 recipients. The Loopnet listing platform has resulted in over 420,000 views of the property. Of this, about 3,726 resulted in detailed page clicks, and 968 people registered for additional information about the parcels. The real estate brokers also created a video of the property posted on YouTube, along with a specific website about both parcels. This effort represents an exhaustively thorough marketing attempt to locate a buyer who can use the Stonehouse parcel for uses allowed by the Regulatory Agreement, along with the unencumbered adjacent parcel.

The parcels have been shown to nearly two dozen groups during this marketing period, including Pep Housing, Redwood Gospel Missions, TLC Child & Family Services, and Muir Wood Teen treatment. The parcels were also shown to many for-profit business owners and investors.

The parcel's combined value was based on dollars/square foot of sales of commercial property throughout Sonoma County and the brokers expertise in marketing similar restricted properties in Sonoma County. The brokers allocated approximately \$500K towards the undeveloped 1.32-acre lot, which is about \$8.69/sq. ft, and \$2,575,000² towards the building based on its historic nature, reconstruction costs, and the smaller parcel upon which it sits, which is about \$278/sq. ft. Both price points fall within the range of comparable sales for commercial buildings and vacant land of this size. The \$3.075 million listing price for *both parcels* is bolstered by the City's 2018 appraisal *for only the Stonehouse parcel* for \$2.2-2.4 million. There have been several offers slightly below asking and continuing and ongoing negotiations are being had with those few interested parties.

Land Use & Affordable Housing

The Stonehouse parcel has a General Plan land use designation of "Retail and Business Services". This designation allows:

. . . retail and service enterprises, offices, and restaurants. Regional centers, which are large complexes of retail and service enterprises anchored by one or more full

² Based on the City's appraisal estimates of between \$2.2 and \$2.4 million in 2018 for the restricted parcel, the \$3.075 million price assigned by CHDC's brokers for *both parcels* appears wholly consistent with current market analysis.

line department stores, and destination centers, which are retail centers anchored by discount or warehouse stores, are allowed. Large grocery stores are expressly permitted in Community Shopping Centers and downtown only and may be considered through a Conditional Use Permit process on other commercial sites.

The Stonehouse parcel is zoned PD. In the PD zoning district, only uses that comply with an approved Policy Statement and Development Plan (Policy Statement) are allowed. In order to undertake a use that is not allowed by an approved Policy Statement, the Policy Statement must be amended. (Santa Rosa City Code § 20-26.060 C.) Amending the Policy Statement follows the same approval process as a rezoning.

The Policy Statement for the Stonehouse parcel allows community care and health care facilities, *with a conditional use permit*. (See Planning Commission Resolution No. 3718 and attachments thereto.) The city's online records did not show a conditional use permit for a community care facility for the Stonehouse parcel. The Policy Statement expressly requires the preservation of the Stonehouse.

City staff has repeatedly inquired about the feasibility of building affordable housing on the Stonehouse parcels. It is not feasible. First, any residential use, including affordable housing, is not consistent with the Stonehouse parcel's "Retail and Business Services" General Plan land use designation. Second, affordable housing is not included in the approved Policy Statement because the City could not have made the legally required General Plan consistency finding in the "Retail and Business Services" land use designation. The Policy Statement does allow attached senior multi-family housing with a conditional use permit. Affordable housing at this site for anything other than seniors would require a significant entitlement process, including at least a General Plan amendment, rezoning the parcel to an appropriate residential zoning district that is not spot zoning, and potentially an amendment to the Policy Statement. Affordable attached senior multi-family housing requires a conditional use permit.

These legally required entitlements, a general plan amendment, and rezoning, are discretionary approvals that trigger compliance with California's Environmental Quality Act (CEQA). Under CEQA, any structure that is more than 50 years old is potentially historic. According to the City's records, the Stonehouse was constructed in 1912. The Stonehouse's age, unique architecture, connection to people who are important in Santa Rosa's history, and its connection to the historic stone mason industry compel the conclusion that it is a historically significant structure. Thus, the discretionary entitlements and any exterior changes to the Stonehouse will require an Environmental Impact Report (EIR) and potentially a Statement of Overriding Considerations. (See Pub. Res. Code, § 21084.4 & 14 Cal. Code Regs., § 15064, subd. (a).)

Affordable housing is typically constructed with tax credit funding, and projects compete for funds. Projects with high scores typically win funding; those with low scores lose. The Stonehouse Parcel will not receive a high score because affordable housing is not consistent with the Stonehouse parcel's General Plan land use designation, zoning, or the approved Policy Statement. These legal issues alone will result in an exceedingly low or no score. Even if the

Stonehouse parcel didn't have a General Plan consistency and zoning problem, the parcel would still receive a low score because it has no access to public transportation with 15-minute headways, no nearby jobs, a car is required to live there, and no easy or walkable access to grocery stores, health care services, government services or jobs. Thus, the Stonehouse Parcel is not a long-term feasible site for affordable housing, and any attempt to construct affordable housing here will be crippled by a low tax credit score, much like what happened to the Athena Program.

California Human Development Corporation

California Human Development Corporation (CHDC) is a non-profit organization that has been waging the "War on Poverty" for more than 50 years. Inspired in service to our state's farmworkers, today CHDC serves people of low income from many walks of life—giving 25,000 people a year in 31 northern California counties a hand up to the American Dream. CHDC is located in Santa Rosa and helmed by Thomas Stuebner, its new CEO, who is tasked with maintaining CHDC's "long line of caring for vulnerable populations".

CHDC provides services to many people, such as migrant and seasonal farmworkers and persons seeking assistance with work-force development, affordable housing, and immigration and citizenship. CHDC is committed to Sonoma County and particularly the City of Santa Rosa.

CHDC's decision to close the Athena program was a heartbreaking and extremely difficult measure caused by severe financial impacts. Funding for the Athena Program at this location was not possible because CHDC found that it was impossible to secure the necessary funding and tax credits to underwrite the financial stability of the programs at this location due to the low score effect of the location on those sources. CHDC has attempted to locate another entity to operate a residential treatment facility on the Stonehouse parcel, to no avail due to the low tax credit score.

CHDC's unwavering commitment to underserved community members is so strong that last year it sold a property for the *lowest* offer received because that buyer agreed to maintain the existing low-income use for our underserved community members for five years as a condition of the sale. This earlier transaction shows that CHDC is not a typical seller looking for top dollar when selling a property. Furthermore, CHDC is not looking to profit from its agreement with the Housing Authority, nor does it view the Regulatory Agreement lightly, but CHDC's mission is compromised.

CHDC asks the Housing Authority to help it with its sale of the Stonehouse parcel so that funds from this sale can be reinvested in our community to help our underserved community members, and so that the Housing Authority can recoup its investment while CHDC funds affordable housing at a more suitable location.

Proposal

The Stonehouse parcel is unable to secure tax credit funding for programs such as the Athena Program because the Stonehouse parcel lacks basic things like public transportation, proximity to jobs, government services, and grocery stores. Since similar site-specific criteria are used to award tax credits for affordable housing, it is implausible that the Stonehouse parcel will score enough points to win tax credits for an affordable housing project on this parcel, further impacting CHDC's ability to sell the property to like-minded organizations focused on underserved individuals.

Given CHDC's commitment to underserved community members and our community's dire need for affordable housing, CHDC proposes paying off the Note early in exchange for terminating and releasing the Regulatory Agreement from 3555 Sonoma Hwy., APN: 181-120-033. CHDC is currently in contract and requests the Housing Authority terminate and release the Regulatory Agreement at the close of escrow. The authorization to release, if approved by the Housing Authority, should be valid for six months with a three-month extension to accommodate any delays in the proposed closing.

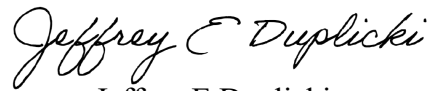
This is an incredibly unique situation where:

- The Regulatory Agreement requires a residential use that is not allowed by the parcel's General Plan land use designation;
- The Policy Statement requires a conditional use permit for the few residential uses it allows;
- The parcel's location and CHDC's experience shows that this parcel will not qualify for tax credits for affordable housing or to fund nonprofit endeavors reliably;
- Because the Stonehouse qualifies as a historic structure under CEQA, exterior changes to it trigger an Environmental Impact Report and potentially a Statement of Overriding considerations. CEQA compliance is likely a multi-year, million-plus dollar process;
- CHDC has undertaken a herculean marketing effort that targeted other nonprofits offering similar services or that build affordable housing, to no avail;
- Having the Note paid off early allows the City to use those funds immediately to provide desperately needed affordable housing in superior locations with adequate access to public transportation, jobs, food, and government services;
- CHDC is a nonprofit entity, located in Santa Rosa, that will reinvest the proceeds from this sale in Santa Rosa by helping our underserved community members;
- The Stonehouse and its contiguous parcel represent unique opportunities to developers and a potential revenue stream for the City of Santa Rosa.

Megan Basinger
RE: 3555 Sonoma Highway (Stonehouse)
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Thank you for your time and efforts in understanding CHDC's situation and for your consideration of this proposal. If you have any questions about this letter, please call me at (707) 595-8681 or on my cell phone at (707) 318-7978.

Sincerely,

A handwritten signature in black ink that reads "Jeffrey E Duplicki". The signature is written in a cursive, flowing style.

Jeffrey E Duplicki

CC: TW/File