

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: JILL SCOTT, REAL ESTATE MANAGER
REAL ESTATE SERVICES
SUBJECT: APPROVAL FOR THE REAL PROPERTY SALE OF 410 B
STREET ALSO KNOWN AS 521 FIFTH STREET AND PARKING
LOT 2, SANTA ROSA, APN 010-045-025 TO CORNERSTONE
PROPERTIES, LLC

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Transportation and Public Works, Finance and Planning and Economic Development Departments that the Council, by resolution, approve the real property sale of 410 B Street, also known as 521 Fifth Street and Parking Lot 2, Santa Rosa, APN 010-045-025 , to Cornerstone Properties, LLC, subject to the reservation of a public parking easement and the execution of a Purchase and Sale Agreement substantially in the form attached as Exhibit A and subject to City Attorney approval.

EXECUTIVE SUMMARY

In February 2018, the City entered into an Exclusive Negotiation Agreement with Cornerstone Properties, LLC (Cornerstone) for the sale and development of land, and reservation of public parking on the City owned parcel located at 410 B street, also known as 521 Fifth Street or Parking Lot 2 (Property). Pursuant to Council's direction on price and terms of sale of the Property, staff is now seeking final approval of the sale of real property to Cornerstone Properties, LLC , subject to specified conditions, including the reservation of a public parking easement in favor of the City of Santa Rosa.

BACKGROUND

In February 2018, the City and Cornerstone entered into an Exclusive Negotiation Agreement (ENA), pursuant to which the parties agreed, for a period of six months, to negotiate exclusively with one another in good faith for the sale of the Property to Cornerstone for development of a consolidated mixed-use project on the City Property and adjacent property already owned by Cornerstone. The proposed project would further the City's planning, housing and economic objectives while also ensuring continued availability of public parking to serve the public's need.

On November 20, 2018, the City and Cornerstone entered into a new ENA, pursuant to which the parties agreed, for a period of one year, to continue the exclusive negotiations for the sale of the Property. That ENA has been amended twice to further extend the term, first by the "First Amendment to Exclusive Negotiations Agreement" dated November 18, 2019 and, second by the "Second Amendment to Exclusive Negotiations Agreement" dated November 19, 2020, each of which extended the term of the Exclusive Negotiations Agreement for an additional year to allow the parties to complete negotiation of the terms of conveyance of the Property.

Pursuant to City Council's direction on price and terms, staff has diligently negotiated the terms of conveyance to ensure compliance with the City codes and objectives and is now seeking approval of the Council for the real property conveyance.

PRIOR COUNCIL REVIEW

On December 5, 2017, the City Council, by Resolution No. 2017-235, approved the first ENA with Cornerstone for the potential acquisition and development of the City of Santa Rosa surface Parking Lot 2, located at 521 Fifth Street.

On October 30, 2018, the City Council, by Resolution No. 2018-194 approved a second ENA with Cornerstone for the potential acquisition and development of the City of Santa Rosa surface Parking Lot 2, located at 521 Fifth Street.

On April 20, 2021, the Council, in closed session gave further direction to staff on price and terms for the sale.

On May 25, 2021, the Council, in closed session, gave further direction to staff on price and terms for the sale.

On May 25, 2021, the Council, by resolution, found that the proposed conveyance of the Property to Cornerstone is exempt from the provisions of the 2019 amendments to the Surplus Land Act, pursuant to Government Code section 54234.

ANALYSIS

Pursuant to Council's direction on price and terms for the conveyance of the Property, staff has negotiated a Purchase and Sale Agreement (PSA) with a purchase price of \$1,340,000 (Purchase Price), which is equal to the appraised fair market value for the Property. Pursuant to the terms and conditions of the PSA, the City will convey the 144-space surface parking lot, consisting of approximately 1.49 acres, to Cornerstone.

Concurrently with the close of escrow for the Property, Cornerstone will grant a Parking Easement to the City, which will allow the City to continue to maintain and operate the Property as a public parking lot until such time that (1) Cornerstone commences construction of the development project described below, and (2) the City and Cornerstone have entered into a long-term parking agreement to ensure that

replacement public parking is incorporated into the project. The City will receive all revenue from the parking lot during this time.

The PSA also includes the following agreed upon terms:

- Within 6 months after the close of escrow, Cornerstone must submit building plans and applications to the City for (1) the 109-unit mixed use project at 556 Ross Street (the “Ross Street Project”) and (2) the first phase of Cornerstone’s mixed use project at 34 6th Street, consisting of 114 residential units (the “SMART Site Project”).
- Within one year of the issuance of building permits for the Ross Street Project and the first phase of the SMART Site Project, Cornerstone will begin and diligently pursue construction of both projects.
- Cornerstone plans to undertake development of a mixed-use project to be located on the Property and Cornerstone’s adjacent property located at 427 Mendocino Avenue (the “Project”). The Purchase and Sale Agreement requires that the Project include the following components, which will be commemorated in a covenant recorded against the Property:
 - The Project must incorporate 144 public parking stalls for a term of at least 40 years to replace the parking currently located on the Property. Cornerstone will operate and maintain this long-term public parking as part of its larger parking structure and will provide the City with its pro-rata share of net revenue from the parking included in the Project, with further details to be set forth in a long-term parking agreement.
 - At least 15% of the housing units included in the Project shall be rented or sold to low income households for a term of not less than 55 years.
 - The Project will include “Public Benefit Space”, which includes a range of uses that would be available for the general public to encourage further activity in the downtown.
- Within 18 months after close of escrow, Cornerstone shall submit complete applications for all required planning and zoning entitlements for the Project. The applications must be consistent with the existing land use regulations for the Property as of the effective date of the Purchase and Sale Agreement.
- The City will retain full discretion to approve, approve with conditions or deny the Project.
- If the Project’s planning and zoning entitlement applications are approved by the City, Cornerstone must apply for building permits for the Project within two years

of that approval, and within 6 years after approval of the entitlements, Cornerstone must commence construction on the Project.

- If Cornerstone is in material default of any of its obligations described above, then the City will have the right to repurchase the Property from Cornerstone for the Purchase Price (the "Call Right"). Before exercising the Call Right, the City must provide Cornerstone with notice of the default and an opportunity to cure and must hold a public hearing to determine whether Cornerstone is in material default of its obligations.
- Once Cornerstone submits its entitlement applications for the Project to the City, the City will process and consider Cornerstone's applications within two years after filing of the applications, subject to certain extensions for delays that are outside of the City's control. If the City fails to take action on Cornerstone's applications within this two year timeframe (and any applicable extensions), or if the City denies Cornerstone's entitlement applications, then Cornerstone may resell the Property to the City (the "Put Right") for an amount equal to the Purchase Price, plus one-half of the reasonable third party out-of-pocket costs that Cornerstone incurs after the effective date of the Purchase Agreement, provided that the City's share of the out-of-pocket costs is capped at 25% of the Purchase Price (\$335,000). Therefore, the maximum repurchase price if Cornerstone exercises the Put Right would be \$1,675,000.

Staff is requesting that Council authorize the City Manager to execute the PSA and any necessary documents related to the sale, subject to approval by the City Attorney.

FISCAL IMPACT

Approval of this action (real property sale) will provide proceeds to the Parking Enterprise District in the amount of \$1,340,000 (the approved purchase price).

ENVIRONMENTAL IMPACT

The proposed action is statutorily exempt from the California Environmental Quality Act pursuant to California Government Code section 65457 and CEQA Guidelines section 15182 (c) as a residential project implementing the Downtown Station Area Specific Plan, and pursuant to California Public Resources Code section 21155.4 and CEQA Guidelines section 15182 (b) as a mixed use project that is consistent with the local Sustainable Communities Strategy, located within a transit priority area and consistent with the Downtown Station Area Specific Plan. The Environmental Impact Report for the Downtown Station Area Specific Plan was certified by the City Council in October 2020, and no events described in CEQA Guidelines section 15162 have occurred to require additional environmental analysis.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable

NOTIFICATION

Not applicable

ATTACHMENTS

- Resolution
- Exhibit A – Purchase and Sale Agreement

CONTACT

Jill Scott, Real Estate Manager
jscott@srcity.org