Agenda Item #15.1
For Council Meeting of: August 18, 2026

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL

FROM: JASON NUTT, INTERIM CITY MANAGER
SCOTT WAGNER, CHIEF FINANCIAL OFFICER
DAN HENNESSEY, DIRECTOR OF TRANSPORTATION AND PUBLIC WORKS
JILL SCOTT, REAL ESTATE MANAGER

SUBJECT: APPROVAL OF REAL PROPERTY EXCHANGE AGREEMENT FOR CITY HALL CAMPUS (90 & 100 SANTA ROSA AVENUE (PORTION), 631 & 655 1ST STREET) AND 520 3RD STREET; DECLARATION OF EXEMPT SURPLUS LAND; AND RELATED ACTIONS

AGENDA ACTION: RESOLUTION

RECOMMENDATION

The City Manager's Office, Transportation and Public Works, and Finance Departments recommend that the Council take the following actions:

1. Adopt the enclosed Resolution of the Council of the City of Santa Rosa Declaring Certain Real Property Located at 90 Santa Rosa Avenue, a portion of 100 Santa Rosa Avenue, 631 1st Street and 655 1st Street to be Exempt Surplus Land Pursuant to Government Code Section 54221(f)(1)(C), and Making Findings under the California Environmental Quality Act and CEQA Guidelines Section 15162 That No Further Environmental Review is Required; and
2. Adopt the enclosed Resolution of the Council of the City of Santa Rosa Approving the Real Property Exchange Agreement Between the City of Santa Rosa and Museum on the Square, LLC, Adopting CEQA Findings, and Authorizing the City Manager to Execute the Exchange Agreement and all Related Transaction Documents.

This item is requesting appropriations for one-time funding.

EXECUTIVE SUMMARY

The proposed Exchange Agreement advances vital community benefits in Downtown Santa Rosa while delivering a fiscally responsible strategy to reduce taxpayer exposure to the significant costs, risks, and long-term liabilities associated with the current City Hall facility.

By exchanging a severely deteriorated City Hall Campus for the property at 520 3rd Street, the City can establish a centralized "one-stop" civic hub, eliminate more than $100 million in long-term costs, and make core downtown land available for private development. To execute this strategy, the City will convey the Exchange Property to MOTS LLC (while retaining a 1.61-acre portion of 100 Santa Rosa Avenue that contains critical Santa Rosa Creek and Matanzas Creek flood control infrastructure), acquire 520 3rd Street, and appropriate $4,500,000 from previously assigned General Fund Reserves and $46,868 from available General Fund Reserves for the out-of-pocket cost of $4,546,868 based on valuations informed by independent appraisals and facilities reports. This action also declares the Exchange Property as exempt surplus land pursuant to California Government Code Section 54221(f)(1)(C), approves a nominal rent ($2) leaseback of portions of the Exchange Property for up to two years during facility renovation, and establishes the framework to maintain continuous public service delivery throughout the transition.

GOAL

This item relates to Council Goals #1 (Achieve and Maintain Budgeting Excellence and Fiscal Stability), #2 (Invest in the Development and Maintenance of the City's Infrastructure), #3 (Promote Citywide Economic Development), #4 (Foster a Safe, Healthy, and Inclusive Community), and #5 (Plan for and Encourage Housing for All and Reduce Homelessness). This effort supports all Council Goals 1, 2, 3, 4, and 5 by removing an escalating liability associated with public facilities, establishing modern, community-forward civic infrastructure, and opening key downtown acreage for private investment.

BACKGROUND/PRIOR COUNCIL REVIEW

Long-Term Civic Facility Evaluation:

For more than a decade, the City has evaluated long-term options for addressing the future of its civic facilities. The existing City Hall Campus, comprising 90 Santa Rosa Avenue, 100 Santa Rosa Avenue (portion), 631 1st Street, and 655 1st Street (the "City Hall Campus"), represents one of downtown Santa Rosa's most strategically located public land assets. Throughout this evaluation, the City's objectives have remained consistent:

- Reposition underutilized civic real estate to maximize public benefit.
- Provide an efficient and publicly accessible "one-stop" civic hub that consolidates fragmented municipal operations into a single location to serve the community.
- Protect taxpayers from escalating costs associated with aging facilities.

- Maintain a strong, permanent civic presence in Downtown Santa Rosa.

Multiple facility assessments and operational evaluations have consistently concluded that the City Hall Campus has reached the end of its practical service life. In evaluating alternatives, staff examined three primary options:

1. Substantial capital rehabilitation of the existing City Hall Campus.
2. Construction of a replacement City Hall on the existing site.
3. Relocation and consolidation of City operations into an existing downtown office building via a structured property exchange.

City Council Study Session:

On June 16, 2026, the City Council held a Study Session on the Downtown Economic Development Strategy, which prioritizes leveraging underutilized City properties for community benefit. Staff presented an analysis as part of the study session comparing the three strategic alternatives listed above, demonstrating that the City could not afford continued reinvestment in or reconstruction of the City Hall Campus. Conversely, a property exchange was identified as the alternative capable of reducing long-term public costs while simultaneously creating long-term community value through private reinvestment.

Following the discussion, Council directed staff to continue pursuing a property exchange option and bring transaction terms back for formal consideration.

Property Evaluation and Site Selection:

To identify the most suitable property for the proposed exchange, staff evaluated multiple downtown Santa Rosa properties using operational, financial, and logistical criteria, including building size and functionality, tenant relocation requirements, exchange feasibility, anticipated tenant improvements (TI), and long-term suitability for City operations.

Several properties were eliminated from consideration due to insufficient size, significant tenant relocation needs, substantial TI costs, or constraints that made an exchange impractical. Following this evaluation, 520 3rd Street emerged as the preferred alternative because it offers the best combination of location, functionality, exchange feasibility, and overall cost-effectiveness while minimizing disruption and renovation expenses.

Selection of 520 3rd Street provides the greatest value to taxpayers by reducing long-term costs, limiting capital investment needs, and maximizing the public benefit derived from the proposed exchange.

Post-Study Session Due Diligence & Negotiation:

Following Council direction, staff has:

- negotiated proposed business terms with MOTS LLC (owner of 520 3rd Street),
- completed building space evaluations,
- confirmed 520 3rd Street can accommodate approximately 300 City employees following tenant improvements,
- negotiated proposed leaseback terms to ensure uninterrupted operations,
- commissioned independent real estate appraisals,
- commissioned independent environmental studies,
- negotiated a tenant improvement work letter with MOTS LLC,
- had CEQA documents prepared and reviewed, and
- prepared the agreements proposed for consideration by the Council.

<u>ANALYSIS</u>

Existing City Hall Campus: An Escalating Public Liability:

More than six decades of deferred investment have left the City Hall Campus functionally obsolete and physically deteriorated. Facilities throughout the campus suffer from severe deficiencies, including:

- Structural & Envelope Failures: Chronic roof leaks, water intrusion, exterior concrete deterioration, and major carpet damage.
- Hazardous Materials: Widespread lead-based paint and asbestos-containing materials requiring over $4.5 million in specialized abatement alone.
- Building Systems: Outdated mechanical, electrical, plumbing, and HVAC systems long exceed their useful life.
- Environmental & Health Disruptions: Rodent, ant, and flea infestations- including a major facility closure that interrupted public services- along with recurring sewage backups.
- Decommissioned Space: 655 1st Street has deteriorated to the point of being entirely unusable.
- Required Accessibility Improvements: The City buildings have more than $10 million of necessary accessibility improvements to comply with the Americans with Disabilities Act (ADA)

In addition to physical defects, the campus is operationally fragmented, requiring residents, builders, and business owners to navigate multiple separate buildings to access City services.

Protecting Taxpayer Resources: Financial Comparison:

Facility condition assessments identify more than $100 million in capital liabilities associated with the current City Hall Campus, including approximately $48 million in urgent repairs needed to address critical deficiencies. Completing this work would require relocating City staff and services to temporary leased facilities, further increasing taxpayer costs and disrupting day-to-day operations and public access to City services.

Financing alternatives illustrate the clear fiscal advantage of the proposed exchange:

Option	**Total Capital Obligation**	**Estimated Annual Debt Service**	**Operational & Fiscal Impact**
Campus Rehabilitation	~$100M+	~$6.0 Million	**Unfeasible:** High debt; retains a fragmented, aging facility footprint.
New Construction on Site	~$82M	~$5.0 Million	**Unfeasible:** Exceeds fiscal capacity; ties up high-value downtown land.
Proposed Property Exchange & Renovations	Exchange + $17M–$20M TIs+ relocation costs	~$1.0 Million	**FEASIBLE:** Consolidates services, drastically lowers debt service, and sparks private investment.

Appraisals, Exchange Price, and Total Project Costs:

To establish fair market terms, protect public funds, and ensure fiscal transparency, independent appraisals were conducted for all real estate assets in the exchange:

- City Hall Campus: The initial appraisal established a combined baseline value of $13,130,000 for 90 and 100 Santa Rosa Avenue, 631 and 655 1st Street. Subsequent engineering and operational reviews identified the need for the City to retain additional land along Santa Rosa Creek (1.61 acres at 100 Santa Rosa Avenue) to safeguard municipal flood-control infrastructure and utility corridors, thereby reducing the transferable acreage beyond what was anticipated in the appraisal. Additionally, environmental site assessments completed after the initial appraisal identified widespread lead-based paint and asbestos-containing materials throughout the aging campus, requiring specialized environmental abatement. Taking into account the appraisals, the reduced land area, and the documented environmental liabilities, the City and MOTS LLC negotiated a final value of $11,153,132 for the Exchange Property.

- **520 3rd Street Property:** Independent appraisals evaluated the commercial property at 520 3rd Street within a valuation range between $12,420,000 and $18,785,000. Following detailed negotiations based on these appraisals, the parties agreed upon a negotiated valuation of $15,700,000.

Exchange Price & Complete Project Scope:

Comparing the negotiated fair market values ($15,700,000 for 520 3rd Street less $11,153,132 for the Exchange Property) establishes a net purchase price differential of $4,546,868 payable by the City. Approval of today's agenda item appropriates these funds from previously assigned General Fund reserves that City Council directed be set aside for City Facility needs in the previous fiscal year.

In addition to the net exchange payment, total project costs to convert 520 3rd Street into a fully functional, consolidated civic center, including architectural design, building testing, commercial tenant relocation, and comprehensive tenant improvements (TIs), are estimated at $17 million to $20 million. Financing these costs (excluding the exchange payment) is projected to generate approximately $1 million in annual debt service. By comparison, addressing the existing campus deferred maintenance liabilities ($100M+) or constructing a replacement facility ($82M) would require $5 million to $6 million in annual debt service, making this exchange a significantly more prudent use of public funds. The Exchange Agreement also provides that the City will pay MOTS LLC $37,500 per month for any extension caused by the City's failure to close escrow on the Exchange Agreement on or before December 31, 2026, prorated through closing for the applicable delay period, separate from and without increasing the agreed exchange price, subject to a maximum aggregate payment of $450,000. The City anticipates that closing may occur after that date, and as a result, there may be additional costs associated with the Exchange. No payment is due for any period during which the delay is caused by another matter, or after the City terminates the Exchange Agreement due to a failure of a closing condition or an inability to complete legally required environmental review or approvals. If closing has not occurred by June 30, 2027, due to failure of a closing condition or inability to complete legally required environmental review or approvals, the parties will meet and confer to determine how to proceed with the transaction.

Property Exchange Mechanics & Creek Parcel Retention:

The Exchange Agreement provides for the following property transfers:

- Property Transferred to MOTS LLC: The Exchange Property, consisting of 90 Santa Rosa Avenue, 631 1st Street, 655 1st Street, and a portion of 100 Santa Rosa Avenue, totaling approximately 5.96 acres.
- Property Acquired by the City: 520 3rd Street (also known as 521 2nd Street), comprising APNs 010-063-019 and 010-063-027.
- Property Retained by City (Creek Infrastructure): The City will retain ownership of approximately 1.61 acres at 100 Santa Rosa Avenue, which contains the culverted Santa Rosa Creek and Matanzas Creek. Retaining this land ensures ongoing public control over vital flood-control infrastructure, utility corridors, and future environmental creek restoration projects.

Community Value Impact:

This exchange repositions an underutilized public asset to better serve the community's long-term interests. The current City Hall property is no longer operating at its highest and best use as a public facility and continues to carry substantial capital liabilities and ongoing public costs. By transferring the property to private ownership, the site can transition from a public liability to a productive asset capable of generating lasting community value.

Beyond the immediate transaction, the exchange creates an opportunity for future private investment that can enhance the property's productivity, contribute to the City's tax base, and support the continued vitality of Downtown Santa Rosa. This approach reduces the City's long-term financial obligations while unlocking the potential for ongoing community benefits that extend well beyond the exchange itself.

Transition Plan, Virtually Rent-Free Leaseback, Assignment with DPF, & Tenant Relocation:

To ensure seamless municipal service delivery during the transition and to complete the Exchange, the City will take the actions described below:

- Virtually Rent-Free Leaseback: The City will lease back 100 Santa Rosa Avenue (up to 2 years) and 90 Santa Rosa Avenue (up to 1 year) post-closing for $2.00 for the 2 years, allowing operations to continue unimpeded while tenant improvements are completed at 520 3rd Street. The City will cover all operational expenses during the leaseback, except for property taxes, which will be paid by MOTS LLC. The leaseback is authorized as part of the recommended action.
- Lease Assignment with DPF: To facilitate the early transfer of certain City staff and operations to 520 3rd Street, the City will take assignment of the lease and premises currently leased to Dickenson Peatman & Fogarty, PC, effective September 1, 2026. During the pre-closing period, the City will pay 100% of the

rent due under the DPF lease. The City will also pay $55,877.50 for the FF&E remaining in the premises, as agreed by the parties, representing 50% of the parties' agreed value of such FF&E. The assignment and occupancy arrangement will terminate automatically upon closing. This Lease Assignment is authorized as part of the recommended action.

- Tenant Relocation: Certain commercial tenants currently occupying 520 3rd Street will be relocated by the City in accordance with the procedures set forth in the Exchange Agreement. The recommended action authorizes the City to fulfill these relocation obligations.
- Future Approvals: The Exchange Agreement makes closing contingent on the City's future consideration of a Development Agreement for the Exchange Property. Staff will return separately for Planning Commission and City Council consideration prior to the close of escrow. Any action on the Development Agreement will be subject to all required public hearings, findings, environmental review, and the City's retained discretion.

Surplus Land Act Compliance and General Plan Consistency:

The Exchange Property may be declared "Exempt Surplus Land" under California Government Code Section 54221(f)(1)(C), which exempts agency property exchanged for another property necessary for agency use. The recommended action is to approve a separate resolution formally declaring the Exchange Property exempt from the Surplus Land Act, based on findings that it is being exchanged for 520 3rd Street, which will be used as the City's new consolidated City Hall facility. Staff has determined that the proposed exchange is consistent with the City's General Plan.

FISCAL IMPACT

Approval of this action appropriates $4,500,000 from previously assigned General Fund Reserves, as directed by City Council to be set aside for City facility needs, and an additional $46,868 from available General Fund Reserves. Ongoing General Fund expenses to complete needed tenant improvements and moving expenses to occupy the new facility are anticipated to be approximately $1 million annually, to be financed prospectively. Direct and indirect financial benefits from potential increases in revenue generation at the current City Hall site are not included in budget projections at this time.

ENVIRONMENTAL IMPACT

In 2007, the City Council certified a Program EIR for the original Downtown Station Area Specific Plan (DSASP) (SCH No. 200607210). The DSASP established a vision for revitalization of the City's core by establishing land use, development-intensity, mobility, urban-design, public services, sustainability, and implementation framework for development within downtown Santa Rosa.

In 2020, the City updated the DSASP and certified a Supplemental EIR to evaluate the environmental effects of the specific plan updates (the 2020 SEIR) that were focused on accommodating and guiding greater housing development in downtown Santa Rosa. The 2020 Update promoted a denser, walkable, transit-oriented urban core with stronger connections, commercial and cultural activity, and expanded residential options.

Given that the Exchange Property and 520 3rd Street are located within the developed downtown core of the DSASP, staff evaluated the proposed Exchange Agreement for consistency with the DSASP EIR and the 2020 SEIR. (Pub. Resources Code, section 21166; State CEQA Guidelines, section 15162.) The City's environmental consultant has prepared a memorandum concluding that the proposed surplus land declaration, Exchange Agreement, and relocation of City Hall to 520 3rd Street is adequately analyzed by the DSASP EIR and the 2020 SEIR and no additional environmental review is required. (See Attachment 1, CEQA Consistency Memo.)

According to Public Resources Code section 21166:

> When an environmental impact report has been prepared for a project pursuant to [CEQA], no subsequent or supplemental environmental impact report shall be required by the lead agency or by any responsible agency, unless one or more of the following events occurs:
>
> (a) Substantial changes are proposed in the project which will require major revisions of the environmental impact report.
>
> (b) Substantial changes occur with respect to the circumstances under which the project is being undertaken which will require major revisions in the environmental impact report.
>
> (c) New information, which was not known and could not have been known at the time the environmental impact report was certified as complete, becomes available.

So long as none of the conditions above is present, no further environmental review is required. (State CEQA Guidelines, section 15162.) As demonstrated in the CEQA Consistency Memorandum (Attachment No. 1), the proposed Exchange would not have any new or more significant impacts compared to the DSASP EIR and the 2020 SEIR, and no new or different mitigation measures are required. All applicable mitigation measures from the DSASP EIR and the 2020 SEIR will apply to the Exchange as conditions of approval. As such, no further environmental review is required.

Pursuant to Public Resources Code, section 21152 and 21152.1, staff recommends that the City Council direct staff to prepare, execute, and file with the County Clerk and State Clearinghouse a Notice of Determination within five (5) working days after approval of the

Exchange Agreement.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Attachment 1 – CEQA Consistency Analysis Memorandum
- Resolution 1 – Surplus Land Act declaration
- Resolution 2 / Exhibit A – Real Property Exchange Agreement

PRESENTER(S)

Jill Scott, Real Estate Manager
Dan Hennessey, Director of Transportation and Public Works
Scott Wagner, Chief Financial Officer