

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: JASON NUTT, ASSISTANT CITY MANAGER
CITY MANAGERS OFFICE
SUBJECT: PUBLIC HEARING TO REVIEW EVIDENCE OF DEFAULT BY
CORNERSTONE COMMUNITIES II, LLC UNDER THE
PURCHASE AND SALE AGREEMENT FOR THE PROPERTY
LOCATED AT 410 B STREET, SANTA ROSA, CA APN 010-045-
025

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the City Manager's 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; 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.

EXECUTIVE SUMMARY

Under the Agreement, the City sold the property at 410 B Street (APN 010-045-025) to Cornerstone on August 27, 2021, with specific post-closing obligations. Cornerstone remains in default of these obligations after several extensions. A notice of default was issued on August 29, 2024, and a public hearing was held on December 10, 2024. Following the hearing, Council granted a 120-day extension (to April 9, 2025) to allow discussions between Cornerstone and the City regarding a potential amendment to the Agreement.

While City staff has engaged with Cornerstone, the extended deadline has passed, and Cornerstone remains in default. Moreover, Cornerstone was unable to provide reasonable assurance that it could proceed with the development of the Property

following entitlement approvals and they requested that the SMART Site and Ross Street Project be removed from the Agreement altogether, citing an inability to provide a general development timeline for those sites. As a result, the City issued a new notice of default on May 21, 2025, and scheduled a public hearing for July 8, 2025, for the Council to determine whether to find Cornerstone in default under the Agreement or provide further direction to staff.

BACKGROUND

The City and Cornerstone entered into the Agreement as of June 8, 2021, which provided that the City would convey the Property to Cornerstone subject to specific post-closing obligations described in Section 23 of the Agreement. The parties closed escrow on the sale of the Property on August 27, 2021. The post-closing obligations were a material term of the Agreement, and required that the Property, and other properties owned by Cornerstone or affiliated entities in downtown Santa Rosa, would be developed in the manner described in the Agreement. In order to ensure that these developments would take place in the timeframe contemplated in the Agreement, the Agreement requires that Cornerstone meet specific milestones toward the development of its properties in downtown Santa Rosa.

Pursuant to Section 23(a)(i) of the Agreement, Cornerstone was required to submit building plans and applications sufficient for a full plan check for the first phase of Cornerstone's mixed-use project at 34 6th Street (the "SMART Site First Phase") within six (6) months of the Close of Escrow for the Property. In response to Cornerstone's request, on October 5, 2022, the City Manager issued a letter extending the deadline for compliance by an additional 18 months, resulting in a deadline for submittal of August 27, 2023. The City again agreed to extend that deadline by an additional 12 months by a second extension letter dated August 24, 2023, resulting in a new deadline of August 24, 2024, for a total of 2 years and 6 months of extension time.

Pursuant to Section 23(a)(iii) of the Agreement, Cornerstone was required to submit all required applications for City planning and zoning entitlements to develop the Property and Cornerstone's adjacent property with a mixed-use project as described in the Agreement that was consistent with the existing land use regulations within eighteen (18) months from the Close of Escrow. In response to Cornerstone's first request, the City Manager's letter dated October 5, 2022, also extended the deadline for compliance by an additional eighteen months as allowed under the terms of the Agreement. This extension resulted in an extended deadline for submission of planning and zoning entitlements to develop the Property to three years after the Close of Escrow, or August 27, 2024.

Following the City Manager's extension letter of October 5, 2022, City staff reached out to Cornerstone to set quarterly meetings with Cornerstone's representatives to maintain communication regarding Cornerstone's progress on developing its properties. City staff

additionally met with Cornerstone representatives and consultants monthly for several months during this period.

On August 9, 2024, 18 days before the extended deadline for submission of planning and zoning entitlements for development of the Property and Cornerstone's adjacent property, Staff emailed Cornerstone staff to request a meeting, as the City had not received the required applications nor a request for an extension.

On August 26, 2024, City staff and Cornerstone met to discuss whether any progress had occurred on any of the developments. Staff concluded that the development of the Property was not likely to move forward even if the City Manager were to exercise her discretion under the Agreement and issue another extension.

Cornerstone did not submit an application for planning and zoning entitlements to develop the Property and Cornerstone's adjacent property prior to the extended deadline of August 27, 2024. Cornerstone also did not submit building plans and applications sufficient for a full plan check for the SMART Site First Phase prior to the extended deadline of August 24, 2024, and the deadline for meeting that milestone has expired as well. These are both defaults under the Agreement.

The City issued a notice of default to Cornerstone on August 29, 2024 (the "Notice of Default"), laying out the basis for the default and notifying Cornerstone that a public hearing would be held by the City Council to review the default as provided for in the terms of the Agreement on October 22, 2024. On October 3, 2024, the City and Cornerstone entered into a letter agreement to defer the date of the public hearing to December 10, 2024.

On December 10, 2024, the City Council held a public hearing and following the public hearing granted Cornerstone a 120-day extension to renegotiate contract terms with City staff and to make progress on its proposed development project. The extended deadline for submitting the required applications for both the development of the Property and Cornerstone's adjacent property, as well as the SMART Site First Phase, was April 9, 2025, which was approximately 3.8 years after the close of escrow on the Property and approximately 3 years and 2 months after the original deadline for submission of building plans and applications for the SMART Site First Phase.

Since that time, City staff and representatives from Cornerstone met on February 18 and April 8, 2025 to discuss potential modifications to the agreement.

On March 25, 2025, Cornerstone and its consulting team met with the Mayor, City Manager, and City staff to present an outline of the revised project concept.

On April 9, 2025, Cornerstone submitted materials for Concept Design Review and a Neighborhood Meeting for a proposed 24-story multifamily housing project on the Property. These submissions represent the initial phase of the City's Downtown development review process. They are intended to solicit early feedback from the

community and the Design Review and Historic Preservation Board, and to initiate formal consideration by the Zoning Administrator. These steps are preliminary requirements and do not constitute the full application package necessary for development entitlements under the City's Zoning Code.

Before a formal application and fee for Streamlined Design Review can be submitted, two pre-application processes are required:

1. Concept Design Review by the Design Review Board (per Section 20-50.040).
2. A Neighborhood Meeting with community stakeholders (per Section 20-50.050.A).

These pre-application steps are not entitlements and do not fulfill the requirement that all necessary applications for City planning and zoning entitlements be submitted before the established deadline. Therefore, Cornerstone remains in default under the requirement in the Agreement to submit all required applications for City planning and zoning entitlements to develop the Property and Cornerstone's adjacent property with a mixed-use project as described in the Agreement.

To date, none of the further submittals required under the Agreement and extensions previously granted have been received on the SMART Site First Phase or Ross Properties. The deadline for submission of building plans and applications sufficient for a full plan check for the SMART Site First Phase has similarly expired.

On May 21, 2025, the City sent Cornerstone a new notice of default due to its failure to meet the extended deadlines and demonstrate an ability to move the projects forward. A public hearing was scheduled to be held on July 8, 2025, before the City Council to consider the defaults under the Agreement.

PRIOR CITY COUNCIL REVIEW

On December 5, 2017, the City Council, by Resolution No. RES-2017-235 approved the first Exclusive Negotiation Agreement (ENA) with Cornerstone for the potential acquisition and development of 410 B Street.

On October 30, 2018, the City Council, by Resolution No. RES-2018-194 approved an ENA with Cornerstone, which allowed for an additional extension at the City Manager's discretion.

On June 8, 2021, Council passed Resolution No. RES-2021-090 approving the sale of the property located at 410 B Street to Cornerstone at a purchase price of \$1,340,000.

On December 10, 2024, Council held a public hearing to review notices of default.

ANALYSIS

The City consistently communicated throughout the original negotiations regarding the sale of the Property, and in subsequent correspondence, that a fundamental condition of the transaction was Cornerstone's commitment to advance and complete the Ross Street Project, the SMART Site First Phase, and most importantly, the development of the Project on the Property, in a timely and efficient manner consistent with the timelines set forth in the Agreement.

The City Manager approved two extensions based on the understanding that Cornerstone would move forward with these projects and that required applications would be submitted in the near term, and certainly prior to the expiration of the extended deadlines. On December 10, 2024, the City Council granted an additional extension to allow Cornerstone another opportunity to meet the applicable deadlines or to propose amendments to the Agreement that would facilitate timely progress.

As of today, Cornerstone has not submitted the required applications for either the SMART Site First Phase or the Property in accordance with the extended deadlines.

At the December 10 hearing, the Council authorized a 120-day period, through April 9, 2025, for the City and Cornerstone to explore potential amendments to the Agreement. Cornerstone did not initiate any conversation until the City's outside Attorney was able to connect with Cornerstone's attorney in late January to discuss a strategy for the process. During subsequent meetings, City staff raised concerns regarding ongoing litigation among Cornerstone's members, particularly the litigation's implications for the ownership entity's ability to secure financing and deliver the projects as contemplated.

Additionally, Cornerstone was unable to provide reasonable assurance that it could proceed with the development of the Property following entitlement approvals and Cornerstone requested that the SMART Site and Ross Street Project be removed from the Agreement altogether, citing an inability to provide even a general development timeline for those sites. As a result, and in the absence of demonstrated financial and operational capacity, the City staff and Cornerstone were unable to reach an agreement.

Following expiration of the most recent extension on April 10, 2025, Cornerstone submitted a revised schedule for development of the Property. Its proposed amendment to the Agreement anticipates completion of Phase 1 between 2031 and 2033, and Phase 2 between 2033 and 2035. These extended timelines are based on the assumption that all required planning entitlements will be submitted and approved, but to date, no entitlement applications have been submitted.

Under the terms of the Agreement, Cornerstone was required to apply for all planning entitlements within 18 months of the close of escrow (by February 2023). Cornerstone

has not met this requirement. In addition, construction on the SMART and Ross Street projects was to begin within one year of building permit issuance, originally anticipated in early 2023. Despite this, the City Manager granted two extensions, and the City Council approved a third, to give Cornerstone additional time to meet these obligations. Even with these accommodations, Cornerstone has failed to demonstrate meaningful progress or the capacity and ability to move forward. Key milestones have been repeatedly missed, and there is no clear or achievable path toward timely performance under the Agreement.

The Agreement provides that in the event the City declares Cornerstone to be in default of the post-closing conditions set forth in Section 23 of the Agreement, the City Council will conduct a noticed public hearing to review evidence of the alleged default. Following the public hearing, the City Council may (i) find that there has been no material default; (ii) 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 (iii) establish a revised schedule for the performance of Cornerstone's obligations.

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 as provided for in the Agreement, to avoid further delays in advancing a critical downtown housing opportunity.

FISCAL IMPACT

Approval of this action does not have a fiscal impact on the General Fund. The proceeds from the sale were held in the parking enterprise fund reserves, and if the property is repurchased, those funds will be appropriated from the same reserves.

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 Program Environmental Impact Report (SCH 2006072104) 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

Interested parties have been notified directly by email and certified mail on May 21, 2025.

A notice of Public Hearing was published on June 27, 2025.

ATTACHMENTS

- Attachment 1 – Agreement of Purchase and Sale for Future Infill Development and Joint Escrow Instructions
- Attachment 2 – Extension letter 1
- Attachment 3 – Extension letter 2
- Attachment 4 – First Notice of Default
- Attachment 5 – Second Notice of Default
- Resolution

PRESENTER

Jill Scott, Real Estate Manager