



PUBLIC HEARING  
REVIEW EVIDENCE OF DEFAULT BY  
CORNERSTONE PROPERTIES II, LLC, UNDER  
AGREEMENT FOR THE PROPERTY LOCATED  
AT 410 B ST. SANTA ROSA APN 010-045-025

City Council Meeting  
December 10, 2024

Jill Scott  
Real Estate Services

# Background

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City and Cornerstone II, LLC (Cornerstone) entered into the Agreement for Purchase and Sale for the Future Infill Development and Joint Escrow Instructions (Agreement) on June 8, 2021, for the property located at 410 B ST. SANTA ROSA APN 010-045-025 currently a city-operated public parking lot.

- City conveyed Property subject to specific post-closing obligations
- Escrow closed on August 27, 2021
- Not a traditional form of conveyance for City
  - Sold before entitlement and financing to allow Cornerstone the opportunity to invest in an Opportunity Zone
  - City traditionally executes a disposition and development agreement, which ensures timely entitlement, design, and financing before sale.



# Post-Closing Obligations and Extensions Granted

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Post-closing obligations, a material term of the Agreement, required the Property and other properties owned by Cornerstone in downtown Santa Rosa to be developed in a timely manner.

## Requirements:

- Submit building plans and applications sufficient for a complete plan check on Phase 1 of Cornerstone's mixed-use project at 34 6<sup>th</sup> Street (SMART Site First Phase) within 6 months of the close of escrow for the Property.
  - Extension 1 requested by Cornerstone on October 5, 2022- granted by City Manager for 18 Months – new deadline August 27, 2023
  - Extension 2 requested by Cornerstone. Granted by City Manager on August 24, 2023, for 12 months – new deadline August 24, 2024.



# Post-Closing Obligations and Extensions Granted

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- 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 and was consistent with the existing land use regulations within eighteen (18) months from the Close of Escrow.
  - In response to Cornerstone's first extension request, the City Manager's letter dated October 5, 2022, also extended the deadline for compliance by an additional eighteen months. This extension resulted in an extended deadline for submission of planning and zoning entitlements to develop the Property by a total of three years after the Close of Escrow.



# Communication

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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.

By August 2024, Cornerstone had not submitted an application for planning and zoning entitlements to develop the Property and Cornerstone's adjacent property. 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. These are both defaults under the Agreement.



# Notice of Default

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- August 9, 2024, 18 days before the expiration of the extended deadline for submission of planning and zoning entitlements for development of the Property and Cornerstone's adjacent property, Staff emailed Cornerstone to request a meeting, as the City had not received the required applications nor a request for an extension.
- 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 in a timely manner, even if the City Manager were to exercise her discretion under the Agreement and issue another extension.
- August 29, 2024, City issued a Notice of Default to Cornerstone
  - Laid out the basis for default
  - Noticed Cornerstone that the City Council would hold a public hearing to review the default as provided for in the terms of the Agreement.



# Agreement Requirements

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The Agreement provides that in the event the City declares Cornerstone to be in default of the post-closing obligations, 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.



# Staff Recommendation

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Staff recommends that, after holding the public hearing and considering any oral or written testimony provided at or before the public hearing, the City Council elect to repurchase the Property for the Call Purchase Price of \$1,340,000, as provided for in the Agreement. Following repurchase of the Property; the City can explore other options for the use and development of the Property in furtherance of the revitalization of the City's downtown.





Questions?

