Agenda Item #4.1
For Council Meeting of: June 16, 2026

CITY OF SANTA ROSA
CITY COUNCIL

TO:	MAYOR AND CITY COUNCIL
FROM:	LORI ANN FARRELL, INTERIM CITY MANAGER JASON NUTT, ASSISTANT CITY MANAGER SCOTT WAGNER, CHIEF FINANCIAL OFFICER GABE OSBURN, PLANNING AND ECONOMIC DEVELOPMENT DIRECTOR DAN HENNESSEY, TRANSPORTATION AND PUBLIC WORKS DIRECTOR JILL SCOTT, REAL ESTATE MANAGER SCOTT ADAIR, CHIEF ECONOMIC DEVELOPMENT OFFICER
SUBJECT:	DOWNTOWN ECONOMIC DEVELOPMENT STRATEGY
AGENDA ACTION:	STUDY SESSION

RECOMMENDATION

The City Manager's Office, Planning and Economic Development Department, and Transportation and Public Works Department recommend that the Council hold a study session for staff to present information on the Downtown Economic Development Strategy. Council will take no action except to direct staff. This item has no impact on current fiscal year budget.

EXECUTIVE SUMMARY

This study session will provide the Council with information on the Downtown Economic Development Strategy, which aims to strengthen the City’s economic base by activating underutilized City-owned land in the downtown core. The current City Hall campus is located in a central area of the City’s downtown core and is comprised of multiple buildings in separate locations on a seven-acre campus. The facilities are in various stages of disrepair due to the City’s fiscal constraints and over $48 million in deferred maintenance with facility related safety concerns and liabilities increasing annually.

The City Hall campus is situated in a high-value downtown area that could otherwise support multi-use projects providing housing, employment, and revenue-generating uses. Conceptual redevelopment of the site is projected to generate approximately $8.4 million to $9.3 million in new downtown spending and an annual public revenue increase of $1.6 to $1.8 million, while producing an estimated 355 permanent jobs.

The purpose of this study session is to present the economic and fiscal considerations of this strategy and to receive Council feedback.

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 advancing economic development and job growth potential at the current City Hall site; enabling new housing opportunities through redevelopment of the site; increasing revenue and reducing deferred maintenance and long-term facility liabilities by relocating City Hall operations; and improving access to public services by consolidating operations currently spread across multiple properties into a more accessible, centralized location for residents, businesses, and employees.

BACKGROUND/PRIOR COUNCIL REVIEW

Over the past several years, the City has established a clear policy direction to strengthen economic development, expand housing, and revitalize the downtown as the City's primary economic engine. A vibrant downtown supports local businesses, attracts investment, generates tax revenue, and reinforces Santa Rosa's identity as the County seat and the region's commercial and cultural center. When downtown land is fully utilized, it generates the ongoing revenue needed to fund core services, including public safety, infrastructure, and community amenities.

To implement this policy direction, a key strategy is activating underutilized City-owned land to boost economic productivity and expand the tax base. The City has already demonstrated this approach through projects such as converting a former City-owned site into a 61-unit affordable housing development and advancing a 300-unit residential project on a surface parking lot site, which is estimated to bring approximately $4.8 million in annual spending to the downtown. These efforts show how the strategic use of public assets can catalyze private investment, increase the housing supply, and generate long-term economic and fiscal benefits.

Within this broader strategy, the City Hall campus remains one of the largest and most underutilized properties in the downtown core. Located on approximately seven acres of high-value land, the site currently generates limited economic activity relative to its potential and constrains broader downtown revitalization efforts. Activating this space offers an opportunity to generate substantial new revenue, housing, and job creation.

At the same time, the City has completed multiple studies assessing the condition of the numerous City Hall facilities and buildings. These studies consistently identify significant deferred maintenance and capital needs, reinforcing the need for action, and yet implementation has been delayed by high costs and limited funding. As these needs have grown, the City faces mounting financial pressure to address aging and deteriorating facilities. Continued investment in aging facilities continues a pattern of high ongoing operating costs, increased risk, and worsening liabilities while generating no new economic benefit or revenue for the community.

ANALYSIS

The City Hall campus represents a significant economic opportunity in the downtown core. Located on approximately seven acres of high-value land, the site is currently underutilized relative to its potential to support housing, employment, and revenue-generating uses. A conceptual redevelopment scenario illustrates the scale of economic value that could be unlocked by repositioning the site. This illustrative test fit features a dynamic mix of residential, hotel, retail, office, and public spaces capable of generating between $8.4 million and $9.3 million in new downtown spending annually. Additionally, this scenario would deliver an estimated $1.6 to $1.8 million in recurring public revenue to the City of Santa Rosa, driven by increased property and sales taxes from new mixed-use development, tourism-related revenue from hotel occupancy taxes, and parking revenues from parking serving residents, visitors, and businesses.

In addition to direct fiscal benefits, redevelopment could support approximately 355 permanent jobs across the hospitality, office, retail, dining, and civic sectors, generate more than $42 million in wages through construction jobs and ongoing local spending, and broaden economic activity, further strengthening the City’s economic base.

These figures are illustrative and show the order of magnitude of ongoing economic and fiscal benefits from activating this site. When considering the economic potential of repositioning the site or maintaining the status quo, maintaining the existing City Hall campus poses a growing financial challenge with limited return on investment including:

- Approximately $48 million in immediate critical needs to prevent system failure;
- An additional $50 million in anticipated capital costs over the next 5-8 years; and,
- Additional exposure related to seismic, ADA, and code compliance requirements.

Together, these obligations exceed $100 million in costs. Ongoing carrying costs are estimated at approximately $6 million annually to maintain facilities that do not generate new revenue or economic activity. However, due to the City’s fiscal constraints, the annual budget for the maintenance of all of the City’s facilities, including the City Hall campus, is only approximately $1 million, further quickening the pace of deterioration.

This dynamic creates a structural imbalance: significant public investment is required to sustain a site that is not performing as an economic asset, while also limiting the City’s ability to invest in broader community priorities. In response to this imbalance, the following alternatives are presented to Council for consideration:

Alternative 1: Maintain the Status Quo

Continue operating the existing City Hall campus and address deferred maintenance:

- $48 million needed now and more than $100 million total over the next 8 years;
- Approximately $6 million annually to maintain operations in basic condition;
- No new economic activity or revenue generation; and
- Continued use of high-value downtown land for low-productivity public use.

Alternative 2: New Construction on a Brand New City Hall

Construct a new City Hall facility while maintaining public ownership of the existing site.
- Estimated capital cost of approximately $82 million;
- Ongoing debt service of approximately $5 million annually;
- Addresses facility needs but requires significant infusion of new funding and $5 million in annual debt service payments; and,
- Does not leverage the economic potential of the existing downtown site to build housing, create jobs, stimulate the economy, and generate additional value.

Alternative 3: Property Exchange (Strategic Asset Repositioning)

Reposition the existing City Hall site for private redevelopment while leveraging its value to deliver a modern civic facility, unlocking significant economic and community benefits. The Property Exchange is a mechanism under the California Surplus Land Act which allows local agencies to exchange property no longer needed for agency use for another property necessary to carry out essential government functions.

- Key benefits include:
    - Reduced Financial Liabilities and Aging Facilities Cost Avoidance
        - Avoids major upfront public capital investment to aging facilities;
        - Reduces long-term facilities maintenance costs and liabilities;
    - Economic Development and Urban Revitalization
        - Frees approximately seven acres of downtown land for housing, jobs, and mixed-use development;
        - Supports long-term tax base growth and downtown revitalization
    - Revenue Generation
        - Potential to generate new downtown spending of approximately $8.4 to $9.3 million, with an annual public revenue increase of $1.6 to $1.8 million;
    - Enhanced Public Service
        - Provides the opportunity to create a modern, centralized, one-stop service hub for residents, businesses and overall community.

Strategic Considerations:

The City’s decision is fundamentally about how to utilize a high-value public asset:

- Continue investing in aging facilities with high ongoing costs and no economic return;

- Invest in new facilities without capturing the economic value of the existing site; or
- Reposition the asset to generate long-term revenue, support housing and job creation, and improve service delivery.

Next Steps:

- Fiscal Year 2026-2027 Budget Adoption (June 16, 2026, Public Hearing)
    - Staff recommendation to create Capital Facilities Reserve (one-time funds) to address facilities issues and/or property exchange
- Review of property exchange sites considered – Summer/Fall 2026
- Potential Property Exchange Proposal- Summer/Fall 2026
- Citywide facilities and asset management plan update – Future Date

Staff is providing this information for Council discussion and to obtain feedback to guide future direction.

FISCAL IMPACT

This study session does not have a fiscal impact on the General Fund. Any direction given by Council that may have an impact on the General Fund will be analyzed at that time. The recommendation to potentially designate (assign) a distinct Capital Facilities Reserve from existing General Fund reserve balances can be implemented during the Fiscal Year 2026-27 Proposed Budget Public Hearing, or in the near future, if the Council so chooses. Taking action now or shortly thereafter will help avoid further delays in addressing the significant financial liabilities identified in the Study Session.

ENVIRONMENTAL IMPACT

Pursuant to CEQA Guidelines Section 15378, the recommended action of a study session is not a “project” subject to the California Environmental Quality Act (CEQA) because it does not have a potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. In the alternative, the recommended action is exempt from CEQA pursuant to CEQA Guidelines section 15061(b)(3) because it can be seen with certainty that there is no possibility that the recommended action may have a significant effect on the environment.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

Not applicable.

ATTACHMENTS

Not applicable.

PRESENTER(S)

Jill Scott, Real Estate Manager