



**CITY OF HEALDSBURG  
CITY COUNCIL AGENDA STAFF REPORT  
DRAFT**

**MEETING DATE:** September 30, 2020

**SUBJECT:** A Check-in: Community Input and Council Guidance to Staff Regarding Proposed 3rd Amendment to the Saggio Hills Development Agreement (Montage Healdsburg)

**PREPARED BY:** Dave Kiff, Interim City Manager

**STRATEGIC INITIATIVE(S):**

- #1 Establish proactive policies and programs to promote economic diversity and sustainable growth
- #2 Pursue initiatives that promote environmental stewardship
- #3 Expand affordable housing opportunities
- #4 Maintain and improve infrastructure and facilities
- #6 Maintain and enhance public health and safety
- #7 Provide resident-driven community services

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**RECOMMENDED ACTION(S):**

By motion, it is recommended that the Council 1) receive staff report and community input and provide direction to staff regarding the recommendations in Table 1 and, in addition, next steps with the affordable housing component of the Saggio Hills (Montage Healdsburg) Development Agreement; and 2) direct staff to prepare an ordinance to amend the DA consistent with Council's direction.

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**COMMUNITY ENGAGEMENT/OUTREACH:**

This report is brought forward in order to share with the City Council and the community regarding an amendment to the terms of the Development Agreement ("DA") proposed by Sonoma Luxury Resort LLC ("Developer") for the former Saggio Hills Project (now known as "Montage Healdsburg") and to obtain direction from the City Council.

If the Council provides guidance to move forward with a DA amendment, it would require a public hearing by the Planning Commission and a public hearing by the City Council prior to introduction, first reading, and adoption of an ordinance amending the DA.

This item was continued from the September 8, 2020, City Council agenda at the request of the Developer. Among other things, this allowed for further conversation between City staff and the Developer regarding his proposals.

## **BACKGROUND:**

The City and the Developer entered into the DA on April 11, 2011; the DA provides the Developer with certain assurances that it may proceed with a development project that includes the following key components:

- a luxury resort with 130 keyed rooms;
- up to 70 residences;
- construction of private streets, associated utilities and trails;
- design, construct and dedicate to City public streets, associated utilities and trails;
- design, construct (subject to \$1.75M cap) and dedicate to City a fire substation;
- design, construct and dedicate to City a water pump station;
- grade and dedicate approximately 14 acres of s land to City for affordable housing development; and
- grade, design and dedicate land to City for a public park and contribute \$3M less design costs to City for park construction.

The Developer is required to pay fees and costs associated with certain project improvements as identified in the DA. The term of the DA is for a period of 12 years and it will expire on April 11, 2023, unless extended or terminated by mutual agreement of the City and Developer.

As authorized by Section 9.3 of the DA, two administrative amendments to the DA have been approved by the City Manager and the Developer as follows:

The **First Insubstantial Amendment** to the Development Agreement ("1<sup>st</sup> DA Amendment") was executed on April 5, 2016. The DA envisioned that the First Final Map (Attachment 1) would establish nine separate parcels for residential development in addition to the parcels for the resort, public park, fire substation, pump station, and affordable housing. The 1<sup>st</sup> DA Amendment allowed the First Final Map to establish three residential parcels in addition to the parcels for the resort, public park (Parcel 8), fire substation (Parcel 10), pump station (Parcel 9), and affordable housing (Parcel 5 and Parcel 6). It also allowed the Developer to establish a separate parcel for Passalacqua Road and Parkland Farms Boulevard extension (Parcel 11). The Developer subsequently recorded an Irrevocable Offer of Dedication for Public Roads on Parcel 11.

The **Second Insubstantial Amendment** to the Development Agreement ("2<sup>nd</sup> DA Amendment") was executed on May 30, 2019. The DA requires the Developer to perform mass grading on the Affordable Housing Land and Public Park Land and to design and construct Passalacqua Road and Parkland Farms Boulevard extension and related utilities as set forth in the Tentative Map. In order to coordinate the timing of these activities with completion of a master plan for the Public Park and a development plan for the Affordable Housing Land, the 2<sup>nd</sup> DA Amendment deferred the Developer's obligation to construct these improvements and required that, if the Developer has not commenced construction of the improvements prior to May 1, 2022, then upon written notice from the City, Developer shall immediately commence work and complete the improvements prior to expiration of the DA. In addition to the provisions relating to the Affordable Housing Land and the Public Park Land, the 2<sup>nd</sup> DA Amendment provided that the

Developer will prepare, execute and submit the Fire Substation Land Deed and Fire Substation Land Title Instructions into escrow within 10 business days following receipt of written instructions from the City to do so.

For several years now, the Developer has engaged City staff regarding substantive amendments to the DA. As detailed below, there are opportunities to modify the obligations of both the Developer and the City. Based on those discussions, on June 30, 2020, the Developer presented a proposed **Third Amendment to the Development Agreement** ("3<sup>rd</sup> DA Amendment") with proposed terms as outlined in Attachment 2 (Developer's Proposal for 3<sup>rd</sup> DA Amendment) with subsequent refinements, clarification and modifications by the Developer as outlined in Attachment 3 (Developer's Modified Proposal for 3<sup>rd</sup> DA Amendment). Unlike the 1<sup>st</sup> and 2<sup>nd</sup> Amendments which were approved administratively, this proposed amendment would require consideration by and a recommendation from the Planning Commission and City Council consideration and approval through adoption of an ordinance.

A 3<sup>rd</sup> Amendment is worthy of consideration for several reasons including:

- Delays relating to the City's reevaluation of the need for the Fire Substation, the City's process of identifying additional funds necessary to complete the Fire Substation project; consideration of possible modifications to the Fire Substation site plan related to the Community Park planning process; and recent financial commitments towards construction of the Fire Substation secured as part of the approval of the North Village Project discussed below.
- Delays in the City's public master planning process for the Community Park as a result of the Kincade Fire, the City's COVID-19 restrictions, and budget constraints. Until the Park planning is complete, the scope and placement of mass site grading for both the Fire Substation and the Community Park is uncertain.
- Discussions initiated by City staff regarding the proposed northerly trail (through the vineyards north of Passalacqua Road) questioning whether it would have less value to the community than establishment of dedicated parking to serve the Healdsburg Ridge Open Space Preserve.
- A public discussion by the Developer and the City Council on January 21, 2020, whereby the Council considered the possibility of moving some or all of the affordable housing component to other locations in Healdsburg and directed City staff to work with the Developer to identify and assess potential alternative sites and to return within "6-9 months."
- Depending on whether the affordable housing obligation is moved to other parcels in Healdsburg, there may be changes to how two key roads – Passalacqua Road and a connection between Parkland Farms Boulevard and Passalacqua Road – ultimately should be built out. Should Passalacqua Road remain rustic without curbs, gutters and streetlights? Should it be privately maintained or publicly maintained? Should the connection between Parkland Farms Boulevard and Passalacqua Road be a public street or an Emergency Vehicle Access ("EVA")? Please note that *in any case* – affordable housing or open space – at a minimum, a paved EVA with water and electric utilities must be installed between Parkland Farms Boulevard and Passalacqua Road. This road would be available as an evacuation route for the Montage development and for Parkland Farms should an evacuation be necessary.

It should also be noted that, as the development’s schedule has evolved over the nine years since the existing DA was adopted, the policy and regulatory landscape for affordable housing in California has changed markedly. The State of California has embarked on a very aggressive plan to encourage, incentivize, and penalize cities to induce development of more housing at all income levels – low, very low, moderate, and market rate. During the process of developing this report, Staff has received the recommended Regional Housing Needs Allocation (RHNA) for Healdsburg (these are still subject to approval by the Association of Bay Area Governments and the State, but will likely remain substantially the same). The recommended RHNA are in excess of the number of units projected in the January 2020 report to the City Council.

We note, too, that a Development Agreement is a legal agreement between two parties – in this case, Sonoma Luxury Resort LLC and the City of Healdsburg. When adopted, it included environmental review via an Environmental Impact Report (EIR) that addresses the potential impacts of the Montage Healdsburg development. The EIR analysis was predicated on the construction of all of the project components– the resort, private homes, affordable housing, park, fire substation, pump station, streets, emergency access, and more – that mitigate the development’s impacts and cannot be removed without additional environmental study, although the timing and delivery of the elements can change by mutual agreement. Additionally, the provision of Affordable Housing as part of the project was a factor in the City Council’s action to adopt a Statement of Overriding Considerations for the EIR, an acknowledgement that not all identified environmental impacts could be avoided or mitigated to a less than significant level but that the project included certain social and economic benefits that offset these impacts.

Mutual agreement is critical to any amendment. The City Council does not have to agree to amend the Development Agreement, nor does the Developer. The City staff and Council are, however, obligated to consider each party’s ideas and requests fairly and openly, and to recognize where both parties may not have been able to meet the DA's timeline and terms. There can be benefits to both parties.

It is with this spirit that City staff worked with the Developer to review approaches beneficial to resolving these issues. Both parties evaluated various draft proposals and have discussed these proposals. The latest proposals by the Developer referenced herein are the result of this process.

The parties are at the point where it is desirable to gain input from the City Council and the public. Staff’s recommended terms for a 3<sup>rd</sup> DA Amendment are presented below for review by the City Council and the public. Staff seeks guidance from the City Council prior to bringing an ordinance for the 3<sup>rd</sup> DA Amendment to the Planning Commission for a public hearing and recommendation, and then (if appropriate) to the City Council for a public hearing, introduction, and adoption.

**DISCUSSION/ANALYSIS:**

A summary is presented in Table 1, below, of the topics proposed for consideration in the 3<sup>rd</sup> DA Amendment for which City staff and the Developer have reached a consensus recommendation. Explanations for the rationale behind each recommendation follow the table.

**Table 1 - Summary of Staff & Developer Consensus Recommendations**

Issue	Staff & Developer Consensus Recommendations	Alternative: Adhere to Existing DA
Fire Substation (Parcel 10)	<p>Developer to mass-grade Parcel 10 in early 2021 (weather permitting). Ideally, Parcel 10 and community park site (Parcel 8) would be mass graded concurrently.</p> <p>Developer to convey Parcel 10 to City upon completion of mass grading.</p> <p>Developer to remit balance of \$1.75M Fire Substation contribution to City (use of funds to be restricted for Fire Substation development) upon recordation of 3<sup>rd</sup> DA Amendment.</p> <p>Fire Substation to have substantially similar design as approved conceptual design, and Developer to have right of approval of final design, not to be unreasonably withheld, conditioned or delayed.</p>	<p>Developer to mass-grade, design and construct a Fire Substation for the City of Healdsburg.</p> <p>Developer to convey Parcel 10 and Fire Substation to the City of Healdsburg.</p> <p>Developer's contribution (not including land dedication, mass grading and extension of utilities to the property boundary) is capped at \$1.75M.</p>
Community Park and Park to Fox Pond Trail (Parcel 8)	<p>Developer to perform mass grading of Parcel 8, in conjunction with mass grading of Parcel 10 unless City and Developer mutually agree that mass grading of Parcel 8 should be deferred, in which case Developer to remit payment for mass grading based on a cost estimate prepared by a qualified professional and ideally mutually-agreed to by both parties (use of these funds to be restricted for Park development) upon transfer of Parcel 8 to City.</p> <p>Developer to remit payment reflecting an estimate of actual costs for design and construction of multi-use trail (use of these funds to be restricted for trail development) upon transfer of Parcel 8 to City.</p> <p>Developer to transfer Parcel 8 to City concurrently with transfer of Parcel 10.</p> <p>Balance remaining of Developer's \$3M Park contribution (est \$200K spent to date) to be remitted to City (use of these funds to be restricted for Park development) upon recordation of 3<sup>rd</sup> DA Amendment.</p>	<p>Developer to convey title to the Parcel 8 to City.</p> <p>Developer to perform mass grading of Park parcel and design and construct a multi-use trail through the Park and Parcel 7 (adjacent parcel retained by Resort).</p> <p>Developer to contribute \$3M towards future development of the Park (est \$200K spent to date).</p>
Public Trail on Resort parcel north of Passalacqua Road (Northwest Trail)	<p>In lieu of constructing Northwest Trail, Developer to design and construct a 20-space parking lot/trailhead for the Healdsburg Ridge Open Space Preserve near the south end of the EVA (EVA discussed below). Parking trailhead to have ADA spaces paved as required by code, and other surface parking of decomposed granite. Parking lot construction to be completed</p>	<p>Developer to construct the Northwest Trail on easement as established in the first final map.</p>

Issue	Staff & Developer Consensus Recommendations	Alternative: Adhere to Existing DA
	concurrent with completion of EVA.	
<p>Street connection between Passalacqua Road and Parkland Farms Boulevard (Parkland Farms Blvd Connector)</p>	<p><i>If City retains Parcels 5 and 6 for affordable housing:</i> Per existing DA, Developer to construct the Parkland Farms Boulevard connector as a public street with underground utilities. City to reimburse Developer \$1M for cost of public street and utilities.</p> <p><i>If Parcels 5 and 6 are not retained for affordable housing:</i> Developer to construct a paved Emergency Vehicle Access (EVA) with underground water and electric utilities, including fire hydrants, between Parkland Farms Boulevard and Passalacqua Road (note: if decision on Parcels 5 and 6 deferred pending consideration of updates to General Plan/Housing Element and EVA constructed to accommodate opening of Resort, the design of portion of EVA crossing Foss Creek (i.e. bridge) will need to accommodate possible inclusion of additional utilities in the future if Parcels 5 and 6 retained for affordable housing and EVA subsequently upgraded as public road). This EVA would always be available to emergency vehicles as well as the public if an evacuation is necessary. It would also be accessible for public access (pedestrians, bicycles) to connect the multi-use trail in the community park with the Healdsburg Ridge Open Space Preserve.</p>	<p>Developer to construct the Parkland Farms Boulevard connector as a public street with underground utilities. City to reimburse Developer \$1M for cost of public street and utilities.</p>
<p>Upgrading Passalacqua Road to public street standards</p>	<p><i>If City retains Parcels 5 and 6 for affordable housing:</i> Per existing DA, (1) Developer to upgrade Passalacqua Road to public street standards (i.e., installing curbs, gutters and streetlights). City to accept Passalacqua Road as a public street; <u>or (2)</u> Developer to submit a payment to the City in an amount reflecting the actual cost of upgrading Passalacqua Road to a public street (i.e., installing streetlights, curbs and gutters) and City to perform upgrades later in conjunction with affordable housing project.</p> <p><i>If Parcels 5 and 6 are not retained for affordable housing:</i></p>	<p>Developer to upgrade Passalacqua Road to public street standards (i.e., installing curbs, gutters and streetlights). City to accept Passalacqua Road as a public street.</p>

Issue	Staff & Developer Consensus Recommendations	Alternative: Adhere to Existing DA
	Passalacqua Road to remain open to the public but privately maintained. The City would not require it to be upgraded to current public street standards. No Developer contribution offset is proposed for this, given that the City's long-term maintenance obligation would be removed, and the Developer would retain that liability.	

Fire Substation

Under the existing DA, the Fire Substation was to have been designed and constructed by the Developer during the first phase of project development. The Developer's financial contribution to the Fire Substation (in addition to the donation of the 0.85-acre parcel) was capped at \$1.75M. The Developer completed the design process, but construction of the Fire Substation was delayed and was uncertain due to a funding shortfall not related to the Developer. The facility is expected to cost approximately \$3.5M to construct. In 2019, the City Council requested an assessment as to the need for the Fire Substation, and upon receiving that assessment in early 2020, the Council directed staff to identify potential revenue sources for the funding shortfall. Subsequently, the City was able to negotiate a deal with another developer (CCS Healdsburg, LLC) wherein they agreed to construct the Substation (with a pass-through of the Montage developer contribution). CCS Healdsburg's contribution is capped at \$2M.

In brief, the proposed amendment to the DA would remove the Developer's obligation to construct the Fire Substation and require that the balance of the \$1.75M be remitted to the City. Table 2 summarizes the cost and revenue issues very generally. Note that any payments made by, or costs spent to date by, the Developer at the City's direction under the terms of the DA are included in these amounts.

**Table 2. Fire Substation Estimated Costs, Estimated Revenues**

Fire Substation	Amount
<b>Estimated Costs</b>	
Estimated Construction Cost	\$ 3,500,000
Mass Grading ( <u>rough est</u> )	\$ 400,000
Design Costs (est - \$250K allocated)	\$ 250,000
<i>Subtotal</i>	\$ 4,150,000
<b>Sources of Funds</b>	
Montage (set amount in DA)	\$ 1,750,000
Montage (= cost to mass grade)	\$ 400,000
North Village Project	\$ 2,000,000
<i>Subtotal</i>	\$ 4,150,000
<i>Exceedance (Shortfall)</i>	\$ -

### Community Park & Multi-Use Trail

Under the existing DA, the Developer was to perform the mass grading for the Community Park, design and construct a multi-use trail through the park (in lieu of constructing sidewalks and bike lanes on Passalacqua Road) and provide a \$3M contribution to the design and construction of the Park. The City was responsible for the park master planning and the Park was intended to be opened around the same time as the resort. Further, any costs of design and construction of the Park in excess of \$3M are the responsibility of the City.

For a number of reasons (Kincade Fire, COVID-19 health orders, budget, etc.), the City's master planning process is not yet complete. The DA Amendment would require the Developer to perform the mass grading if the work can be performed in conjunction with the Fire Substation mass grading. The amendment would allow the Developer to fund but not perform the mass grading obligation if the City determines that the mass grading work should be performed in conjunction with park development. This may be a superior approach if there will be a lag between the grading and park development as the City would be responsible for maintaining erosion and sedimentation control measures during that time. Without an amendment, the Developer may demand the City complete its design obligations immediately and undertake the grading, something that may not be possible or beneficial.

The amendment would also allow the Developer to contribute a payment for costs associated with design and construction of the multi-use trail. This would allow the City to have that work performed in conjunction with other park improvements which is a more efficient and less impactful way of performing the work.

The City has retained Green Valley Engineers to provide cost estimates for (a) the mass grading of the Park Site and (b) for design and construction of the multi-use trail through the Park. The cost estimates will be coordinated with the park master planning work that is being performed by the Fletcher Studio design team. Table 3 summarizes the cost and revenue issues very generally – neither component (the community park and trail) has accurate cost estimates nor has the Developer confirmed their agreement with them as of the writing of this report. Costs included in this report that are noted to be “TBD” or “estimates” are subject to further analysis, verification and mutual agreement by the City and the Developer.

### **Table 3. Community Park and Park-Fox Pond Trail Estimated Costs, Estimated Revenues**



<b>Community Park</b>	<b>Amount</b>
<b>Estimated Costs</b>	
Estimated Construction Cost	\$ 10,000,000
Mass Grading (rough est)	\$ 1,500,000
Design Costs (est - \$200K spent)	\$ 500,000
<i>Subtotal</i>	\$ 12,000,000
<b>Sources of Funds</b>	
Montage (set amount in DA)	\$ 3,000,000
Montage (= cost to mass grade)	\$ 1,500,000
City Funds	\$ -
<i>Subtotal</i>	\$ 4,500,000
<i>Exceedance (Shortfall)</i>	\$ (7,500,000)
<b>Park to Fox Pond Trail</b>	
<b>Estimated Costs</b>	
Estimated Construction Cost	TBD
Design Costs	TBD
<i>Subtotal</i>	TBD
<b>Sources of Funds</b>	
Montage (= total est costs)	TBD
<i>Subtotal</i>	TBD
<i>Exceedance (Shortfall)</i>	\$ -

Northwest Trail

The existing DA requires the Developer to construct a public access trail through the vineyards on the north side of Passalacqua Road. In lieu of this, the Developer and City staff have discussed that a driveway and parking lot for the Healdsburg Ridge Open Space Preserve be constructed in lieu of the Northwest Trail and in conjunction with construction of either the public street or EVA on a portion of the Affordable Housing Land.

This suggestion arose from conversations between the Community Services Director, the former City Manager and the Developer regarding the community benefits of parking for the Open Space Preserve relative to the trail through the vineyards. This parking lot would help reduce on-street parking impacts in the Parkland Farms neighborhood related to access to the Open Space Preserve.

Passalacqua Road & Parkland Farms Boulevard Connector

The determination as to whether Passalacqua Road should be upgraded to City street standards and whether the connector road between Passalacqua Road and Parkland Farms Boulevard should be an EVA or a public street depends on the Council's decision regarding whether or not to proceed with an affordable housing project on Parcels 5 and 6.

If the Council indicates a willingness to consider the Developer's proposal to fund the acquisition of an alternative affordable housing site in lieu of the dedication of Parcels 5 and 6 to the City, which will require modifications to the City's housing element before the City Council can commit to such a decision, staff recommends that the Developer be required to construct a paved EVA with water, sewer and electric utilities along the alignment of the public street that was contemplated to connect Passalacqua Road to Parkland Farms Blvd in the DA.

Further, if an EVA is constructed pending a formal decision on Parcels 5 and 6 and updates to General Plan/Housing Element, the design of the portion of EVA crossing Foss Creek (i.e. bridge) will need to accommodate possible inclusion of additional utilities in the future if it is ultimately decided that Parcels 5 and 6 are to be retained for affordable housing and the EVA is subsequently upgraded as public road.

If, following the aforementioned updates to the General Plan/Housing Element, the Council accepts the Developer's proposal staff would also recommend a payment to the City of an amount to be determined that would be made, in lieu of constructing the road to City street standards with all utilities. The parties have not reached agreement on this amount. The EVA would address emergency access requirements for the Montage development (as well as for Parkland Farms) and would also serve as a pedestrian and bicycle connection from the Community Park to the Parkland Farms neighborhood and Healdsburg Ridge Open Space Preserve.

If the Council decides to retain Parcels 5 and 6 for affordable housing, staff recommends that the provisions of the existing DA be adhered to for Passalacqua Road and the connector roadway.

Alternatively, the Developer could be required to provide a payment to the City in lieu of installing curbs, gutters and streetlights to conform to public street standards in order to preserve and protect the bucolic setting of the subject property to the extent feasible, while ensuring adequate access and utilities, until such time as an Affordable Housing project is developed.

**Affordable Housing**

Staff and the Developer have continued a professional and frank discussion about this issue, but we are unable to present consensus recommendations pertaining to the Affordable Housing obligations in the DA. Table 4 summarizes the Developer's request for modifications to the DA pertaining to the Affordable Housing Land, staff's recommendations, and the provisions of the current DA.

**Table 4 - Affordable Housing Alternatives**

<b>Developer Request: Developer to Provide Alternative Site for Affordable Housing</b>	<b>Alternative #1 (Staff Recommendation): Retain Affordable Housing Land for "Missing Middle" Housing</b>	<b>Alternative #2: Adhere to Existing DA</b>
Retain Parcels 5 and 6 (about 14 acres) under the Developer's ownership.	Developer to convey title to Affordable Housing Land (Parcels 5 and 6) to City.	Developer to convey title to Affordable Housing Land (Parcels 5 and 6) to City.
Apply a conservation easement	Developer to make payment to	Developer to perform mass

<b>Developer Request: Developer to Provide Alternative Site for Affordable Housing</b>	<b>Alternative #1 (Staff Recommendation): Retain Affordable Housing Land for "Missing Middle" Housing</b>	<b>Alternative #2: Adhere to Existing DA</b>
<p>over Parcels 5 and 6 for open space and grant the City an access easement across the open space for a trail connecting the Community Park to the Healdsburg Ridge Open Space Preserve.</p> <p>Submit funds in an amount TBD for the following purposes:</p> <ul style="list-style-type: none"> <li>• The purchase of the Vercelli site (5.9 acres) – estimated up to 94-unit capacity (estimated purchase price \$4.8 – \$5M).</li> <li>• Funding to assist with the development of affordable housing on the Vercelli site. Amount equals the \$1M that the Developer has already committed through the DA, plus an additional amount TBD.</li> </ul>	<p>City in lieu of mass grading of Affordable Housing Land.</p> <p>\$1M cash payment in escrow from Developer to be used to offset future development costs and/or for "silent second" mortgages to enhance affordability.</p> <p>City to pursue development of up to 85 for-sale homes targeted to moderate and/or "missing middle" households.</p>	<p>grading of Affordable Housing Land.</p> <p>Developer to make \$1M cash payment to City for development of affordable housing. (Developer has made \$1M payment into escrow account for this purpose.)</p> <p>City to pursue development of up to 150 affordable housing units on the Affordable Housing Land.</p>

On January 21, 2020, the City Council received a staff report regarding an "Affordable Housing Site Analysis" that evaluated site constraints, yield potential, disposition strategies, site readiness, and financial and economic feasibility of the Affordable Housing Land and two other city-owned sites (Economic & Planning Systems; January 2020). Three options were evaluated for the Montage Healdsburg's Affordable Housing Land:

- (1) Convert the site to open space and conservation uses in exchange for Developer purchasing and deeding to the City an alternative site capable of accommodating 150 affordable housing units.
- (2) Develop a townhome or cottage-court density project offering approximately 70 for-sale, price-restricted units; or
- (3) Develop a 150-unit rental affordable housing complex.

At that time, the Council (unanimously) was open to considering moving the affordable housing obligation from Parcels 5 and 6 to another site within Healdsburg. The Council and staff suggested giving the Developer "6-9 months" to find a suitable alternative site for development of 150 affordable multi-family units and to report back to the Council. To date, the Developer's efforts to find an alternative site have focused on a 5.9-acre parcel located on the west side of

Healdsburg Avenue immediately south of the Community Center property (Vercelli property; APN 003-030-006) as shown on Attachment 4.

The Developer reports to us that the owner is a willing seller. In that spirit, staff has prepared an initial evaluation of the Vercelli property and Economic & Planning Systems (EPS) has evaluated the feasibility of site development for affordable housing (Attachment 5).

**Explanation of Staff Recommendation Regarding Affordable Housing Land:**

As shown in Table 4, staff recommends that the City retain the Affordable Housing Land for development of affordable housing. Although the affordable housing sites analysis presented to the Council in January suggested the possibility of establishing a conservation easement on the Saggio Hills site in exchange for another site in the City that would be appropriate for up to 150 units of affordable housing (such as, potentially, the Vercelli property), the current staff analysis confirms such an exchange may diminish the City's ability to meet its affordable housing objectives, including addressing the upcoming (6<sup>th</sup> Cycle) RHNA assignments and subsequent Housing Element cycles, the City's *Housing Action Plan*, and its ongoing assessment of affordable housing needs.

The Vercelli property and the Saggio Hills site each offer different affordable housing opportunities for the Healdsburg community. However, the Saggio Hills site provides a near-term opportunity to offer middle-income and homeownership opportunities, with potential for equity sharing, while the Vercelli site may be more appropriate as a tax-credit project targeted at lower income rental housing. Given anticipated RHNA assignments and community needs, it is important to retain all potential affordable housing opportunity sites in the city limits.

The staff recommendation is that the Affordable Housing Land (Parcels 5 and 6) be used for development of up to 85 units of "missing middle" for-sale housing. Developing at the lower end of the density range (as opposed to the 150-unit alternative) is feasible from an economic perspective and could be done in a manner that minimizes site grading and protects some of the local topographic features. However, the Developer has asserted that this approach cannot be implemented without the Developer agreeing to an amendment to the DA, which speaks to restricting the site to "affordable housing, as defined and described in the City of Healdsburg Zoning Ordinance."

Yet, the City's municipal code already recognizes the concept of the "missing middle" in the application of the growth management ordinance, and under the terms of the DA the City is able to redefine what constitutes "affordable housing" as defined in its Zoning Ordinance and applied city wide because such a change would not be in conflict with the development of the Project nor impose additional burdens on the development. The DA also says that, in exchange for the \$1M contribution from the Developer, the City will establish (to the extent allowed by housing laws) a priority list for the sale or rental of housing at the affordable housing site for employees of the Resort.

As defined in the Healdsburg Municipal Code, §20.28.310, middle-income households are households earning an income from 121% to 160% of area median income for Sonoma County as determined by the U.S. Department of Housing and Urban Development as adjusted by the California Department of Housing and Community Development. The Healdsburg Housing Needs Calculator identifies this housing income bracket as the second-highest need in our city to

achieve a higher percentage of individuals that can live and work in our city. For a family of four, the 121% - 160% of AMI income bracket would be from \$111,950 to \$149,280 per year.

One of the key reasons that staff makes its recommendation for the City to retain the Affordable Housing Land is the City’s obligation to meet its affordable housing needs under the Regional Housing Needs Allocation (RHNA), including both RHNA’s current iteration (5<sup>th</sup> Cycle) and the expected affordable housing allocations in the next round of RHNA (6<sup>th</sup> Cycle).

In January, City staff presented Council with RHNA projections for the 6<sup>th</sup> Cycle based upon an anticipated 100% increase in 5<sup>th</sup> Cycle RHNA assignments. Since then, the likely (but not yet adopted) assignments for the City of Healdsburg have increased, as shown below in Table 5.

**Table 5 - Comparison of 5<sup>th</sup> and 6<sup>th</sup> Cycle RHNA Assignments for City of Healdsburg**

<b>Income</b>	<b>5<sup>th</sup> Cycle RHNA (2014-2022)</b>	<b>January 2020 Projected 6<sup>th</sup> Cycle RHNA Assignment (2023-2030)</b>	<b>September 2020 Projected 6<sup>th</sup> Cycle RHNA Assignment<sup>1</sup> (2023-2030)</b>
Very Low	31	62	90
Low	24	48	50
Moderate	26	52	60
Above Moderate	76	152	150
Total	157	314	350

Staff believes that it is important that the City take the necessary steps to help assure meeting its housing obligations as established through the RHNA process, both to meet housing demands and to avoid losing local control over the development review process for housing projects under SB 35, as well as further local Housing Action Plan (HAP) goals and objectives.

Attachment 5 is a memorandum prepared by EPS that addresses the "Saggio Hills Alternative Sites Analysis" and supports the staff recommendation for keeping the Affordable Housing Land in the City's affordable housing inventory rather than exchanging it for an alternative site.

Procedural Hurdles. The Developer’s proposal is certainly possible should the Council prefer it. However, there are a considerable number of procedural requirements that the City would need to address either prior to or concurrently with approval of the proposal. The Developer’s proposal effectively reduces the residential density of the Affordable Housing Land from 6-10 units/acre to zero (0) units/acre and changes the land use designation for the site from Medium High Density Residential to Open Space. Neither action appears to be consistent with the existing General Plan, including the Housing Element.

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<sup>1</sup> The RHNA numbers have been recommended by the Association of Bay Area Governments (ABAG) Housing Methodology Committee. These allocations still require ABAG and State approval but will most likely remain the same.

As a result, if the City were to approve the proposal, the City must also take actions to identify or rezone additional adequate sites so that there is sufficient residential unit capacity appropriate to accommodate the RHNA by income level. These actions must occur before or concurrently with any action to approve the DA amendment for the Affordable Housing Land. Further, as these actions represent a fundamental alteration to the Housing Element, the affordable housing site inventory must be amended and submitted to State HCD for review to ensure compliance with State Housing Element law, prior to, or concurrently with, any action or approval of Developer's proposal.

The prospect of revising development standards in the City's zoning ordinance, identifying a new site(s) for affordable housing and/or rezoning land to accommodate housing uses, and amending the City's Housing Element, not to mention the associated review required by the California Environmental Quality Act will take a significant amount of time and resources. Staff estimates that it would take at least a year to complete, and likely longer. Additionally, given the timing of the City's required Housing Element Update to address the 6th RHNA cycle, if the Council is inclined to consider the Developer's proposal, staff recommends that the necessary General Plan Land Use and Housing Element amendments be considered as part of the upcoming comprehensive update to the Housing Element.

If the Council chooses to pursue the Developer's proposal relating to the Affordable Housing Land, staff recommends that the DA amendments pertaining to the Fire Substation, Public Park and Roadway/Utility improvements be considered in a separate DA amendment.

**ENVIRONMENTAL STEWARDSHIP:**

The approved Project disperses development over an overall area of approximately 258.5 acres and includes a luxury resort with 130 keyed rooms and conference, event, and recreational facilities; up to 70 residences; public and private streets and trails; a fire substation; a water pump station; land for an affordable housing development; and land for a public park. The development plan for the site intentionally disperses structures on the property to minimize tree removal. The Project includes a 400-kW solar array to supply partial power to the resort facility as well as electric vehicle charging stations in support of reducing greenhouse gas emissions associated with the Project. The Developer is bound by, and required to perform, all mitigation measures for or relating to the Project contained in and required by the Final Environmental Impact Report for the Saggio Hills Project, including all mitigation monitoring and reporting.

**ALTERNATIVES:**

Staff seeks guidance from the City Council regarding possible amendments to the Development Agreement to modify the Developer's obligations relating to the Fire Substation, Community Park, Other Public Improvements, and Affordable Housing. Alternatives presented in this staff report include the Developer's proposal, staff's recommendation, and the option of adhering to the existing DA. Upon receiving guidance from the Council, staff will engage in further negotiations with the Developer and draft an ordinance amending the DA for consideration by the Planning Commission and the City Council.

**FISCAL IMPACT:**

The Montage Healdsburg project is a privately funded development that will generate property tax, transient occupancy tax, and sales tax revenues which will help to offset the City's costs of

providing services to the Project and is likely to provide other long-term fiscal benefits to the community as a whole, especially for the Community Services Department.

More specifically, through the DA, the Developer is required to make several land dedications, public and private improvements, and cash contributions to the City.

The Developer initially proposed alternate means and measures to fund and construct some of the "community benefit" obligations established in the DA (i.e., dedication to City of 14 acres of land for affordable housing; construction of public street connection between Passalacqua Road and Parkland Farms Blvd; construction of Passalacqua Road to public street standards; construction of public trail through vineyards north of Passalacqua Road; mass grading of Park; design and construction of multi-use trail through Park; construction of Fire Substation; contribution of funds for Park and Fire Substation; etc.).

Staff's overall recommendation – which is reflected in much of the Developer's proposal – attempts to "keep the City whole" from a fiscal standpoint while affording the Developer some flexibility with regard to whether certain improvements are constructed up front, partially constructed (i.e., completing mass grading now, and later embarking on final construction through other means) or in lieu payments are made.

#### **ENVIRONMENTAL ANALYSIS:**

On January 31, 2011, the Healdsburg City Council certified the Final Environmental Impact Report ("EIR") for the Saggio Hills Planned Development Project (State Clearinghouse No. 2003062025) and adopted related findings, a Mitigation Monitoring and Reporting Program, and a Statement of Overriding Considerations. In accordance with the California Environment Quality Act (CEQA) Guidelines Section 15162, no further environmental review would be required for the 3<sup>rd</sup> DA Amendment, as recommended by staff, because (i) there are no changes involving new significant environmental effects or a substantial increase in the severity of previously identified significant effects/impacts, (ii) there are no changes with respect to the circumstances under which the project is taken which will require major revisions to the EIR due to the involvement of new significant environmental effects or a substantial increase in the severity of previously identified significant effects/impacts, and (iii) there is no new information of substantial importance that was not known at the time the EIR was certified which shows (a) the project will have one or more significant effects not discussed in the EIR, (b) significant impacts/effects will be substantially more severe than shown in the EIR, (c) mitigation measures or alternatives previously found not to be feasible would in fact be feasible and would substantially reduce one or more significant effects/impacts, or (d) mitigation measures or alternatives which are considerably different from those analyzed in the EIR would substantially reduce one or more significant effects/impacts on the environment. If, as part of the 3<sup>rd</sup> DA Amendment, the City Council were to allow the Developer to retain the Affordable Housing Land and effectively rezone it to open space through creation of a conservation easement, as well as acquire an alternative site for affordable housing and convey it to the City, then additional environmental analysis would be required to consider and analyze those changes.

#### **ATTACHMENT(S):**

1. Saggio Hills - First Final Map
2. June 30, 2020, Developer's Proposal for 3rd DA Amendment

3. Developer's Modified Proposal for 3<sup>rd</sup> DA Amendment
4. Vercelli Property Site Location Map
5. "Saggio Hills Alternative Housing Sites Analysis" Memorandum (Economic & Planning Systems, August 2020)

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