



June 30, 2020

David Kiff
Interim City Manager
City of Healdsburg
401 Grove Street
Healdsburg, CA 95448

Re: Montage Healdsburg (Formerly Saggio Hills) – Development Agreement (“DA”) between the City of Healdsburg (“COH”) and Sonoma Luxury Resort LLC (“SLR”) – Proposed 3rd Amendment

Dear David:

As you know we are quickly approaching the opening of the Montage Healdsburg. In partnership with the City of Healdsburg, we are excited to bring this key component of the project to completion and open the premier hotel in wine country. We are also eager to complete several of our other important commitments to the community and fully complete the remaining obligations under the Development Agreement. Finalizing these components of the agreement will provide both parties (SLR and COH) certainty while also serving to remove any potential issues when the current DA expires.

In light of the challenging operational, construction and financial circumstances facing our project, and those similar challenges facing the local community resulting from Covid-19, we propose the following in order to finalize several major conditions of the DA. We are hopeful this approach is received with the desired intent to support the community, while also allowing both SLR and the COH to fulfill our respective obligations under the DA. The finalization of these components will enable SLR to move our focus to making the opening of the hotel a success for us and the community. We appreciate the importance of the transient occupancy tax to the COH operating budget and look forward to providing updates to our projections in the near future.

We propose a total package of payments and benefits to the City of \$9,250,000. To do so we would propose making two payments to the City totaling \$7,250,000. \$3,625,000 (50%) would be paid upon signing of a DA amendment reflecting the completion of SLR’s obligations and an additional \$3,625,000 (50%) at the opening of the hotel. The City would have the opportunity to achieve the goals and intent of the DA based on the current needs of the City and in a manner that best fits the City’s financial and planning timeframe.

To provide context to our \$9,250,000 proposal, we made the following considerations associated with the various components of the DA:

Fire Substation

1. \$1,000,000 related to the construction of the Fire substation. To date we have spent \$153,414 on design and planning of the project with no consideration of time and materials of our team.
2. SLR will convey the Fire Substation site to the COH.
3. SLR would appreciate the right to review the design for the Fire Station and the City will, in good faith, consider any suggestions, recommendations and comments from SLR regarding the exterior design of the Fire Station.

Park Site

1. \$2,000,000 related to construction of the Park and required wetland mitigation. To date, SLR has remitted \$200,000 to the City for Park planning and design activities.
2. \$250,000 related to mass grading of the park site and to provide a ten-foot-wide trail through the Park site.
3. SLR will convey the Park Site to the COH.
4. SLR would appreciate the COH's consideration in good faith of any suggestions, recommendations, and comments from SLR regarding site planning for and design of the Park.

Affordable Housing Site

1. \$4,000,000 to fulfill the Affordable Housing obligations. To date, SLR has placed \$1,000,000 into escrow for the COH's Affordable Housing planning and design efforts.
2. The City would be able to utilize these funds to purchase and or build affordable housing where it deems appropriate.
3. The City would also be relieved of the \$1,000,000 reimbursement to the Developer for infrastructure costs for the Affordable Housing.
4. If the City chose to utilize a site other than the one designated within the project, SLR would place an open space easement over the designated Affordable Housing site within the project. A portion of Passalacqua Road would be used for vineyard and landscape planting at SLR's expense and subject to review from the COH.
5. SLR would additionally allow the City to build an extension of the public trail through the Affordable Housing site to connect the Park trail to the Fox Pond recreation area when it builds the Park if desired by the COH. This trail would replace the public trail currently contemplated on the northwesterly most hilltop of the site.

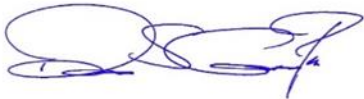
6. SLR would build an Emergency Vehicle Access (“EVA”) road through the site connecting Passalacqua Road to Parkland Farms Blvd. The access road would include a water and power loop.
7. Passalacqua Road will remain a private street, with no further public improvements required since access to Parkland Farms would not be necessary.

In summary, in addition to the significant sums already committed, SLR will be making a total payment of \$8,250,000 to the City of Healdsburg, inclusive of the release the \$1,000,000 of housing assistance funds currently held in escrow. These payments would relieve the COH and SLR of all remaining responsibilities under the DA for the Fire Substation, the Park site and the Affordable Housing site, except for SLR’s obligation for item 6 under the heading Affordable Housing Site referenced above, which SLR would agree to complete by the end of 2021. The City would also benefit by an additional \$1,000,000 from the elimination of the reimbursement for Affordable Housing infrastructure. The total amount of financial benefits to the City is \$9,250,000. There would also be substantial benefit from the relief of administrative burden and oversight otherwise required.

We look forward to receiving your responses to these matters and answering any questions you may have.

Thank you very much for your consideration of this request.

Sincerely,
Sonoma Luxury Resort LLC,
a Delaware limited liability corporation



By: Robert S. Green, Jr.
Its: Authorized Representative

cc: David Mickaelian
Chris Smith
Alex Hill
Les Perry