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# Memo

To: Paula Cook, Community Housing Sonoma County (CHSC)  
From: Craig Meltzner  
Date: 7/28/21  
Re: Proposed County ground lease amendment for 665 Russell Avenue, Santa Rosa

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At your request, I reviewed the proposed 1<sup>st</sup> Amendment to Ground Lease Agreement for Use of County Facilities ("Ground Lease Amendment") related to the extended use of 665 Russell Avenue for the Zane-Wolff Veterans Village ("ZWWV") aka the "Pilot Project". You asked me to evaluate the impact of the proposed early-opt out clause on future financing opportunities. Clause 1.E., which allows the County of Sonoma ("County") to terminate the lease with CHSC ("Tenant") before the end of the proposed 20-year extended lease term, reads as follows:

E. In the event County determines that it may need the Premises to relocate County facilities or for other County purposes, County reserves the right to relocate the occupants of the Pilot Project to other premises at County's cost and expense, in which event County shall provide notice to Tenant and the parties shall thereafter cooperate in good faith to relocate said occupants within one hundred eighty (180) days of said notice and in which event the Lease shall terminate.

As part of the development approvals for ZWWV, the County, CHSC, and the City of Santa Rosa entered into two City fee deferral agreements recorded 2/7/19 – one for water and sewer demand fees and the other for capital facilities and park fees owed to the City of Santa Rosa. See Section 1.A. of the Ground Lease Amendment. Deferred fees total \$253,106 as of the date of the agreements. The deferred fee agreements were entered into based on the plan for CHSC to discontinue use of 665 Russell Avenue for the Pilot Project within three years. Under these circumstances the fees would not become due and payable.

With the proposed 20-year ground lease extension and planned continued use providing supportive housing for homeless veterans, the City deferred fees come due as of July 31, 2021. Section 1.A. of

the Ground Lease Amendment requires CHSC to pay all deferred fees assessed against the property as a condition of the lease extension.

CHSC looks to public funding such as County and City housing programs to cover these local development impact fees as capital development costs. This public funding would include the City of Santa Rosa's Housing Trust programs - <https://srcity.org/678/Developer-Information>, as well as similar programs offered through the Sonoma County Community Development Commission - <https://sonomacounty.ca.gov/CDC/Housing-and-Neighborhood-Investment/Funding-Opportunities>. Funding through these public housing programs is typically structured as a deferred payment loan with terms from 30-55 years. Public lenders generally secure their loans with a deed of trust and security agreement encumbering the borrower's interest in the assisted property. A security interest in or contingent assignment of a 20-year County lease may satisfy public lender requirements. However, a built-in opt-out clause whereby the County can terminate the lease with 180 days' notice effectively eliminates the long-term leasehold as security for public loans. Without such financing, CHSC may be unable to pay the City deferred fees, resulting in a default under the City agreements and the amended ground lease.

To effectively implement the agreed-upon purposes of the extended lease term, I recommend that the County eliminate the proposed Section 1.E. early opt-out clause or agree to pay the deferred City fees when due, since CHSC will be unlikely to be able to secure housing program funding for that purpose.

Please let me know if you have any questions.