



City of Sebastopol

CITY OF SEBASTOPOL CITY COUNCIL

AGENDA ITEM REPORT FOR MEETING OF: May 19, 2026

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To: Honorable Mayor and City Councilmembers
From: Jane Riley, Interim Planning Director, Consultant (4Leaf)
Department: Planning
Subject: Informational Presentation: "Barlow Hotel" Development Agreement Update

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RECOMMENDATION:

That the City Council receive an informational update on the Barlow Hotel development. This annual update is required per the City Council’s approval of the Development Agreement on May 6, 2025.

PROCESS OF AGENDA ITEM:

- Presentation of agenda item by staff and Developer
- Council questions of staff and Developer
- Public comment
- Council discussion
- Receipt of Item. There is no action to be taken at tonight’s meeting

EXECUTIVE SUMMARY:

This item provides the required annual informational update on the status of the Barlow Hotel development. In accordance with the Development Agreement approved by the City Council on May 6, 2025, the applicant is obligated to provide these yearly updates to keep the Council and the community informed about the project's progress and status. This update also fulfills the requirements of Government Code Section 65865.1 for Development Agreements to be reviewed at least every 12 months. The Applicant’s update is attached.

No City Council action is to be taken at this time. Consideration of a Transient Occupancy Tax (TOT) split as mentioned by the Developer in the attached letter could be discussed and considered in the future as part of an application to amend the existing Development Agreement, which would need to be applied for by the Developer, analyzed by staff, and considered by the Planning Commission before returning to the City Council at a noticed Public Hearing for consideration and action.

BACKGROUND:

The Barlow Hotel development includes the redevelopment of an existing industrial building to create a boutique hotel with up to 83 hotel rooms. The approved hotel location is 6782 Sebastopol Avenue, with 305 total new parking spaces, 73 spaces on site, and 242 new spaces at the “batch plant” parking lot at 385 Morris Street. Public improvements would include a new high-visibility crosswalk at Morris and Laguna Park Way, and a public access easement consisting of a new pathway on the south side of the new batch plant parking lot, leading from Morris Street to a new Laguna promenade with picnic area and overlook to be developed at the rear of the parking lot site.

Once completed and operational, the hotel is expected to:

- Revitalize the downtown commercial area;
- Generate about \$1M new annual revenue by the 5th year of operation, primarily from TOT;
- Support local businesses and tourism-related economic activity.

California Government Code Section 65865.1 mandates that local governments review development agreements at least once every 12 months to ensure that the applicant is acting in "good faith compliance" with the terms of the



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agreement. The attached letter from Aldridge Development represents the 2026 development agreement update for the Barlow Hotel, which has a Development Agreement approved in 2025.

This item is scheduled as an informational item only. If the City Council finds that the applicant is not acting in good faith compliance under the terms of the Development Agreement, a public hearing will be scheduled to hear this matter.

DISCUSSION:

On May 6, 2025, the City Council approved a new Development Agreement that includes components related to timing, site maintenance, fee reductions and deferrals, legal and procedural compliance, including this annual report. The agreement was signed with the effective date of June 18, 2025, and covers a term of ten years, expiring on June 18, 2035.

The applicant will be present at this meeting to provide a current status report on the development and to answer questions from the Council.

STAFF ANALYSIS:

Construction of the Barlow Hotel will support the ongoing revitalization of the downtown commercial areas. Once operational, the hotel is expected to generate long-term economic benefits, including significant revenue from transient occupancy tax (TOT), sales tax, and property tax. These revenue streams contribute to the City's long-term financial sustainability and support essential public services.

In addition to its expected economic benefits, the project will promote a walkable, vibrant downtown that will attract both residents and visitors.

CITY COUNCIL GOALS/PRIORITIES AND GENERAL PLAN CONSISTENCY:

This agenda item represents the City Council goals/priorities as follows:

Goal 1 Community Vitality

Goal 6 Economic Development

PUBLIC NOTICE:

This item has been notified in accordance with the Ralph M. Brown Act and was available for public viewing and review at least 72 hours prior to the scheduled meeting date.

PUBLIC COMMENT:

As of the writing of this report, the City has not received any public comments. Any comments received after publication will be provided to the City Council as supplemental materials prior to or during the meeting.

FISCAL IMPACT:

There is no fiscal impact associated with receipt of this item.

RESTATED RECOMMENDATION:

That the City Council receive the informational presentation regarding the Barlow Hotel development update. This annual update is required per the City Council's approval of the Development Agreement on May 6, 2025.

OPTIONS:

1. No action required.

ATTACHMENTS:



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Attachment 1 – Barlow Hotel Project Update Letter

APPROVALS:

Department Head Approval: Approval Date: 5/12/2026

CEQA Determination (Planning): Approval Date: May 5, 2026

The proposed action is not a project under the California Environmental Quality Act (CEQA).

Administrative Services (Financial) Approval Date: 5/12/2026

Costs authorized in City Approved Budget: Yes No N/A

Account Code (if applicable) _____

City Attorney Approval: Approval Date: 5/12/2026

City Manager Approval: Approval Date: 5/12/2026



TO: Jane Riley, Interim Planning Director, City of Sebastopol
FROM: Barney Aldridge, Aldridge Development
DATE: April 28, 2026
RE: Barlow Hotel Project Update

Dear Jane,

We are writing to provide an update on the Barlow Hotel project and to formally request the City's partnership in two important areas: plan check and inspection coordination, and establishing a Transient Occupancy Tax (TOT) sharing arrangement. We believe that this project will become a meaningful and lasting economic contributor to Sebastopol, and we are committed to working collaboratively with the City to bring a new hotel to fruition.

Schedule Update

Our architectural and engineering teams are engaged and actively progressing design and construction drawings. We are targeting the formal submission of a complete Building Permit package for both the hotel building and parking lot improvements by August 2026. A reputable general contractor has been engaged under a preconstruction agreement and is actively supporting the design process to maintain alignment with our project budget.

With responsive plan check coordination and support from the City of Sebastopol Building Department, we believe demolition and grading could begin as early as September of this year.

Why This Project Matters for Sebastopol

The Barlow Hotel will be a 77-room independent luxury hotel situated in one of Sebastopol's most prominent locations. The project directly addresses a significant and well-documented gap in the local market: where today there is no comparable luxury or upscale lodging product available in Sebastopol, and market data confirms a persistent undersupply of quality accommodations across Sonoma County. This project will serve as a primary catalyst for new visitor growth and long-term economic vitality for Sebastopol.

Economic benefits to the City can be substantial and multi-layered:

- Significantly increases visitor counts and overnight stays, directly supporting Sebastopol's tourism economy

- New visitor spending on goods and services benefits local businesses, retailers, and the broader community
- Generates increased retail sales taxes, business license fees, and other municipal taxes
- Creates substantial, long-term TOT revenue to the City well beyond the incentive period
- Offers new restaurants, bar, and event space, and a desirable community amenity serving both residents and visitors
- Provides permanent local employment in hospitality-related operations

Project Financing Efforts and Needed City Support

As seen with similar developments across California, financing new ground-up luxury hotel construction remains extremely challenging in today's environment. Throughout my career, this has been the most challenging debt and equity environment I have ever faced, and we are still not there yet. In addition, I have never before considered borrowing money at an 11% interest rate. After exhausting all other financing possibilities, if we are going to move forward with building this hotel, it will require taking on debt at that interest rate. With borrowing costs this high, there is very little remaining to provide a meaningful return for the investors I have assembled.

I am submitting this request and awaiting your response prior to our presentation to the City Council. Based on your response, I will either need to pause all consultants and ongoing expenditures and move into a holding pattern similar to Hotel Sebastopol, or, with your approval of our proposed share of TOT outlined below, I will be able to thank the Council and present a clear timeline for completion of this project. We believe that, with this TOT partnership, the hotel could open for business by August 2028. In addition, the goodwill, excitement, and economic momentum generated by this project could begin as soon as groundbreaking starts, potentially as early as this September.

Aldridge Development has identified a viable path forward for the Barlow Hotel; however, meeting the financial requirements will require a meaningful change to our development agreement with the City. My specific request is to add the following paragraph to our development agreement with the city:

“The City of Sebastopol agrees to a rebate to the hotel developer Highway Partners LLC, 50% of the collected TOT tax from each prior 3-month period for a total of 120 months beginning 3 months after the opening of The Barlow hotel, the subject property of this agreement.”

To generate an acceptable return needed to secure equity investors, Aldridge Development has significantly discounted the value of its land and is contributing substantial personal capital to this project, ultimately creating a high level of economic risk. On the debt side, we are being forced to accept interest rates of approximately 11% plus for a project of this type and scale, which materially impacts the project's overall feasibility.

To help bridge this financial gap and maintain investor support, we respectfully request the City's consideration of the following:

1. Plan Check Coordination: Meet with our team in advance of the August 2026 submittal to reach alignment on expected turnaround times, confirm the primary point of contact, and establish a predictable review schedule. Certainty in this process allows us to reduce financial contingency tied to schedule risk.
2. Inspection Availability: Clarify anticipated inspection capacity during construction and identify any known constraints from recent projects so we can proactively coordinate solutions.
3. Add a Transient Occupancy Tax (TOT) Sharing Agreement to our development agreement, requiring the City's rebate of 50% of TOT collected.
 - 50% rebate of TOT collected by the city, remitted back to Hotel Partners
 - Term: 10 years from hotel opening

Assuming Sebastopol's current 12% TOT rate and considering the proposed hotel's projected Average Daily Room Rate of approximately \$600 combined with a stabilized occupancy of 65%, we estimate that the hotel can generate approximately \$1.3 million in gross TOT revenue to the City annually, and approximately \$13.2 million over a 10-year term. Under the proposal, the City will retain 50%, or approximately \$6.6 million, during the incentive period, and then receive 100% of TOT in perpetuity. This structure will reward a near-term partnership and provide long-term economic benefits.

California Precedent for Hotel TOT Incentive Programs

TOT sharing agreements have become an established and widely used tool for many California municipalities seeking to attract quality hotel developments. Jurisdictions that have active hotel development incentive programs include:

- City of Dublin (Alameda County)
- North Lake Tahoe (Placer County)
- Coachella Valley - eight cities across Riverside County
- City of Temecula (Riverside County).

Examples of recently negotiated Agreements in California:

- City of Morgan Hill – MOHI Hotel (September 2024): 100% of TOT above a base threshold is rebated to developer; 15-year term.
- City of Long Beach – Fairmont Breakers Hotel (September 2019): 80% of TOT rebated; 9-year term.

The Barlow Hotel's proposed structure (50% of TOT and 10-year term) is conservative relative to comparable agreements and reflects our desire to structure a partnership that is fair, transparent, and workable for the City. This structure will allow the City to share in the project's

long-term success while providing the near-term certainty needed to secure funding and develop the hotel.

As the current owners of the Barlow, our relationship with the City and the broader community is extremely important to us. We simply want to share our position openly and give the City a clear choice between supporting the project now or allowing us to revisit it at a later date when financing conditions may be more favorable. If the City is not comfortable with our request, feels pressured, or believes this is not the best outcome for Sebastopol at this time, we completely respect that position.

If that is the case, we do have an interested tenant for the former Guayakí space and could move forward with a shorter-term lease arrangement. We would then plan to revisit the hotel project in approximately five years, when interest rates and the overall financing environment may allow the project to proceed without the need for any TOT rebate structure.

We appreciate your consideration of these requests and look forward to continuing to work collaboratively to bring this important project to fruition. Please do not hesitate to reach out with any questions.

Best,

Barney

Barney Aldridge
Managing Partner