Sebastopol Commons Due Diligence Questions

Questions Council should answer before committing substantial staff time, consultant expense, reserves, or debt

Core concern:

The question before Council is not simply whether the Commons is an attractive civic concept. It is whether the City can demonstrate, before committing public resources, that the proposed property can accommodate the intended users, generate the assumed rental revenue, be financed on realistic terms, and operate without creating an unplanned General Fund or reserve obligation. Finally, is this even legal?

The work and presentations from the Commons Committee assert that all of these questions have been answered. If not then $40,000 of consulting will answer everything. We might have some doubts.

- The Library has publicly questioned whether they have enough information to understand how their needs would be met.
- The Community Center logically questions whether noise from concerts and other events might create problems for the Canopy homeowners whose properties are only feet away from the proposed entertainment venue.
- The Senior Center has become the main proponent of the project. Kent Jenkins in the Sebastopol Times explains that the Community Center can use any venue they want in the city for events. So I guess three organizations will be housed under one roof unless the Library decides to move to Occidental.

Below are 11 questions the council should consider before agreeing to move forward with this project. It is a lot, extraordinarily complex stuff. But if you are going to protect taxpayer dollars then you need to become informed, develop expertise, find constituents that can advise you. But before you start spending money, get all the facts.

1. Is Commons now a Council priority, and what will it displace?

The Commons project does not appear in the City's adopted FY 2026-27 priorities or as a specific line item in the adopted budget. Before committing substantial staff time, consultant expense, reserves, or debt, Council should explicitly determine whether Commons is now a City priority and **identify what previously adopted work will be deferred, costs cut or what additional resources will fund the effort.**

The commons project has now grown from a new location for city hall, the library and senior and community center to **the city becoming a property manager taking on the responsibilities and the risks of running large commercial rental operations in Sebastopol**. Look at for lease/sale signs that have been on the old CVS, O'Reilly, and several downtown buildings. You have heard two professional property managers (Barlow/Piazza) explain that high rates make it difficult to "pencil" their projects. That means making revenue exceed expense.

Slow leasing at Sebastopol Commons would leave taxpayers to cover the financial gap. Is Council prepared to shift the City's priorities from public safety, streets, and water/wastewater operations to managing a large commercial property?

2. Is using taxpayer dollars to purchase $18MM commercial property legal?

In this case the committee is proposing purchasing 40-45,000 sf of commercial property, entirely for "public uses". They are proposing buying another 40,000+ to generate rental income to pay for the purchase of the building. They have cited "creating new revenue sources" for the city with this project.

"Can Sebastopol use General Fund tax revenues and municipal borrowing to acquire and renovate property substantially larger than required for identified municipal purposes, with the excess space deliberately operated as commercial rental property to generate revenue?"

Estimated use of the proposed 90,258-square-foot O'Reilly property.

Use	**Estimated sq. ft.**	**Treatment**
Library — public area	~15,000–17,000	Municipal/public
Library staff/support	~1,500	Municipal/public
City Hall/staff	~5,000	Municipal
Senior Center	~8,000–10,000	Community/public
Community Cultural Center	~8,000–10,000	Community/public
Other nonprofit/shared space	Uncertain	Community, but not strictly municipal
Total public/community	~40,000–45,000	Broad public-purpose definition
Commercial rental	40,000	Commercial
Circulation/common/mechanical/etc.	Remainder	Mixed

3. Why should Sebastopol Taxpayers assume $11 million of real estate financing risk so the city can become a commercial landlord?

City staff lacks the expertise or the capacity to take on the responsibilities associated with being a landlord. At the very least the city council should require a detailed financial analysis with the following data:

Commercial Rent

- Vacancy allowance
- Management Costs
- Utilities
- Insurance
- Maintenance
- Tenant Improvements
- Leasing commissions
- Capital replacements.
- Debt service

= Actual taxpayer return

If the return is negative, then taxpayers are not being protected by the commercial operation – **They are being asked to subsidize it.**

4. What exactly is the City buying, and for whom?

- What property is actually contemplated for purchase: one, two, or all three buildings? Who makes that decision, and is the seller willing to sell only part of the complex?
- What does it mean buy three and sell one? Is the seller requiring purchase of all three units?
- Which civic organizations will be permanent occupants of the Commons?
- What financial participation is anticipated from each organization?
- Will binding participation agreements be in place before the City makes a purchase commitment? The Committee identifies organizations like the library as critical to attracting tenants to the rental spaces.
- How much space, and what type and location of space does each organization require?
- What will an architect cost to document requirements, test-fit the uses, estimate renovation costs, and establish a realistic schedule?
- Will that initial architectural programming be completed before the final purchase decision?

5. Does the rental-income assumption work?

The financial premise depends heavily on commercial rental income. The Keegan marketing plans identify the following upper-floor areas that could be structured as suites and provide rental income:

Building / Floor	Suite Area	Subtotal
1003 - 2nd floor	12,507 sf	
1003 - 3rd floor	7,284 sf	19,791 sf
1005 - 2nd floor	11,341 sf	
1005 - 3rd floor	6,968 sf	18,309 sf
TOTAL		38,100 sf

The current financial model assumes 40,000 square feet will be leased. But some upper-floor space will apparently be required for non-rent-paying civic uses. A reasonable planning allowance based on current facilities is:

Use	Current Approx.	Commons Planning Allowance
City Hall	~3,700 sf	4,500-5,000 sf
Library staff/back-of-house	~1,200 sf	1,500-1,600 sf

Result: after allowing 6,600 square feet for City Hall and library staff, approximately 31,500 square feet of the identified upper-floor suite area remains for both paying tenants and any additional nonprofit/shared office space.

Rental calculation	Amount
31,500 sf x $1.75/sf/month x 12	$661,500 gross annual rent
Projected annual loan payment	$666,594
Difference before vacancy or operating expenses	($5,094)

This is a threshold issue. At 100% occupancy, the preliminary gross rent is already slightly below projected debt service, before vacancy, utilities, maintenance, management, tenant improvements, capital reserves, or other operating costs. The amount of genuinely rentable space therefore needs to be established by an architectural test-fit before the rental assumption is used to justify financing.

6. Is the financing assumption realistic?

The current Commons model assumes an $11 million loan, based on an $18 million project cost, $3 million in donations, and $4 million from sale of City property. The projected $666,594 annual payment is based on a 4.39% interest rate. This low rate is available for municipal purposes but if more than 10% of the building is leased then the city may not qualify. The alternatives are higher interest rates.

Interest Rate	Annual Payment on $11MM
Proposed 4.39%	$666,594
30 year Treasury 5.35%	$744,399
30 Year Commercial Loan 6.75%	$864,320

Before authorizing a major consulting study, Council could obtain a preliminary financing reality check from IBank and bond counsel. Council should determine whether the contemplated level and type of private commercial leasing affects eligibility for tax-exempt financing and what interest rate should therefore be used in the feasibility analysis.

The loan amount should also be stress-tested if donations are delayed or below $3 million, City property sales realize less than $4 million, or renovation and transaction costs increase the total project cost.

7. What will the property actually cost to own and operate?

The current analysis primarily addresses acquisition financing. A complete feasibility analysis needs an operating pro forma for the entire property, including:

- Utilities, including PG&E, water, and sewer.
- Cleaning, routine maintenance, and onsite building support
- Landscape and parking lot maintenance.
- Building security and property management
- Insurance and other ownership costs
- Tenant improvements and costs of dividing and securing rental suites.
- High-speed internet/telecommunications infrastructure for multiple tenants
- Electrical capacity for higher-density office use
- HVAC suitability for separately occupied suites
- Capital reserves for roof, HVAC, and other major systems.

The essential calculation should be: Rental income - vacancy - operating expenses - capital reserves - management costs - debt service = annual surplus or deficit.

That calculation should be projected for at least ten years and should include low, base, and high cases rather than a single stabilized-year assumption.

8. What are the startup cash-flow requirements?

The City may own the property and begin incurring debt service and operating costs well before civic occupants and commercial tenants are fully moved in. The Commons plan here assumes 20 months just till the building opens. During that period, cash will be required for loan payments, architectural and engineering work, repairs, tenant improvements, utilities, maintenance, security, and property management.

- What payments will be due on any bridge financing?
- How long will architectural work, permitting, construction, and tenant improvements actually take?
- Who funds debt service and operating expenses before rental revenue begins?
- Who funds commercial tenant improvements, and what improvements are the landlord expected to provide?
- What occupancy ramp is realistic for rental suites?
- Will the City be required to use reserves as working capital, and if so, how, and when are those reserves repaid?

The current proposal should therefore include a month-by-month startup cash-flow analysis from closing through stabilized occupancy, not merely a stabilized annual projection.

9. What is the consequences of this purchase on property tax and EIFD revenues?

This is the second most highly valued property in the city (Barlow #1). Before purchase, the City Attorney, bond counsel, and EIFD consultant should address:

- How City ownership would affect property-tax treatment of the property.
- How potential removal from the property tax rolls affects city property tax revenue and the EIFD revenues.
- Whether private tenants would create tax consequences. Will private tenants pay a property tax in addition to their rent? (Note this is common in Sonoma County).
- How removal or alteration of the property's tax base would affect projected EIFD increment.
- Whether private commercial use affects tax-exempt financing or other financing terms.

10. Is the building suitable for the proposed uses?

Two major proposed occupants have publicly raised concerns: the Library Director has indicated that the space requires further study, and the Community Center has raised concerns about adjacent residences and the City's noise requirements. Those concerns reinforce the need for architectural design before financial commitments are made.

A building-condition assessment should also identify immediate and 5- to 10-year capital needs, including the roof, HVAC, electrical systems, accessibility, fire/life-safety systems, and other major infrastructure.

11. Is this politically acceptable?

Residents pay taxes with the expectation that the city is going to provide fire and police services, oversight of development and new construction and maintain our streets, parks and storm drains. Never have I seen any survey that suggested taxpayers would like to fund deficits associated with the commercial real estate operation run by the city.

Recommended actions before a purchase commitment

1. Define exactly what property is under consideration and obtain clarity on whether the buildings can be purchased separately.
2. Obtain preliminary rulings or guidance from IBank and bond counsel on financing structure, private-use limitations, and a realistic borrowing rate.
3. Obtain written space requirements and preliminary financial commitments from each core civic occupant.
4. Commission an architectural programming/test-fit study that identifies civic, nonprofit, common, and genuinely rentable square footage and create estimates for renovation/tenant-improvement costs.
5. Prepare a 10-year operating proforma and a month-by-month startup cash-flow analysis, with low/base/high assumptions for rent, occupancy, operating costs, donations, property-sale proceeds, and construction costs.
6. Obtain a full building-condition assessment and near-term capital-replacement schedule.
7. Identify in advance who is responsible for covering startup costs and any operating deficits.
8. Ask for a legal interpretation of whether taxpayer dollars can be used to fund a significant commercial real estate venture?