NAPA COUNTY GRAND JURY
2018-2019

FINAL REPORT
June 28, 2019

WHERE'S MY COSTCO?
A HISTORY OF
THE NAPA PIPE PROJECT

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SUMMARY

Where's my Costco? That's the question many Napa residents have been asking since 2014, when Napa City voters approved the seemingly simple Measure A,[1] which changed the Rural Urban Limit on the property in southern Napa County, commonly known as Napa Pipe. Measure A was needed to allow the County and the City to work together cooperatively, to bring the proposed Napa Pipe development to fruition. Without Measure A, there could be no Costco.

But Napa Pipe is about much more than just a Costco. The proposed Napa Pipe development would bring much-needed housing—both market-rate and affordable units—to Napa County. The Developer originally pitched the plan to the County as a way to help meet the County's affordable housing quota, as mandated by State law. While the County embraced this plan, the City of Napa balked at the idea of creating a second "downtown" with a massive housing and commercial complex on County land in an area devoid of essential services such as transportation, fire and police coverage, and water. A stalemate among the County, the City, and the Developer ensued that lasted for many years.

That stalemate was broken in 2012 when the Developer added Costco to the Development Plan. Public support of the retailer, along with scaled-down building plans, eventually led the City and County to agree to work together to get this done. The passage of Measure A led to the eventual annexation of the Eastern Parcel—one of two parcels comprising the Napa Pipe property—to the City in order for commercial development to begin. At this point, both the City and the County were told the Costco would become a reality by 2018.

With 2018 having come and gone, and a lack of meaningful progress on the Napa Pipe project, the 2018-2019 Napa County Grand Jury initiated this investigation. The Jury found that there has been a tremendous lack of collaboration, over many years, between the City of Napa, the County, and the Developer.

Through numerous interviews with the Developer, City and County elected officials, and their staffs, the Grand Jury learned that the City dragged its feet in order to keep the development from being built as planned. This foot-dragging, as well as changing economic conditions, required the Developer to submit multiple revised development plans that each required further modifications by both the City and the County. In addition, numerous staff personnel changes in both the City and the County created a lack of continuity over the lifetime of the project.

Will Napa ever see a Costco? The answer to that rhetorical question remains to be determined. At this time, a 'yes' or 'no' answer, or any response to 'when?,' is impossible

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1 https://www.cityofnapa.org/DocumentCenter/View/73/Full-Text-of-City-of-Napa-Measure-A---English-PDF?bidId=.

to answer. Ultimately, despite the most recent reported activity by the City Council, the most basic fact remains: The Developer must finance and build-out the Napa Pipe property. In the current economic environment, there is no guarantee when, or if, that will occur.

But if it is to happen, the Jury recommends that the County and the City take all necessary steps to annex the rest of the land into the City as soon as possible after the currently-proposed State legislation (SB 235) is passed into law. This will enable the Developer to focus on permitting and approval efforts through a single governmental entity. The Jury also recommends that the City honor its commitments to the County Board of Supervisors and all the voters, to make the completion of Napa Pipe a priority, rather than merely to continue to drag its feet.

GLOSSARY

- ABAG: Association of Bay Area Governments
- Catellus: Catellus Development Corporation, an Oakland-based Master Developer, and Project Partner in Napa Pipe
- City: The City of Napa, sometimes including the Napa City Council
- County: The County of Napa, including the Board of Supervisors
- Developer: Includes Napa Redevelopment Partners LLC and Napa River Investors, LLC
- Farallon: Farallon Capital, the Financial Partner of Napa River Partners
- LAFCO: Napa County Local Area Formation Commission
- Measure A: A City of Napa ballot initiative in 2014 that changed the Rural Urban Limit for the Napa Pipe Property.
- NPP: The Napa Pipe Property

METHODOLOGY

- Conducted 14 interviews with elected officials and senior staff from both the City and County, as well as a senior representative of the Developer.

- Review and analysis of Napa County website containing all applicable Napa Pipe project documents.

- Review and analysis of all relevant Napa Valley Register articles detailing the history of the project.

- Review of pertinent Napa City Council and Napa County Board of Supervisors meeting minutes, including all related documents.

- Review of Measure A files and report of results.

- Review of Senate Bill 235 and associated legislative material.

HISTORY AND BACKGROUND

In June 2004, the Napa Pipe division of Oregon Steel Mills ceased operations at its property, located approximately three miles south of downtown Napa, between Kaiser Road and the Napa River, now commonly referred to as the 'Napa Pipe Property' [the NPP] or "Napa Pipe." In the 1930s, the Napa Pipe Property had been home to a sand and gravel quarry, subsequently transitioning to ship building during World War II. Later, it became a division of Kaiser Steel, a plant producing pipes used in the construction of Lake Hennessey and the trans-bay tunnels of the San Francisco Bay Area Rapid Transit (BART). The plant ceased operations in 2004; most plant equipment was sold and the real estate was placed for sale.[2]

In December 2005, the NPP was purchased by Napa Redevelopment Partners, a Delaware Limited Liability Company [LLC] - (the 'Developer' or 'NRP') for approximately $42M. At that time, the members of The Developer were Rogal & Partners LLC, a Delaware Limited Liability Company—DBA Rogal+Walsh+Mol (RWM)—and Napa River Investors, LLC, a Delaware LLC (NRI). At the time of the purchase, RWM held a 1% Member Interest in The Developer and NRI held a 99% Member Interest in The Developer. The Members of NRI are various funds and accounts, all managed by San Francisco-based Farallon Capital Management LLC, a Delaware LLC ["Farallon"]. Farallon is a global capital management and investment firm, with over $30 Billion under management, for institutions and high net-worth individuals.

According to the Limited Offering Memorandum released for the land remediation bonds later issued for the NPP,[3] RWM was granted the authority under the Developer's limited liability agreement to act on behalf of the Developer to accomplish the remediation and development of the property. RWM was to be responsible for day-to-day operations, providing guidance and input to consultants. However, Farallon, as the manager of the monies invested with NRI, had discretionary authority to consult on and approve certain major decisions and expenditures with respect to remediation and development of the NPP.

It is important to note that the Jury has no legal authority to conduct investigations into the private sector, such as Farallon's investment in the Developer. Therefore, the Jury may draw only upon public records, other documents made available to it, the responses of witnesses interviewed by the Jury, and the experience of its members, to analyze the goals and objectives of private sector entities involved in public sector projects such as Napa Pipe. Several attempts by the Jury to solicit information and conduct interviews with Farallon and some of its officers and affiliates, including Developer Partner Catellus, were met with silence. Therefore, the Jury's analysis of financial details has been limited by Farallon's unwillingness to respond to this Investigation.

The Jury believes that the Developer, like similar, comparable entities, acquired the Napa Pipe property in order to remediate it, to prepare it for further improvements by creating

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[2] For a summary, *see* https://tinyurl.com/y49jrc7r.
[3] See bond discussion, page 9.

the infrastructure, to secure the required use permits, and then to sell or lease parcels to other sub-developers for housing or industrial build-out. In short, investment vehicles are created to provide a return on investor funds, and it seems rational to conclude that this was the Developer's long-term objective with respect to the NPP.

In the Jury's opinion, the decision to make any land acquisition and commitment to development funding is subject to stringent financial analysis, incorporating many factors. And as any one or more of these factors change, the impact of such changes on the other factors must be re-analyzed. Probably the most important of these factors is "the money": who has it? What will it cost—as to interest rates and other terms—to borrow it? How profitable can this project be, given current future competition and demand? And how will buyers be able to afford their purchases, either as sub-developers or, ultimately, as homeowners?

Since development of real estate projects on privately owned land such as Napa Pipe usually relies on private sector funding, the Jury had reason to speculate how external macroeconomic factors—unrelated to the City or the County—may have contributed to the situation confronting the Developer, resulting in delays in development of the NPP. What might initially have appeared to be an attractive opportunity would require periodic reassessment, as the economic landscape changed.

While the Grand Jury has not been provided with any pro forma financial projections for the NPP that surely must have been undertaken by the Developer, there can be no doubt that there have been significant changes in the U.S. and Northern California economies in the 14 years since the Developer acquired the property. And there can be little doubt that those changes impacted plans for the development of Napa Pipe.

The U.S. residential real estate boom that began in the late 1990s gained momentum in 2001, when the Federal Reserve dropped interest rates to historic lows. In turn, this led lenders to develop a variety of 'creative financing' loans, aimed at first-time homebuyers and others who were previously unable to qualify for traditional 30-year fixed-rate mortgages. This 'easy credit' environment drove up demand for housing: by 2005, new home sales in the U.S. had more than doubled annually, from a decade earlier. Publicly traded shares of the largest U.S. homebuilders reached their highest revenues and share prices in 2005.

It was in this context that the Developer acquired Napa Pipe in December 2005.

THE EARLY YEARS

At the time of the Developer's purchase, the NPP was approximately 154 acres, consisting of two real estate parcels[4] in unincorporated Napa County. The two parcels, separated by the Union Pacific Railroad [UPRR] tracks and right-of-way, were zoned, respectively, 'Waterfront - W' and non-Waterfront; these two parcels were subsequently designated—

[4] Napa County Assessor's Parcel Numbers [APN] 046-412-005 and 046-400-030.

for convenience but not zoned differently—as the 'Western Parcel' (the Napa River-facing side, west of the UPRR tracks) and the 'Eastern Parcel' (east of the UPRR tracks).

In 2007, the Developer submitted to Napa County its first Redevelopment Plan,[5] setting forth what several local elected officials and staff told the Jury was an overly ambitious plan for over 3,000 housing units and more. This Plan was intended to resolve the County's housing needs for years to come. But the activities and economic climate of 2007 rapidly devolved into The Great Recession of 2008, during which period the Developer began work to resolve environmental issues on the NPP.

The County's housing requirements are State-mandated, and specifically allocated by the Association of Bay Area Governments (ABAG). These housing requirements (the so-called Regional Housing Needs Allocations or RHNAs) are established by ABAG in 7-year cycles,[6] for each governmental entity in the Bay Area, including both Napa County and the City of Napa.

As the impact of The Great Recession became more clear, the County Board of Supervisors saw the need for a "long term strategy to minimize and address...the County's RHNA Needs Allocation."[7] In 2009, Hillary Gitelman, then-Napa County Director of Conservation, Development and Planning, prepared a Memorandum to the Board of Supervisors dated September 1, 2009, titled "Long-Term RHNA Strategy" (the "Gitelman Memorandum"). The Gitelman Memorandum described in detail many of the various state and local housing laws and regulations, and many of their policy implications for County and City governments.

Two conclusions in the Gitelman Memorandum are especially notable, in retrospect:

- "State law also allows [RHNA] transfer agreements between counties and cities within the county during the period between ABAG's allocation to such jurisdiction and the deadline for updating the housing elements" [at page 2]. However, the document also made clear that transfers between jurisdictions within the housing cycle were not allowed [at page 4].

- "In theory, a judge could also set aside land use controls such as Napa County's agricultural preservation policies [aka Napa County Measure C] ...if he/she thought it was impeding compliance with State housing law" [at page 1].

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[5] See the series of subsequently amended Redevelopment Plans and all related exhibits at https://www.countyofnapa.org/787/Napa-Pipe-Project.
[6] For a thorough discussion and explanation of the ABAG RHNA process, s*ee* Napa County Board of Supervisors Board Agenda Letter dated November 25, 2014, *citing* California Government Code Section 65584.07 or any successor.
[7] See "Memorandum from Hillary Gitelman, et al. to Board of Supervisors, et al." dated September 1, 2009 [the "Gitelman Memorandum", at page 2].

The Gitelman Memorandum also noted that the City of Napa had proposed to meet 70% of Napa County's RHNA obligations for three 7-year housing cycles running from 2009 to 2029, in exchange for land use control of the NPP.

Among four 'simultaneous' possible paths for the NPP, the Gitelman Memorandum proposed, alternatively, that the County [1] negotiate a 20-25 years development agreement with NRP; or [2] negotiate a 3-party 20-25 years development agreement, to include the State Department of Housing and Community Development Agreement; or [3] negotiate a Transfer Agreement with the City of Napa, to include the NPP within the City of Napa; or [4] re-zone, but not develop, the NPP, except for the 20-acre portion already zoned for housing.

The Jury learned that, in this interim period, City elected officials and staff forcefully interjected themselves into the negotiations about the NPP project by objecting to and obstructing the proposed development of what they called a new "town center" at NPP, geographically removed from the then-redeveloping downtown Napa City. The City Council insisted that the City should lead the development of the NPP, despite the basic underlying fact that the NPP was in the unincorporated area of Napa County.

Faced with this range of 'options,' in the context of economic recovery from the Great Recession, Napa County chose Option 3. So the basic outline of "the way forward" began to form, as early as 2010: The City would annex the NPP from the County, but the County would receive RHNA credits for all or some part of the housing built on the Napa Pipe Property.

However, according to the Jury's interviews, what followed this decision was a multi-year period of seemingly passive-aggressive interaction between all three parties. The Developer would communicate separately with one jurisdiction, and then with the other, and then the Developer and each/both jurisdiction[s] would submit detailed changes to the Plan. This process led to many delays, during which the development of the NPP did not materially progress, for over 3 years.

THE 'COSTCO' YEARS

In June 2012, the Developer submitted a revised Redevelopment Plan [the "2012 Plan"] to both the City and the County.[8] The 2012 Plan substantially reduced the number of proposed housing units to 945 and, for the first time, introduced the newly-dramatic prospect of a 'Costco' to the NPP Plan, which would serve Costco's 27,000 members in Napa County.[9]

The 2012 Plan's 945 housing units—all in the Western Parcel, still in the County—were to include 70 specifically for 'very low income' housing, 70 for 'low income' housing, and 50 for 'moderate income' housing, all in accordance with applicable California law.

[8] See documents at https://www.countyofnapa.org/787/Napa-Pipe-Project.
[9] Napa Valley Register, June 7, 2012.

The 2012 Plan also included a 150 unit senior-care facility, a hotel and restaurant, retail space, 90,000 square feet of office space, 75,000 square feet of 'light industrial' space along the Napa River[10] and, of course, 154,000 square feet for Costco.

Finally, after years of 'twists and turns',[11] the divisions of opinion between City elected officials and County Supervisors—and their respective staffs—became visible to the citizens of both jurisdictions.[12] The underlying issues of 'water'—considered in the midst of an extended drought—and 'municipal services'—fire, law enforcement, and education chief among them—came to the forefront. Through interviews, it became clear to the Jury that these issues became bargaining points between the County and the City, which led to protracted discussions and negotiations.

The Developer highlighted these delays in an Op-Ed in the Napa Register,[13] describing the seven years of politely-labeled "input" from the City Council, the Board of Supervisors, and the Planning Commission. In fact, the Jury learned during this investigation that this input—related to water sources, density, schools, traffic, and more—often was conflicting, inconsistent, and contradictory.

Elected officials in both jurisdictions—including several newly-elected officials or others newly-elevated in the 2012 election cycle—finally emerged into the daylight to address what had—or had not—been going on in the intervening years. There had been little, or no, "common ground" between the City and the County regarding development at Napa Pipe and little progress had been made.

But an ad-hoc group of County Supervisors and City Council members decided to negotiate a realistic solution to make progress on the development of the NPP. Then-Supervisors Keith Caldwell (subsequently retired) and Bill Dodd (now California State Senator) led the County's team, while Napa Mayor Jill Techel and former Councilwoman Juliana Inman[14] represented the City of Napa.

In early 2013, at the same time that the Developer's Op-Ed piece ran, City and County officials started to be bombarded with mail-in postcards from Napa County residents and Costco members who favored having a Costco in the County. According to Jury interviews, the well-orchestrated campaign by the Developer and Costco caused the City and County to agree to work together to try to make the Napa Pipe development a reality.

In October 2013, the City Council and County Board of Supervisors entered into a "Memorandum of Understanding" for the City to provide water and a broad list of other municipal services to the development of Napa Pipe,[15] and the County Board of

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[10] Napa Valley Register, June 4, 2013.
[11] Napa Register Editorial Board, January 19, 2013.
[12] Napa Register, June 4, 2013.
[13] *See* Napa Register, January 13, 2013.
[14] Juliana Inman resigned from the Napa City Council, effective November 7, 2017.
[15] See the Gitelman memorandum.

Supervisors voted unanimously to amend zoning provisions of the County General Plan to facilitate the development of the NPP.

These agreements also provided that the City would fulfill 80% of the County's RHNA obligations from 2022 to at least 2058, with the City and the County splitting the property tax revenues from the NPP 55% to 45%, respectively. Sales taxes and transient occupancy taxes from development of the NPP would be shared equally. The negotiations continued, but the City was still dragging its feet.

An important provision of this City-County detente was the agreement to negotiate the City's annexation of the NPP for the development of housing. This was not to be for the 3,200 housing units originally conceived by the Developer in 2007.

Eventual annexation into the City of the entire NPP always has been an important principle of the agreements between the City, the County, and the Developer. Regardless of each party's performance of its obligations, the entire NPP will be annexed into the City effective on January 1, 2023.

In July 2014, prior to the November election where Measure A would be determined, the City of Napa Planning Commission reluctantly approved a recommendation to adjust the Rural-Urban Limit to include the NPP within the City of Napa.[16] While making this recommendation, the Planning Commission nevertheless voiced its displeasure with the project. As reported in the July 11, 2014, Napa Register:

> "Napa Pipe has been dragging us all through the mud for the past seven years," said a frustrated Commissioner Gordon Huether. "No matter (how I vote), it's going to happen. But I don't want the history books to reflect that I endorsed Napa Pipe. It doesn't matter if it's in the city or the county. It just shouldn't be. This is being forced on us."

The Napa City Council still faced vocal resistance and decided to submit Napa Measure A[17] to City voters. "Measure A authorized the city to expand its rural urban limit to include the property commonly called Napa Pipe Property. The city's general plan restricts urban development outside of the rural urban limit line. Thus, this measure was designed to allow development in areas where it was previously restricted or prohibited."[18]

Measure A was strongly supported by a Developer-supported propaganda campaign, built upon the theme and purported benefits of having a Costco in Napa: jobs, sales tax revenues, convenience for the approximately 27,000 Costco members residing in Napa County, and more.

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[16] Napa Valley Register, July 11, 2014.
[17] *See* Footnote 1, *supra*.
[18]https://ballotpedia.org/City_of_Napa_Rural_Urban_Limit_Line_Expansion,_Measure_A_(November_2014).

Some City officials wanted the Voter Information booklet to better explain the issues behind Measure A, but, in the course of this investigation, other City officials told the Jury that they were specifically denied an opportunity to insert more-clarifying language into the Voter Information booklet.[19]

Anti-growth activists strongly opposed Measure A, but Measure A passed: "We want our Costco!" won the day. And LAFCO subsequently approved the annexation of the Eastern Parcel of the NPP into the City.[20]

Some progress continued: In June 2015, the Developer submitted a revised Development Plan, including a slight reduction of the Costco space to 150,000 square feet. This plan was approved by the City and building permits were issued. The Developer announced that construction was projected to begin in 2017, with a 2018 Costco opening date.

The County continued to assess its role in the development of the NPP. The November 2016 Board Agenda Letter describes the Developer's interim obligations to the County, at the Developer's sole cost:

- Remediation, grading and infrastructure for 140 Low Income Housing Units, and
- Payment to the County of $1 Million for Proximity Housing Assistance, in phases following the 'Phase 1' Costco development.

However, in the course of its investigation, the Jury learned that the Developer would expect to pay as much as $100 Million more to prepare the NPP for residential development, after paying approximately $20 Million to prepare the site for the construction of the Costco property. So where will all this money come from?

In the course of its investigation, the Jury learned from interviews with multiple City elected officials and staff that, sometime during this process, Napa elected officials and staff came to believe that the Developer was "broke" and did not have the financial resources to proceed with successful development of Napa Pipe. Despite the obvious public records showing Farallon's substantial amount of assets under management, this 'myth' apparently was firmly congealed into the minds of multiple elected City officials and staff. This myth continues to persist to this day, as recently presented to the Grand Jury by a member of the Napa City Council. Obviously, given Farallon's assets, nothing could be further from the truth.

So 'access to money' cannot be the barrier to further development of the NPP. In fact, the Jury learned that, in 2014, Farallon closed a real estate investment fund with a $375 Million valuation.

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[19] https://ballotpedia.org/City_of_Napa_Rural_Urban_Limit_Line_Expansion,_Measure_A_(November_2014).
[20] LAFCO meeting, September 22, 2015.

In this period, the Developer pursued other sources for funding support and, in June 2017, the California Statewide Communities Development Authority closed the issuance of $20.8 Million of 7.68% (federally taxable) Special Tax Bonds for the purpose of remediation of the NPP. The Developer subsequently drew down the proceeds of these bonds and completed remediation of the NPP in 2018.

SUBSEQUENT DEVELOPMENTS

In a June 2018 City Council meeting, a Costco representative stated verbally that Costco planned an opening at the NPP in 2021.[21] But there was no written agreement presented to support this representation, despite the Jury's repeated requests to the Developer. And there was no Costco presentation recorded in the City Council minutes of that meeting to support that representation.

Also in June 2018, the Developer brought forth a new Phase One plan to the City. This plan for the Eastern Parcel—already annexed to the City—was now to include housing in addition to the Costco. Originally, this parcel was only to be Costco and other light industrial uses. This new plan created further delays, as well as a major realization: swapping housing credits between City and County was in fact NOT allowed under current state law.

At this point, the Developer was faced with the difficult task of working with City officials on a housing and commercial development plan for the Eastern Parcel, and working with County officials for the balance of the development on the Western Parcel. Given that the City and County have differing sets of processes, regulations, and design requirements, it was no surprise to the Jury that progress had slowed to a crawl.

In November 2018, the Jury learned that remediation of the NPP had been completed, but that no work had begun on the infrastructure of the NPP or on Phase One of the Development Agreement: the development of the Costco location.

For its part, the City had negotiated a 'no-cost/all-win' position with respect to development on the NPP. Combining its belief that the Developer was "broke", with the January 1, 2023, deadline to achieve total annexation of the NPP property to the City, the City delayed and obstructed progress on the NPP for years. As recently as late 2018, multiple City officials stated to the Jury their belief that the likelihood of completion of development of the Napa Pipe Project was "less than 50/50."

The Developer knew that it already had invested over $40 Million to acquire the Napa Pipe Property, and perhaps a similar amount to do early work to clear and prep the land. It has been estimated to the Jury that the cost of the infrastructure necessary for continued development of the NPP would be an additional approximately $50 - $100 Million. And the installation of the infrastructure—primarily for roads and water and wastewater systems—would be a prerequisite for Costco to develop its premises on the NPP.

[21] Napa Valley Register, June 21, 2018.

Costco will not build its premises until after the NPP infrastructure is installed. And only then, after Costco was truly committed, would the Developer be financially able to sell various portions of the NPP for housing and commercial development.

While the remediation of the land is, for all intents and purposes, completed, and despite the fact that permits were issued in 2016 for the development of the Eastern Parcel, there has been no further development on the NPP. Those permits have now expired.

Rising construction costs may make the affordable housing component of the project no longer affordable. In February 2019, the San Francisco Chronicle noted that: "The slowdown in new market-rate residential development is starting to take its toll on San Francisco's affordable housing pipeline as construction costs rise and the market softens."[22] And while this was in reference to the San Francisco market, the same market forces apply in Napa.

While 30-year mortgage rates are still in a very affordable 4% - 6.5% range, qualifications for loans have tightened with lenders applying more stringent qualifications than were prevalent prior to 2008.

FUTURE SOLUTIONS

On the economic front, there is no clear answer. Economists and investment bankers disagree about the likelihood, timing, or seriousness of an impending economic downturn. However, it is almost uniformly agreed that economic activity goes through cycles and that this current cycle has been positive for a very long time: longer than most, since the Great Depression of 1929. And it is also agreed that some form of economic downturn will occur, but there is not agreement about when—or how seriously—that downturn will take place.

The range of questions about housing demand, the costs of building housing and commercial properties, and the return on investment expectations of investors in funds such as Farallon cannot be fairly articulated, and the answers to those questions cannot be reasonably answered, because of the legal limitations on the Grand Jury's authority.

The most direct question probably is "will someone be eager to invest in the development of the NPP?" And the only reasonable answer to that question is "we don't know" and "there is no way for the Grand Jury to compel an answer from the investors who will make those decisions."

The political questions are somewhat easier to answer, but yield the same equivocal result, because of its current status in the Legislature.

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[22] https://www.sfchronicle.com/politics/article/SF-s-affordable-housing-projects-hit-hard-by-13621283.php.

California SB 235 was introduced by Senator Bill Dodd on February 11, 2019, and passed unanimously by the California Senate on April 25, 2019.[23] In summary, SB 235 would enable the transfer of RHNA credits, as suggested so long ago in the Gitelman Memorandum.

After its passage in the California Senate, SB 235 was sent to the California Assembly, where it currently is before the Assembly Housing and Community Development Committee.

As of June 19, 2019, the bill has not yet been scheduled for hearing before that Committee. After hearing before that Committee, the bill must go before the Assembly Appropriations Committee, and eventually to a floor vote in the Assembly.

Regardless of when (or if) the bill is passed in the current 2019 legislative session, it subsequently must be signed by the Governor to become law. Under a best-possible scenario, it would not become effective until January 1, 2020.

In summary, neither the economic nor the political axes provide clear answers to the questions of what will happen, or when, at the NPP.

VERY RECENT DEVELOPMENTS

On June 16, 2019, an article was published online in the Napa Valley Register, referring to the June 18, 2019, meeting of the City Council. The article refers to many of the facts and issues raised by a City Staff Report[24] to be presented at that meeting, and states that many of these issues have been addressed by City and County staff in the period during which the Jury was conducting its investigation.

As reported in the Napa Register, at this meeting County Planning Director David Morrison was quoted as follows:

> "It will be much easier for the developer to work with one jurisdiction—the city, assuming early annexation—then to work with two," county Planning, Building and Environmental Services Director David Morrison said.
>
> Morrison added that the developer without Senate Bill 235 might decide to avoid going through a lengthy and potentially expensive dual process for land in the city and land in the county. Instead, developer might wait until 2022 when a city/county agreement calls for the county land to automatically annex to the city.[25]

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[23] https://tinyurl.com/yx93bppw ; Napa Valley Register, April 25, 2019.
[24] https://napacity.legistar.com/LegislationDetail.aspx?ID=3983463&GUID=C0F72F92-72B1-4DE6-BD9F-E152FEE9266E&Options=&Search=&FullText=1.
[25] https://napavalleyregister.com/news/local/city-county-deal-new-law-could-move-up-napa-pipe/article_a6eea785-1e6d-550e-8cd1-322ffa6d5490.html.

While the Jury agrees with some of the proposed solutions set forth in the Memorandum to the Mayor and City Council, two major barriers cannot be forgotten. First, SB 235 must be passed and signed into law and, if it is, then it will not become effective until 2020. Second, and more importantly, the development of the NPP cannot happen until someone is prepared to spend the money—many tens of millions of dollars—to build out the infrastructure and begin to build housing. And without that infrastructure, there can be no Costco.

The Jury is encouraged at this most recent demonstration of proactive cooperation between the City and the County with the goal of moving this project forward. However, the Jury notes with skepticism that a similar City Council meeting occurred exactly one year ago, with a slightly different cast delivering similar positive statements and affirmations without any written promises. In short, "we have seen this movie before."

The Jury's conclusions remain the same: Ultimately, it will be up to the Developer to make the decision and financial commitments to build out the Napa Pipe Project. Until that time, our Costco is apparently in Fairfield.[26]

FINDINGS:

The 2018-2019 Napa County Grand Jury finds that:

F1: While the Napa County Board of Supervisors and County Staff generally have been in favor of the Napa Pipe development since 2007 due to its housing and affordable housing components, the Napa City Council and Staff were decidedly against it for many years from the time of its original proposal.

F2: The opposition to the project by many in the City leadership caused much political infighting and led to years of delays in the development of the property.

F3: The City and the County finally decided to work together on the project only after Costco had been introduced to the plan and a direct mail campaign showed how much County residents wanted the retailer.

F4: The Developer has made frequent and substantial changes to the project plan and phasing, which have caused numerous delays in obtaining City and County approvals.

F5: The developer sought changes to the Napa Pipe plan that in 2018, led the City and the County to work quickly with the state legislature to seek legislation that would allow for Napa County to report RHNA credit in the current cycle for units built at Napa Pipe in areas already annexed to the City of Napa.

[26] For County residents who live north of St. Helena, the nearest Costco may be in Rohnert Park or Santa Rosa.

F6: The cost of construction has increased substantially since the Napa Pipe development was initially proposed, which further complicates the financial ramifications of a project this size.

F7: The current situation requiring the Developer to work with two separate governmental entities for plan and design approval, as well as procurement of building permits, adds cost and complexity that have resulted in continued project delays.

F8: Even if the City and County do everything in their power to enable the Developer to begin construction, it will still be up to the Developer to actually make the decision to do so.

RECOMMENDATIONS:

The 2018-2019 Napa County Grand Jury recommends that:

R1: Assuming SB 235 is signed into law in the Summer of 2019, the City and County of Napa should move as quickly as possible to annex the balance of the Napa Pipe Property into the City so that the Developer only has to deal with one entity for permitting, zoning, design, and other related building issues. This annexation should take place no later than January 1, 2020.

REQUIRED RESPONSES

Pursuant to Penal Code sections 933 and 933.05, the 2018-2019 Napa County Grand Jury requests responses as follows:

From the following within 90 days:

- Napa City Council (F1-F8 and R1)
- Napa County Board of Supervisors (F1-F8 and R1)

- Reports issued by the Grand Jury do not identify individuals interviewed. Penal Code section 929 requires that reports of the Grand Jury not contain the name of any person or facts leading to the identity of any person who provides information to the Grand Jury.