



DATE: March 17, 2025

TO: Honorable Mayor and Members of the City Council through City Manager

FROM: Brian Oh, Director of Community Development
Eric Danly, City Attorney

SUBJECT: Adoption (second reading) of Ordinance No. 2900 N.C.S. Amending Chapter 2 of the Petaluma Implementing Zoning Ordinance (IZO) to add the Downtown Housing and Economic Opportunity Overlay to the list of Overlay Zones provided in Table 2-1 (Zones); Amending Chapter 4 of the IZO to add a Footnote to Tables 4.3 (Allowed Land Uses and Permit Requirements for Mixed Use Zones) and 4.10 (MU1 and MU2 Zone Development Standards) Referencing Section 5.070 of the IZO; and Amending Chapter 5 of the IZO to add Section 5.070 and establish the Downtown Housing and Economic Opportunity Overlay Zone and authorize a Zoning Map Amendment to zone applicable parcels

Or

If City Council elects to amend the Overlay, it is Recommended that the City Council Consider Repealing Resolution 2025-022 N.C.S. Concerning a General Plan Amendment to Increase the Allowable Floor Area Ratio (FAR) for Areas Designated Mixed Use (MU) and Located Within the Proposed Downtown Housing & Economic Opportunity Overlay from 2.5 to 6.0, Together with Making CEQA Findings of Fact, and Adopting a Mitigation Monitoring and Reporting Program for the Project, File No: PLPJ-2022-0015 & PLGP-2023-0001

And

Consider Reintroduction of an Amended Zoning Overlay Ordinance No. 2900 N.C.S., File No: PLPJ-2022 and PLZA -2023-0002

RECOMMENDATION

It is recommended that the City Council:

1. Adopt the attached Ordinance No. 2900 N.C.S. Amending Chapter 2 of the IZO to add the Overlay to the list of Overlay Zones provided in Table 2-1 (Zones); Amending Chapter 4 of the IZO to add a Footnote to Tables 4.3 (Allowed Land Uses and Permit Requirements for Mixed Use Zones) and 4.10 (MU1 and MU2 Zone Development Standards) Referencing

Section 5.070 of the IZO; and Amending Chapter 5 of the IZO to add Section 5.070 and establish the Overlay Zone and authorize a Zoning Map Amendment to zone applicable parcels, **or if City Council elects to amend the Overlay it is recommended that the City Council:**

2. Consider repealing Resolution 2025-022 N.C.S. Concerning a General Plan Amendment to Increase the Allowable Floor Area Ratio (FAR) for Areas Designated Mixed Use (MU) and Located Within the Proposed Downtown Housing & Economic Opportunity Overlay from 2.5 to 6.0, Together with Making CEQA Findings of Fact and Adopting a Mitigation Monitoring and Reporting Program for the Project, File No: PLPJ-2022-0015 & PLGP-2023-0001 and Consider Re-introduction of an Amended Zoning Overlay Ordinance, File No: PLPJ-2022 and PLZA -2023-0002, **and**
3. Consider Reintroduction of an Amended Zoning Overlay Ordinance, File No: PLPJ-2022 and PLZA -2023-0002

BACKGROUND

The proposed Downtown Housing and Economic Opportunity Overlay is before the City Council for approval (second reading) of the ordinance that was introduced on February 24, 2025, and approved by City Council by a vote of 5-1 with the following amendments: (1) increase the number of required criteria for future projects to meet the city's goals for exceptional building design and (2) require an analysis of a future project's impact to the jobs/housing balance. A City ordinance requires a second reading to be formally adopted, at which point the City Council would have the option to reaffirm its vote. Alternatively at the conclusion of this public hearing and after hearing public testimony, City Council may elect to modify the ordinance that may require a re-introduction of a new ordinance.

DISCUSSION

The Ordinance would allow, but not mandate, new development within the Overlay to be built with greater lot coverage and/or to be taller pursuant to a conditional use permit (CUP); add new setback/step back standards to address compatibility with existing development; create a new pedestrian/facade activation zone; and allow ground floor residential development on parcels not within a designated pedestrian/façade activation zone. The Ordinance would establish a discretionary review process for developments exceeding 45 feet in height up to 75 feet or seeking increased lot coverage, requiring a CUP with specified findings to ensure compatibility with the surrounding neighborhood, including historic resources. The Ordinance would establish the legislative framework within which projects will be reviewed for consistency and does not in and of itself include any site-specific land use development approvals. The Ordinance would neither change the land use designations of parcels within the Overlay nor increase the allowable residential development density.

The Overlay emerged as a response to the EKN Appellation Hotel proposal and the desire for activation of vacant properties to support local businesses and the Downtown through thoughtful and select development within Petaluma's Downtown core and near the Downtown SMART station. The Overlay covers an approximately 10-acre area within downtown Petaluma and is comprised of Subareas A, B, and C. There are 25 parcels within the boundaries of the Overlay,

four (4) parcels of which are also located within Petaluma's Commercial Historic District. Environmental impacts of the Ordinance were fully analyzed in the Downtown Housing and Economic Opportunity Overlay and EKN Appellation Hotel Project Final EIR (SCH # 2024040565) (EIR). The City Council certified the EIR by adopting City Council Resolution 2025-021 N.C.S. The City Council found that the EIR, inclusive of the Draft EIR, Final EIR, references, appendices, and all attachments thereto, to have been prepared and completed in compliance with the requirements of the California Environmental Quality Act (CEQA).

Figure 1: Proposed Downtown Housing and Economic Development Overlay



At the same meeting at which the City Council certified the EIR and introduced (first reading) the Ordinance, the City Council took action to adopt Resolution 2025-022 N.C.S. to approve an amendment to the Petaluma General Plan 2025 to increase the maximum allowable Floor Area Ratio from 2.5 to 6.0 for mixed use areas in the Overlay, make CEQA findings of fact, and adopt a mitigation monitoring and reporting program for the Overlay project. By its expressed terms, Resolution 2025-022 N.C.S. provides that the City Council action to adopt the resolution shall take effect on the same date that the City Council adopts (gives second reading to) the Ordinance, such that the Ordinance and Resolution no. 2025-21 N.C.S. shall have the same dates of adoption by the City Council.

The Ordinance would amend IZO Chapter 2 (Zoning Map and Zones) to add the Downtown Housing and Economic Opportunity Overlay to the list of Overlay Zones provided in Table 2-1 (Zones); amend the Zoning Map; amend Chapter 4 (Zone District and Allowable Land Uses) to add a footnote referencing Section 5.070 to Tables 4.3 (Allowed Land Uses and Permit Requirements for Mixed Use Zones) and 4.10 (MU1 and MU2 Zone Development Standards); and amend Chapter 5 (Overlay Zones) to add Section 5.070, Downtown Housing and Economic Opportunity Overlay. The Overlay is intended to facilitate the development of residential uses, provide for orderly economic development, ensure the preservation of historic buildings, cultural resources, and the Commercial Historic District, strengthen and expand pedestrian activity through new design and land use controls, and incorporate sites with the greatest opportunity for redevelopment activity.

The Ordinance includes findings of the City Council that the Overlay will reduce the costs of housing projects by allowing greater lot coverage, floor area ratio, and additional height, which enables more efficient use of land, lowers per-unit construction expenses, and reduces the financial burden of structured parking, as documented in the Strategic Economics Memorandum, attached to the staff report accompanying the Ordinance as Attachment 4. The Ordinance also includes findings of the City Council that the Overlay will facilitate the development of housing due to the reduction in costs of housing projects and by increasing allowable building heights, floor area ratios, and lot coverage, and allowing ground floor residential development, thereby expanding development capacity and unlocking underutilized sites for residential use, as identified in the Strategic Economics Memorandum, Attachment 4.

The provisions included within the new Section 5.070 that would be added by the Ordinance include:

- Pedestrian/Façade Activation Zones. Parcels within this Zone would require incorporation of specified ground-floor uses within 30-feet of the public right-of-way and be subject to specified development standards.
- Ground Floor Residential. Areas not within the Pedestrian/Façade Activation Zone would be permitted to establish ground-floor residential uses.
- Increased Height: Additional height above the base 45-foot height limit of up to a maximum height of 75 feet may be permitted with a CUP. To approve a height above 45 feet, the Planning Commission must approve the proposed project in accordance with the review criteria in IZO Section 24.060.E, and make specified findings set forth by the new Ordinance.
- Ground Floor Height: Any building above 45 feet would be required to provide a minimum ground floor height of 14 feet.
- Setbacks: Eliminates the setback standards shown in Table 2 above to establish a 0-foot minimum/maximum setback.
- Stepbacks: Buildings above 45 feet would be subject to building stepback requirements for the primary and secondary street frontages. Stepback requirements vary based on a site's proximity to existing residential uses and historic resources.
- Increased Lot Coverage: To approve additional lot coverage beyond the base 80% limit up to 100%, the Planning Commission may grant a CUP pursuant to the review criteria in Section 24.060.E of the IZO upon making at least one of 5 listed findings.
- Floor Area Ratio (FAR): Maximum FAR allowable is 6.0 for parcels within the Overlay.
- Sunset Provision: The Overlay will expire on the effective date of a Zoning Ordinance that implements the adopted 2050 General Plan.

In addition to the potential benefits to housing development within the Overlay, the Strategic Economics memo affirms data submitted by the applicant of one of the Overlay's potential projects (EKN Appellation Hotel) and its primary and secondary benefits to the local economy, particularly to existing Petaluma businesses that would see industry growth over key industries to the tune of \$18.5M annually. Furthermore, direct benefits to Petaluma residents are projected to be approximately \$5.1M in transient-oriented tax (TOT), \$3.6M in property tax, and \$549K in city sales tax in the first 5 years.

At the February 24, 2025, Public Hearing, the City Council revised a required finding in Section 5.070.F and added a new section that will become Section 5.070.I. In Section 5.070.F, the Council strengthened the additional CUP findings required to be made to allow a height above 45 feet by requiring that at least three of the list of five considerations be met instead of just one as was originally presented to the Council. This text follows:

That the overall building design and the use of the site demonstrates exceptional architecture/design. “Exceptional” architecture/design may be demonstrated by at least three of the following:

- a. The use of innovative, creative or original architectural concepts, materials, or building techniques;
- b. The use of visual elements that contribute positively to the built environment, such as well-proportioned facades, pleasing materials, and unique features;
- c. The use of innovative building systems or forms, and/or the use of creative design, to increase building efficiency and to reduce energy consumption;
- d. The use of low impact development and green infrastructure features in sustainable design and landscaping; or
- e. The use of high-quality building materials that contribute to long-term durability and visual quality.

In Section 5.070.I, the Council added that the City’s consideration of a CUP for any building to be built above 45 feet disclose the foreseeable impact of the project on the jobs-housing balance in Petaluma. This text follows:

Jobs/Housing Balance. Any application for a non-residential project or a mixed use project with a non-residential component that seeks to build above 45 feet pursuant to Section 5.070(F), must include an analysis of the impact of the project on the jobs-housing balance in the City, including how much demand for affordable housing the project will create as compared to the amount of affordable housing created as part of the project.

The analysis shall be based on available pertinent information including information provided by the applicant estimating the number of permanent jobs to be created in the operations of the project, type of job (part-time or full-time), wages, and benefits. The developer may submit updated information to the City at any time during the application process.

This additional information is to allow the City, to the extent reasonably possible to disclose the foreseeable impact of the project on the jobs-housing balance in Petaluma.

These two amendments are incorporated into the Ordinance for the second reading, and staff concludes both amendments further the Overlay’s purpose to facilitate the development of residential uses, provide for orderly economic development, ensure the preservation of historic buildings, cultural resources, and the Commercial Historic District, strengthen and expand pedestrian activity through new design and land use controls, and incorporate sites with the greatest opportunity for redevelopment activity.

ALTERNATIVES

Should the City Council wish to consider amendments to the proposed Overlay in its presented form, staff recommends that the Council consider all public testimony and staff information prior to deliberation, similar to how the City Council considered and accepted the Planning Commission's recommendation to reduce the size of Subarea C and variations of the proposed Overlay, such as a change in Overlay boundaries and/or changes to the Conditional Use Permit findings. For example, the Council could consider a further reduction in Subarea boundaries, which would be a subtractive amendment that would also conform to the recently certified Environmental Impact Report. This approach would require the City Council to vote in favor of introducing a new ordinance on March 17, 2025, with a second reading would follow.

If this is a direction City Council would like to pursue, staff recommends that it consider repealing the General Plan Amendment that it adopted on February 24 as it would need to be brought back as well to be in alignment with a modified ordinance. While a reduction in Subarea boundaries could lessen the housing and economic benefits due to a reduction in applicable parcels, there are key opportunity sites within each subarea that would greatly benefit while balancing community concerns that the proposed Overlay in its current form would negatively impact the downtown. For example, Subarea A is largely underutilized with 8 entire parcels, and about 77% of the total area includes undeveloped parcels, vacant buildings, and/or surface parking. Of the three subareas, Subarea A has the lowest parcel utilization with key opportunity sites such as but limited to the vacant parcels where EKN Appellation Hotel is being proposed as well as other vacant buildings such as the former Bank of the West and the property at Fourth and C, which have both been vacant for several years.

PUBLIC OUTREACH

This agenda item appeared on the City's tentative agenda document on March 3, 2025, which was a publicly noticed meeting.

On or before March 7, 2025, public notice was published in the Argus and mailed to all property owners and occupants in the study area and within 1,000 feet of the perimeter of the study area and any interested party and via posters installed on the site of the EKN Appellation Hotel at 2 Petaluma Boulevard South, consistent with noticing requirements outlined in IZO Section 24.100.

Public notice of the March 17, 2025, Public Hearing was posted in compliance with the Brown Act and to solicit initial public comments.

COUNCIL GOAL ALIGNMENT

The proposed Overlay is a commercial, mixed-use, and activity-driven project within the City's historic Downtown core, which supports three of the five categories of City Council Goals:

- An Economy that Prospers
- Spaces and Places that Inspire
- Our Environmental Legacy

The proposed Overlay creates a discretionary review process that provides for flexibility in current development standards and allows the City to consider increased activation in the core of Petaluma's Downtown proximate to services and transit and in an area supported by an expanded network of active transportation options.

As part of this discretionary review process, the Overlay includes specific design standards to ensure that any increased development potential is only allowed if designed to be compatible with and appropriate to the Downtown area and does not have a negative impact on historic resources. The Overlay encourages appropriately designed infill development on underutilized parcels in the City's Downtown. This approach would both support existing local businesses and encourage revitalization of long-standing vacant parcels by encouraging activation and redevelopment that would enhance City revenues that would directly provide for the maintenance and care of Petaluma's historic Downtown. Economic growth and consumer spending driven by new residents and patrons of redevelopment within the Overlay would generate increased foot traffic and demand for goods and services provided by local merchants in the Downtown area. Additionally, by concentrating development in existing urban areas, the Overlay helps reduce urban sprawl and Vehicle Miles Traveled (VMT), promoting a more sustainable, transit-oriented community to support the City's commitment to climate initiatives and reduction in greenhouse gas emissions.

The City Council held a special meeting on February 10, 2025, focused on Citywide goals and priorities. The Council was unanimous in its support of robust economic development as a primary goal for the City to support existing businesses, encourage activation of longstanding vacant and underutilized properties, to provide Petaluma residents with local goods and services and diversify the City's tax base to help mitigate for periods of recession and uncertain economic trends. To ensure that the economic development benefits are supportive of and sensitive to the historic character of Petaluma, the Overlay includes specific design standards and guidelines to be applied as part of a fully discretionary review process, and applicable only to properties in the Downtown core that are appropriate for reinvestment within the context of the historic Downtown. As discussed below in the Financial Impacts section and above applicable to consistency with General Plan policy 2-P-3, the Overlay has been developed in alignment with the goals of the City Council.

CLIMATE ACTION/SUSTAINABILITY EFFORTS

On January 11, 2021, the City Council and the Climate Action Commission held a joint hearing, which resulted in the adoption of the Climate Emergency Framework. The Framework is intended to guide the City's ongoing response to and discussion about the climate crisis and guides and informs subsequent policies and implementation strategies. The principles identified in the Framework establish Petaluma's shared vision of a healthy, sustainable, and equitable community. By setting this framework's shared intention and working from it in subsequent planning efforts to create policy and implementation, the City will actively work to minimize catastrophic climate change and adapt to its expected impacts. Goals identified in the Framework that are particularly relevant to the project include eliminating transportation emissions by reducing VMT through active transportation, land use policy, increased intensity, increased public transit investment, and encouragement of and support for using non-internal combustion vehicles.

On November 4, 2024, the City Council adopted the Blueprint for Climate Action, Petaluma's climate action plan, which contains policies, procedures, and actions to guide the community towards carbon neutrality. The Overlay, in part, implements Actions TLUC-1 and TLUC-2 in that

it allows for greater lot coverage, building height, and FAR, which increases development potential for higher-intensity development in one of the City’s most walkable areas. This supports the development of more viable mixed-used projects near high-quality transit corridors and contributes to the vision of 15-minute neighborhoods. By supporting incremental infill development through increased development potential, the Overlay contributes to reducing greenhouse gas emissions associated with the reliance and use of single-occupancy vehicles as it positions residential, commercial, and other uses near reliable transit. Furthermore, concentrating increased intensity within the most walkable area of the City further promotes a shift towards active transportation, directly supporting the City’s climate action and sustainability goals.

Furthermore, future development under the Overlay would continue to be subject to existing City regulations regarding climate action and sustainability. At the time that future development applications are received for activities within the Overlay, they would be reviewed and processed in accordance with regulations in place at that time and would be required to incorporate City climate and sustainability standards in effect, including compliance with the latest Building Energy Efficiency Standards of California Building Code Title 24. The Overlay is located in Downtown Petaluma, which the Framework identifies as the most walkable area of the City and most of the Overlay is within ½ mile of the SMART station. The Overlay would provide an opportunity for increased intensity within the most walkable area of the City, further supporting a shift towards active transportation and meeting this City’s climate action and sustainability goals.

ENVIRONMENTAL REVIEW

Environmental impacts of the Ordinance were fully analyzed in the Downtown Housing and Economic Opportunity Overlay and EKN Appellation Hotel Project Final EIR (SCH # 2024040565) (EIR). The City Council certified the EIR by adopting City Council Resolution 2025-021 N.C.S. The City Council found that the EIR, inclusive of the Draft EIR, Final EIR, references, appendices, and all attachments thereto, to have been prepared and completed in compliance with the requirements of the California Environmental Quality Act (CEQA).

FINANCIAL IMPACTS

According to the “Downtown Overlay Market and Development Impacts Assessment and Fiscal Analysis of City Revenues Associated with the Proposed Hotel Project” memorandum prepared by Strategic Economics in 2023, the Hotel project as proposed could be expected to support more than 150 jobs annually and generate \$18.6M of economic activity. Over 25 years, the project would generate approximately \$37M in Transit Occupancy Tax (TOT), \$36.5M in sales tax, and \$24.9M in property tax. This activity would support local businesses and Downtown property owners and provide revenues for Downtown improvements.

The Hotel is subject to payment of City development impact fees. Based on the Development and Impact Fees Schedule effective today, the Hotel would be required to pay the City \$2.7 million in Development Impact Fees which funds housing, parks, and street improvements citywide.

ATTACHMENTS

- Attachment 1 Draft Ordinance (Second Reading) Amending Chapter 2 of the Petaluma Implementing Zoning Ordinance (IZO) to Add the Downtown Housing and Economic Opportunity Overlay to the List of Overlay Zones Provided in Table 2-1 (Zones); Amending Chapter 4 of the IZO to Add a Footnote to Tables 4.3 (Allowed Land Uses and Permit Requirements for Mixed Use Zones) and 4.10 (MU1 and MU2 Zone Development Standards) Referencing Section 5.070 of the IZO; and Amending Chapter 5 of the IZO to Add Section 5.070 and Establish the Downtown Housing and Economic Opportunity Overlay Zone and Authorize a Zoning Map Amendment to Zone Applicable Parcels.
- Exhibit A:** Chapter 2-Zoning Map and Zones
- Exhibit B:** Tables 4.3-Mixed Use Zones & 4.10-MU1 and MU2 Zone Development Standards
- Exhibit C:** Section 5.070-Downtown Housing and Economic Opportunity Overlay Zone
- Exhibit D:** Zoning Map Amendment
- Attachment 2 City Council Staff Report dated February 24, 2025
- Attachment 3 City Council Resolution No. 2025-022 (unsigned) dated February 24, 2025, adopting a General Plan Amendment to increase the allowable Floor Area Ratio for areas within the Downtown Housing & Economic Opportunity Overlay from 2.5 to 6.0, and related Findings of Fact and the Mitigation Monitoring and Reporting Program (MMRP)
- Exhibit A:** Findings of Fact
- Exhibit B:** Mitigation Monitoring and Reporting Program
- Attachment 4 Memorandum: Downtown Overlay Market and Development Impacts Assessment and Fiscal Analysis of City Revenues Associated with the Proposed Hotel Project, prepared by Strategic Economics, dated November 7, 2023
- Attachment 5 Historic and Cultural Preservation Committee Resolution No. 2023-20 recommending that the Planning Commission recommend that the City Council approve a Zoning Text and Map Amendments to adopt the Overlay
- Attachment 6 Planning Commission Resolution No. 2023-20 recommending that the City Council approve a Mitigated Negative Declaration
- Attachment 7 Planning Commission Resolution No. 2023-21 recommending that the City Council approve a General Plan Amendment
- Attachment 8 Planning Commission Resolution No. 2023-22 recommending that the City Council adopt an Ordinance to approve Zoning Text and Map Amendments to adopt the Overlay

Attachment 9 Planning Commission Resolution No. 2024-12 recommending that the City Council accept the DEIR and authorize preparation of the FEIR

Attachment 10 City Council Resolution No. 2024-125 authorizing preparation of the FEIR

Attachment 11 City Council Resolution No. 2025-XXX repealing City Council Resolution No. 2025-022 (unsigned) adopting a General Plan Amendment to increase the allowable Floor Area Ratio for areas within the Downtown Housing & Economic Opportunity Overlay from 2.5 to 6.0, and related Findings of Fact and the Mitigation Monitoring and Reporting Program (MMRP)

Exhibit A: City Council Resolution No. 2025-022 (unsigned) adopting a General Plan Amendment to increase the allowable Floor Area Ratio for areas within the Downtown Housing & Economic Opportunity Overlay from 2.5 to 6.0, and related Findings of Fact and the Mitigation Monitoring and Reporting Program (MMRP)

Attachment 12 Consider Reintroduction of an Amended Zoning Overlay Ordinance No. 2900 N.C.S., File No: PLPJ-2022 and PLZA -2023-0002

Exhibit A: Chapter 2-Zoning Map and Zones

Exhibit B: Tables 4.3-Mixed Use Zones & 4.10-MU1 and MU2 Zone Development Standards

Exhibit C: Section 5.070-Downtown Housing and Economic Opportunity Overlay Zone

Exhibit D: Zoning Map Amendment