

## Exhibit A

### **BACKGROUND**

**Reata Winery  
Use Permit Major Modification Application № P10-00188  
1 Kirkland Ranch Road, American Canyon, California  
Assessor's Parcel №. 057-140-015**

Owner: Madison Vineyard Holdings LLC

Representative (Attorney): Tom Carey, Dickenson, Peatman, and Fogarty

Zoning: AW (Agricultural Watershed): AC (Airport Compatibility)

General Plan Designation: AWOS (Agriculture Watershed and Open Space)

Original Application Filed: June 1, 2010

Re-submittals filed: May 12, June 1, July 25, and August 4, 2011; January 5, 2012

Complete: February 6, 2012

Winery Size - Existing: +/- 52,365 square feet

Winery Size - Proposed: no change of total *interior* floor area; construction of a +/- 3,850 square feet canopy of outdoor tank space

Production Capacity - Existing: 200,000 gallons per year

Production Capacity - Proposed: 1,300,000 gallons per year of production  
2,400,000 gallons per year of bottling only  
300,000 gallons per year of de-alcoholization facility

Visitation - Existing By-appointment tours and tastings; 600 people per day not to exceed 2,000 people per week.

Visitation - Proposed: Reduction to a maximum of 570 people per day (refer to septic analysis) not to exceed 2,000 people per week plus the addition of food and wine pairing as part of the tasting menu.

Number of Employees - Existing: 15 full-time and 6 part-time

Number of Employees - Proposed: 21 full-time and 0 part-time

Hours of Operation - Existing: Operations: 8a.m. to 5 p.m. Monday-Friday  
Wine tasting and retail sales: 10 a.m. to 4 p.m. daily

Hours of Operation - Proposed: Operations: 8:30 a.m. to 4:30 p.m. Monday-Friday  
Wine tasting and retail sales 10 a.m. to 10 p.m., daily

Hours of Operation - Staff Recommendation: Operations: 8:30 a.m. to 4:30 p.m. Monday-Friday  
Wine tasting and retail sales 10 a.m. to 7 p.m., daily

Marketing - Existing: a) 30 weekend events with an average of 25 people not to exceed 200 people per event;  
b) 42 weekday events with an average of 25 people not to exceed 200 people per event;  
c) Participation in the wine auction with 2 events per year with an average of 150 people.

Marketing - Proposed: No change.

Parking - Existing: 75 total on-site with three designated loading areas.

Parking - Proposed: No change.

Parcel Size - Existing: 78.33 acres

Parcel Size - Proposed: No change.

Accessory/Production Ratio - Existing: 39.9% (40% allowed)

Accessory/Production Ratio - Proposed: No change (outdoor areas are not calculated in ratio).

Winery Coverage - Approved: Approx. 6.7% of the lot area (25% max)

Winery Coverage - Proposed: No change.

### **Adjacent General Plan Designation/ Zoning / Land Use**

#### **North**

AWOS General Plan designation – AW:AC zoning

A 215-acre agricultural lot owned by the applicant (Madison Vineyard Holdings) bounds the property to the north across Kirkland Ranch Road. To the east of that parcel three separate parcels used for municipal water storage; one 14-acre parcel owned by the City of American Canyon, one 38-acre parcel owned by the City of Napa, and one 2-acre parcel owned by the State of California all which have multiple water storage tanks and water storage ponds.

#### **South**

AWOS General Plan designation – AW:AC zoning

The primary land owner across the State Highway is a 353-acre parcel owned by the Napa Golf Course Associates doing business as Chardonnay Golf Course. Two agricultural parcels (39 and 40 acres) are to the east, which are planted with grapevines.

#### **West**

AWOS General Plan designation – AW:AC zoning

Directly to the west is a 5-acre parcel owned by the applicant and then to the north is a 74-acre parcel owned by the Kirkland Cattle Company which includes both residential and agricultural uses.

#### **East**

AWOS General Plan designation – AW:AC zoning

The site is bordered to the east by Fagan creek and a 6-acre parcel owned by the applicant, adjacent to that is a 6-acre parcel currently planted with vines.

### **Nearby Wineries**

The closest winery related facilities are located two miles away as a bird flies and are within the airport industrial area, and governed by the Airport Industrial Specific Plan (AISP) located on the east of SR-29, they are as follows:

Wilkenson Winery- 110 Camino Oruga - 13,000 sq. ft. facility producing 310,000 gallons per year. No tours and tastings.

Peju – 210 Camino Oruga -12,800 sq. ft. facility producing 20,000 gallons per year. No tours and tastings.

Bourassa Winery – 190 Camino Oruga - 9,250 sq. ft. facility producing 60,000 gallons per year with 15 visitors per day by appointment only.

### **Parcel History and Evolution of this Application**

November 1997 - The Planning Commission approves Use Permit No. 97040-UP allowing construction of a 52,365 sq. ft. winery with a production capacity of 200,000 gallons per year (Kirkland Ranch Winery), tours and tasting by prior appointment only (estimated at 600/day max. with a maximum of 2,000 per week), and 72 marketing events per year with up to 200 people (averaging 25).

February 2003 - The Planning Director administratively approves Use Permit Modification No. 02532-MOD allowing, “the sale of various package food products in the winery retail area *grown or produced on* and the sale of wine related food products”.

May 2009 – Property purchased by applicant, Madison Vineyard Holdings, LLC a Colorado based corporation.

June 2010 – Tom Carey and Erich Kroll file the subject application (Use Permit Major Modification application No. P10-00188) at that time called Valley Gate Vineyards.

May 2011 - The applicant team submits floor and site plans and a revised project description, which increased the total production to the current request of 3.7 million gallons per year.

June 2011 – Meeting with the applicant team, Planning Director, Deputy Planning Director, and County Counsel regarding the proposed large amount of production, the applicability of the WDO for the bottling component and the policy issue, and the feasibility of 75% of the fruit processed at the facility must be from Napa County.

July 2011 - The Planning Department receives a letter requesting minor modifications, such as new staircases, ADA restrooms, interior modifications, onsite consumption, outdoor picnicking, signage, extending the hours of operations, and removing the limitation on the number of alternating proprietors. The Planning Department responds with direction to submit the minor modifications separately.

August 2011 – The applicant submits and gets approval of a sign application, P11-00290 for exterior signage to change the name from *Valley Gate Vineyards* to *Reata* and P11-00288, a minor modification allowing:

- a. Exterior architectural modifications, including two new curved staircases and a new hip roof extension on the second floor balcony;
- b. Interior floor area modifications that includes relocation of the tasting room to the second floor;
- c. Construction of new restrooms on the second floor on the north side of the winery and a 257 sq. ft. storage room on the south side;
- d. Amendment of Condition number 13 of Use Permit No. 97040 to allow outdoor wine tasting and on site consumption as per AB 2004 within the existing tasting room, courtyard in front of the winery, garden areas, and covered patio;
- e. Amendment of Condition number 13 of Use Permit No. 97040 to allow retail sales and tours and tastings on the second floor balcony and outdoor areas; and
- f. Amending Condition number 10 of Use Permit No. 97040 allowing an unrestricted number of alternating proprietors to conduct custom crush operations not to exceed the maximum allowed production of 200,000 gallons per year.

September 2011 – The Planning Department receives comments from Caltrans\*.

October 2011 – The applicant submitted a revised project description, which included the submittal of a traffic report\* from Crane Transportation Group.

November 2011 – The Planning Department receives a Water Supply Report\* and Will Serve Letter\* from the City of American Canyon. Letter sent to applicant delineating the items pending for further processing.

January 2012 – Receive re-submittal (number 5), which outlines the project's operations\* in detail and supplemental traffic analysis.

February 6, 2012 – P10-00188 mitigated negative declaration is released for public comment from February 16 to March 20, 2012.

\*required to deem the current application complete for CEQA processing.

### **Code Compliance History**

Upon a recent site visit staff noticed an un-permitted mobile office located in the rear of the building at the loading dock. Staff has discussed this with the applicant that it will need to be removed.

## **Discussion Points**

### **Setting**

The project is proposed on a 78 acre parcel accessed from Kirkland Ranch Road which is the only controlled intersection on State Route (SR) 12 within Jameson Canyon, 1.3 miles east of its intersection with SR-29 and 4.6 miles west of its intersection with Interstate 80. Lands bordering the property across Kirkland Ranch Road to the west include four large (160 foot diameter, 5 million gallon) municipal water storage tanks. The 385-acre Chardonnay Golf Course is located across the highway to the east. Primary land uses surrounding the parcel are agriculture and rural residential.

The property currently includes an operating winery, landscape improvements, a 75-parking space lot, and approximately 25 acres of producing vineyard.

### **Amount of Production**

With a proposed production capacity of 3.7 million it would be the fifth largest winery in Napa Valley, the fourth within the unincorporated County, and the largest winery since the adoption of the WDO on agriculturally zoned lands. Please refer to *Table One: Ten Largest Wine Production Facilities in Napa Valley* as attached.

Although the existing facility (52,365 sq. ft.) has available space to have more efficient use of the space, wineries with production levels similar to what is proposed have much larger facilities to accommodate the volume. Further, the winery currently has 40% accessory versus production, or 31,410 sq. ft. of production space to accommodate 3.7 million gallons of production per year. The applicant has provided floor plans that show the increase in production can be accommodated by removing all of the barrel storage, installing larger tanks, and improving the bottling line. There is no floor area for case good storage and according to the applicant it is proposed to be off-site.

The average production for a 50,000 sq. ft. facility is approximately 159,670 gallons (source: Winery Database, NCDP). Refer to *Table Two: 45-60,000 sq. ft. facility to production ratio* as attached.

### **Bottling Facility**

The applicant is requesting a unique proposal for Napa County in which the majority (64%) of production capacity will be for 'bottling only'. The request includes 2.4 million gallons of bottling and 1.3 million gallons of production (fermentation, storage, and bottling). However, the proposed site plan only shows large tank area, zero barrel storage, and it is unclear if the floor area retains designated space for fermentation.

The only other approved use permit with a bottling only component is the Robert Mondavi Winery located on St. Helena Highway, which was approved in 2008. The Mondavi winery included a production increase from 1.6 million gallons to 3.0 million gallons year, with the entirety of the increase for bottling of bulk wine that is fermented off-site. The Robert Mondavi Winery is a pre-Winery Definition Ordinance (WDO) winery owned by the Constellation group, which cumulatively owns approximately 2,000 acres in Napa Valley of which approximately 1,680 acres are planted. In comparison, Reata cumulatively owns approximately 75 acres (25 onsite) of planted vines and is requesting a 3.5 million gallon increase, with 2.4 million gallons

for the bottling of bulk wine. The 2008 Mondavi winery modification for an additional 1.4 million gallons of bottling was conditioned and is subject to the requirement that 75% of the wine produced must be from Napa County fruit.

A “winery” as defined in NCC§ 18.08.640 means an agricultural processing facility used for the fermenting and processing of grape juice into wine; or the refermenting of still wine into sparkling wine.

Agricultural Watershed zoning district NCC § 18.20.030(I) allows the following uses with the grant of a use permit **in connection with a winery**:

- 1) The crushing of grapes outside or within a structure;
- 2) On-site, aboveground disposal of wastewater generated by the winery;
- 3) Aging, processing and storage of wine in bulk;
- 4) Bottling and storage of bottled wine; shipping and receiving of bulk and bottled wine, provided the wine bottled or received does not exceed the permitted production capacity;
- 5) Any or all of the following use provided that , in the aggregate, such uses are clearly incidental, related and subordinate to the primary operation of the winery as a production facility;
- 6) Office and laboratory uses;
- 7) Marketing of wine as defined in Section 18.08.370;
- 8) Retail sale of (1) wine fermented or refermented and bottled at the winery, irrespective of the County of origin of the grapes from which the wine was made, provided nothing herein shall excuse the application of subsections (B) and (C) of Section 18.104.250 regulating the source of grapes; and (2) wine produced by or for the winery from grapes grown in Napa County.

Staff is asking the Commission to make a policy decision on the interpretation of the WDO: **“Can the ratio of bottling of bulk wine (2.4 million) to production by fermentation (1.3 million) still be considered in connection to a winery as stated in the WDO?”**

Staff is concerned that at a certain point, when the ratio of bottling far exceeds production by fermentation, the land use becomes a bottling facility, rather than a winery. In Staff’s opinion, a bottling facility is more compatible with an industrial land use, rather than agriculturally zoned land. Although bottling is required for the production of wine, it is clear with this large amount of bottling only that it will be used by other proprietors because the total bottling component would result in a capacity of 3.7 million gallons of wine, or 18.5 million bottles per year (1.5 million cases).

#### Compatibility with the 75% rule

In addition to the policy issue regarding the amount of bottling compared to production, a secondary issue is the applicant’s ability to comply with the WDO (N.C.C. §18.104.250) and the requirement that 75% of the wine produced be from Napa County fruit. It is estimated that approximately 4,800 acres of vineyard land is required to support the proposed capacity, based on the following:

- 75% of 3.7 million gallons of wine is 2,775,000 gallons of wine that is required to be from Napa County;

- Assumed average yield is 165 gallons of wine per ton of fruit, equating to 16,818 tons of Napa County fruit;
- Assumed average yield per acre of planted vineyard is 3.5 tons of fruit equating to approximately 4,805 acres.

According to the 2010 Napa County Annual Crop Report, there were 43,267 acres of vineyard land in Napa County that produced 138,842 tons of fruit. Totals for 2009 were 43,031 acres of vineyards producing 142,976 tons of grapes. At approximately 16,818 tons of Napa County fruit, and 4,800 acres of Napa County vineyard required to supply the facility if operating at the maximum proposed capacity, **the project would utilize approximately 11% to 12% of the total Napa County vineyard crop** during those two crop years. Further, the draft Climate Action Plan (CAP) land projections for new vineyards in 2020 is 8,770 acres, this project as proposed and operating at full capacity would represent approximately 11% of the forecasted total Napa County grape crop in 2020 as refined in the draft CAP.

The applicant has indicated that it will utilize 75% Napa County fruit for wine produced annually, but has not specified which vineyards and wineries in Napa County will provide the fruit and bulk wine for the operation. The applicant asserts that wine and grapes will be acquired on the open market and that production will be phased in over time as the market allows.

Mitigation Measure number one and a recommended specific condition of approval has been included to require annual reporting of the grape source.

#### De-Alcoholization Facility (de-alc)

The de-alc process includes a small machine which by a process similar to reverse osmosis removes the alcohol. The machine would be located under the to-be-constructed outdoor canopy. Because of the high percentage of alcohol by-product, the facility will require higher level regulations and licensing from ABC, the TTTB, and Environmental Management. Compliance with these regulations has been included as a specific condition of approval. Based on the Attached graphic *Napa County Production Process* this process is not defined as 'production' because it includes bulk wine in and bulk wine out.

#### Hours of Operation

As noted in the project description, the applicant is proposing a change in the facility's hours of operation from 10 a.m. to 4 p.m. to 10 a.m. to 10 p.m. This proposal replaces the previous mitigation measure from the original Mitigated Negative Declaration which required tours and tastings to conclude at 4 p.m. to avoid peak commute hour. It is the applicant's opinion that this change in closing time would reduce the amount of traffic placed at peak hour onto Jameson Canyon SR 12; Crane Transportation Group has defined the peak hour on that route as occurring within the period from 3 p.m. to 6 p.m.

There is only one other winery (Caravan Serai, June 2011) that the Planning Commission allowed extended hours of operation as follows:

- 8 a.m. – 8 p.m. Sunday thru Thursday from September thru May,
- 8:30 a.m. – 8:30 p.m. Sunday thru Thursday from June thru August,
- 8 a.m. - 10 p.m. year round on Saturday and Sunday

Because of the novelty of late tours and tastings, this approval was intended as a trial period, with a one-year review in June 2012. Furthermore, the Planning Commission allowed it because of very site specific circumstances including its adjacency to a restaurant and its close proximity to the Napa City limits.

In Staff's opinion, the site warrants a later closing time, but staff has concerns and recommends a closing time of 7 p.m. seven days a week. Although the location is on a major transportation corridor, it is very isolated. There are no adjacent uses that are compatible besides the golf course and due to the nature of the sport it closes at sunset. The city limits are miles away with the closest non-agricultural land use being an Industrial Park. Further, the property is surrounded by rural residential properties. Staff is concerned with a 10p.m. closing time and its compatibility with the accessory uses of the primary land use, agriculture; and therefore, recommends a 7 p.m. closing time which is still later than the original approval time and staff agrees that it will help disperse the traffic during the peak period.

#### Roadway Improvements

Highway SR 12 is presently 3 lanes wide (2 lanes eastbound and 1 lane westbound) from the intersection of SR12/SR 29 until it tapers to a 2 lane highway a half of a mile east of the intersection of SR 12/Kirkland Ranch Road. Caltrans is currently under contract to construct a 4-lane highway for the entirety of Jameson Canyon. This construction is expected to begin in April of 2012 and is estimated to take approximately 12-18 months to completion.

The intersection at the winery includes a left-hand turn lane to enter Kirkland Ranch Road from eastbound SR12. The current left hand turn lane was constructed in 1999 and is out of compliance with today's Caltrans standard. Therefore any increase in production or intensity will require the left hand turn lane to be extended from 280 to 500 feet to meet the current requirements. This extension is included as part of the construction of Jameson Canyon widening project. In the comment letter from Caltrans, they required this to be a condition of approval; the Public Works memo supported this requirement. A specific condition of approval from the Public Works Department has been included requiring the left hand turn lane to be implemented and approved/signed off by Caltrans prior to any increase in traffic (production, employees, visitation, bottling). Please also refer to the Mitigation Measures.

The project will create 30 two-way non harvest, 60 two-way harvest total daily trips, and approximately 26 new trips during the peak hour. The Department of Public Works has recommended a condition of approval and mitigation measure requiring payment of a traffic impact fee for the impacts to the SR 12/SR 29 intersection. This fee of approximately \$92,326 will support the construction of planned improvements needed to mitigate the cumulative traffic impacts.

#### Utilities

##### Water-

The project currently receives raw water from the City of American Canyon. According to the Water Supply Agreement and will serve letter from the City of American Canyon, the City will provide 25,465 gallons per day average demand. The applicant will pay approximately \$500,180 in water connection fees and based on the average daily water demand approximately \$5,000 per month.



#### Wastewater-

The Napa Sanitation Department is currently extending the recycled water pipeline, and the project will use approximately 10 acre feet to irrigate the vineyards.

Further, the winery operations at full capacity will require updating the existing waste water system with larger aerators and connecting a vineyard for the disposal of the treated wastewater.

### **Consistency with Standards**

#### **Zoning**

The project as recommended and conditioned is consistent with AW (Agricultural Watershed) and AC (Airport Compatibility) zoning district regulations. A winery (as defined in Napa County Code Section 18.08.640) and uses in connection with a winery (see Napa County Code Section 18.16.030) are permitted in the AW district with an approved use permit (Napa County Code Section 18.20.020). This application has potential issues of compatibility with the Winery Definition Ordinance as outlined above. The project as conditioned complies with all of the other requirements of the Zoning Code.

#### **Building Division Requirements**

The Building Division recommends approval with standard conditions. Please see their attached memo.

#### **Fire Department Requirements**

The Fire Marshal's office recommends approval with standard conditions. Please see their attached memos.

#### **Department of Public Works Requirements**

The Department of Public Works recommends approval with conditions addressing left hand turn lane improvements. Please see their attached memo.

#### **Department of Environmental Management Requirements**

The Department of Environmental Management recommends approval with standard conditions. Please see their attached memo.

### **Staff recommended project**

Based on the analysis above, staff recommends a reduced project. The size of the facility, the amount of bottling only, the feasibility to comply with the 75% rule, and compatibility with the Agricultural Watershed zoning district and specifically with the WDO are the basis for staff's recommendation.

Since there is only one other project, the Robert Mondavi Winery, that has a bottling to production ratio that is heavy on bottling, staff used it as an indication of what has been considered acceptable in the past. That bottling component modification was in response to a history of producing up to 2.4 million gallons per year. Mondavi, like most wineries in *Table One*:

*Top Ten Largest Napa Valley Wineries* has evolved over time and grown incrementally. The Robert Mondavi original use permit approved in 1966 underwent 13 modifications to get to its current production capacity of 3 million gallons per year, and includes a 195,000 sq. ft. facility, public tours and tasting, 331 employees, and 382 on-site parking spaces. Robert Mondavi Winery has a 6.5% square foot to production ratio and the bottling component is 47% of the total production.

In comparison, the Reata winery has an existing 52,365 square foot facility, 21 employees, and 75 parking spaces, up to 600 visitors per day. A 6.5% square foot to production ratio for the Reata Winery yields an annual production of 805,615 gallons per year; 47% of that production is 378,639 gallons per year. Based on this analysis, Staff recommends the Planning Commission approve 800,000 gallons per year of total production, up to 350,000 gallons of bottling of bulk wine (counted in the total production), and 300,000 gallons of de-alc. treatment (which is not included toward overall production pursuant to diagram attached), for a total combined capacity of 1.1 million gallons. That would still make it the largest winery approved in agriculturally zoned land since adoption of the WDO.

Staff believes the large size is justified by the winery's unique location on a signalized intersection on Highway 12 in Jameson Canyon. But, that a facility production in excess of 1.1 million gallons with a bottling to production ratio higher than the Mondavi example would be better suited in industrial zoning. Notwithstanding, staff recommendation the mitigated negative declaration analyzes the applicant's proposal and once adopted by the Commission could be used to permit a large facility now or as part of a future modification provided there is no change in circumstance or new information.

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