

STAFF REPORT

City Council Business Agenda Item

DATE: November 2, 2020

TO: Honorable Mayor and Council Members

FROM: Merritt Perry, City Manager

SUBJECT: **Business Loan to Eric Allen for 1434 Rohnerville Road and Lease of Vacant City Parcel on Rohnerville Road**

STAFF RECOMMENDATION:

Staff recommends the City Council approve a business Loan in the amount of \$25,000 to Eric Allen for the renovation of the commercial property at 1434 Rohnerville Road and Authorize City Manager to lease adjacent vacant city owned parcel.

EXECUTIVE SUMMARY:

The property located at 1434 Rohnerville Road comprises a large part of what historically was the commercial district developed in the 1800's as Rohnerville. Rohnerville pre-dated the incorporation of the City of Fortuna and was ultimately annexed as part of the City of Fortuna. A large portion of Rohnerville was lost to fire in the 1890's and again around 1940.



A historical photos of the vicinity in the early 1930's.



Photo of the property in a nuisance condition prior to the new sidewalk construction.



Photo of the Property in its current condition after purchase by Mr. Allen

The property remained in commercial use for several decades until the death of the prior owner in 2016 and was formerly a small market ultimately and antique store. Two of the buildings were used for residential purposes. The prior owner did not keep the buildings in good repair and a lot of trash and debris was stored within and outside of the buildings for several years. The City declared it a nuisance in 2008 and it was cleaned up, but consistently required attention from the City to make sure that it did not remain a nuisance.

In 2016, the City constructed sidewalk and roadway improvements that added a new sidewalk and provided an alternative to the old wooden boardwalk along the front of the buildings, which was in a state of bad repair. The City right of way extends to the front buildings. Staff plans to bring a request to abandon the portion of the right of way behind the sidewalk to the council, and maintain only an easement for utility purposes.

Eric Allen purchased the property in 2019 and has made a comprehensive effort to remove the trash and debris and make cosmetic repairs to the buildings. Additional work is still needed to install a new roof and make structural repairs to the buildings. Mr. Allen has the long term goal of maintaining the existing residential uses and ultimately the restoration of the commercial use of the main building.

Mr. Allen inquired as to whether or not his project would be eligible for the Business Resiliency Loan Program that the City recently established to support business struggling with losses during the COVID-19 Emergency. Staff reviewed his request and came to the conclusion that his project did not fall under the Business Resiliency Loan Program, as there was not an existing business at that location. However, staff thought that a proposed loan for this project could improve the potential for commercial use of this site and facilitate the rehabilitation of a long term nuisance property into the future.

Mr. Allen requested that the City loan him \$25,000 at an interest rate of 2.5% with deferred payments for a period of one year with the entire amount amortized over 30 years payable in 10 years. Funds for this loan could come from Fund 836, which are proceeds from a past Industrial Development Grant with the purpose of setting up a revolving Loan fund to encourage business retention, expansion of existing businesses and job retention and creation. It is the opinion of staff that this relatively small investment would be instrumental for Mr. Allen to restore the long term viability of these buildings for commercial use.

Redwood Region Economic Development Corporation (RREDC), has agreed to help underwrite and service the loan and review documentation from Mr. Allen in a manner similar to the Business Resiliency Loan Program to the extent practicable, with the deviations to the loan terms stated above. A copy of the loan program guidelines are attached.

Additionally, Mr. Allen has requested that the City consider a lease of the City owned vacant lot immediately to the south of the subject parcel to provide overflow parking. This parcel is currently vacant and could not be developed as it consists primarily of a creek channel, riparian habitat and a small graveled area that has been used for staging and parking in the past. The APN of the parcel is 203-302-017. The City has no current use for this parcel other than for future drainage related work, for which the property should be retained. Renting or leasing the property to Mr. Allen for additional parking would not conflict with that future use. If acceptable to the council, the City Manager would develop a lease and a fair lease amount for the use of this property. Provisions would be included in the lease to protect the riparian habitat, maintain the vegetation on the property to avoid a nuisance condition and to not encumber the site

with storage of equipment, materials or other materials other than for short term staging to support the renovation of the buildings. The lease would be similar to the lease of the alley adjacent to Hunan Village Restaurant.

A street view of the vacant parcel with Mr. Allen’s property in the background is shown below.



FINANCIAL IMPACT:

The city would provide \$25,000 from Business Loan Fund 836 and collect 2.5% interest on that amount over the term of the loan. The current balance of Fund 836 is approximately \$500,000 with anticipated proceeds (approximately \$375,000) from the sale of the city-owned property at 320 Main to be deposited within this fund within the next five years. In the event of a foreclosure on the property the City could lose the amount of principle loaned to Mr. Allen.

The value of the lease would likely be a relatively small amount (estimated at approximately \$200 per year) that would adjust annually to reflect the increase in property values.

RECOMMENDED COUNCIL ACTION:

1. Receive staff report and review Council questions with staff
2. Open Public Comment
3. Close Public Comment
4. Approve a business Loan in the amount of \$25,000 to Eric Allen for the renovation of the commercial property at 1434 Rohnerville Road and Authorize City Manager to establish terms and lease adjacent vacant city owned parcel.

ATTACHMENTS:

- Business Resiliency Emergency Loan Program Application Guidelines
- APN Map of Subject Parcels

Business Resiliency Emergency Loan Program

Guidelines

April 1, 2020

Approved: _____

Purpose

These guidelines are intended to regulate the rapid response emergency lending to businesses in the City of Fortuna to provide short-term capital to bridge SBA, Disaster Relief, private lending in response to the COVID-19 response. The City Manager is authorized to amend these guidelines from time to time to ensure they respond to community need. To the extent feasible, this program will be regionalized, combined with regional sources, serviced by regional partners, and/or combined with other similar loan programs. The intent is to ensure consistency across jurisdictions and entities participating in the Business Resiliency Emergency Loan Program.

These guidelines are authorized as amended pursuant to Resolution 190-63.

Loan Terms

Loan Limits: Up to \$10,000 in local program funds. Loan amount determined in underwriting based on need.

Loan Rate: 2.5% APR simple interest

Loan Terms:

1. Payments deferred for six months from close;
2. five year amortized thereafter upon approval if no other source of refinance available;
3. secured by ucc and/or personal guarantee;
4. no prepayment penalty.

Underwriting:

1. COVID-19 related gross revenue impact. Minimum 25% reduction in gross revenue. This must be documented in some way, and may include:
 - a. financials, tax returns, or other evidence of loss. May be prospective based on evidence (cancellation in orders, for example);
 - b. New businesses may use shorter periods or differences between projected and actual.
2. Bank referral/rejection. These loans are for non-bankable customers. If the applicant has a line of credit, a bankable loan, access to SBA loan funds, or is a customer at a bank that is offering SBA lending.
 - a. Applicants must have explored other potential funding sources
3. SBDC business loan counseling is required. Applicant must have been referred by, or is on the expedited business counseling list for SBDC before loan approval.
4. Application must describe how loan proceeds will provide resiliency (term operations extended, reduction in impact to A/P, making existing payroll obligations, etc.). This needs to be supported by the

Servicing:

AEDC to service loans

Eligible Uses:

1. payroll;
2. accounts payable (immediate and necessary);
3. rent/mortgage payments;
4. Utilities;
5. Other Operating Expenses.

Eligible Borrowers:

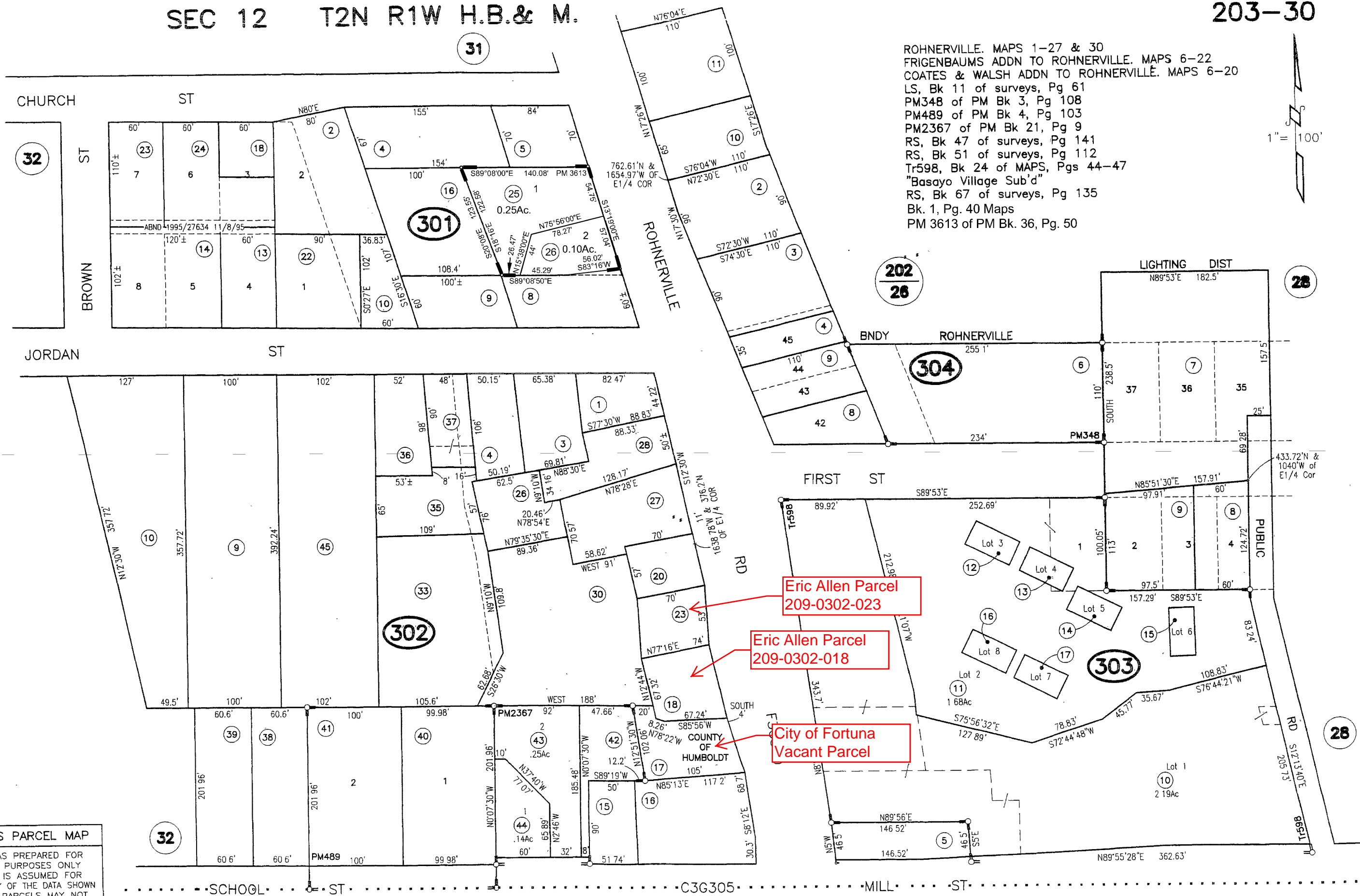
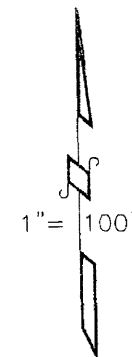
1. Business located in the City limits
 - a. Manufacturing, service, retail
2. Non-profits
3. Sole proprietors/self-employed

Process Map:

[Need to outline in more detail]

1. Applicant referral to City (direct, SBDC, AEDC, other)
2. City staff to discuss available programs (SBA, PPP, BRELP, ME).
3. Referral to SBDC
4. Referral to AEDC to conduct underwriting, processing, funding
5. Reporting/loan servicing

ROHNERVILLE. MAPS 1-27 & 30
 FRIGENBAUMS ADDN TO ROHNERVILLE. MAPS 6-22
 COATES & WALSH ADDN TO ROHNERVILLE. MAPS 6-20
 LS, Bk 11 of surveys, Pg 61
 PM348 of PM Bk 3, Pg 108
 PM489 of PM Bk 4, Pg 103
 PM2367 of PM Bk 21, Pg 9
 RS, Bk 47 of surveys, Pg 141
 RS, Bk 51 of surveys, Pg 112
 Tr598, Bk 24 of MAPS, Pgs 44-47
 "Basayo Village Sub'd"
 RS, Bk 67 of surveys, Pg 135
 Bk. 1, Pg. 40 Maps
 PM 3613 of PM Bk. 36, Pg. 50



Eric Allen Parcel
209-0302-023

Eric Allen Parcel
209-0302-018

City of Fortuna
Vacant Parcel

ASSESSOR'S PARCEL MAP
 1 THIS MAP WAS PREPARED FOR ASSESSMENT PURPOSES ONLY
 2 NO LIABILITY IS ASSUMED FOR THE ACCURACY OF THE DATA SHOWN
 3 ASSESSOR'S PARCELS MAY NOT COMPLY WITH LOCAL LOT-SPLIT OR BUILDING SITE ORDINANCES

NOTE - Assessor's Block Numbers Shown in Ellipses
 Assessor's Parcel Numbers Shown in Circles.

