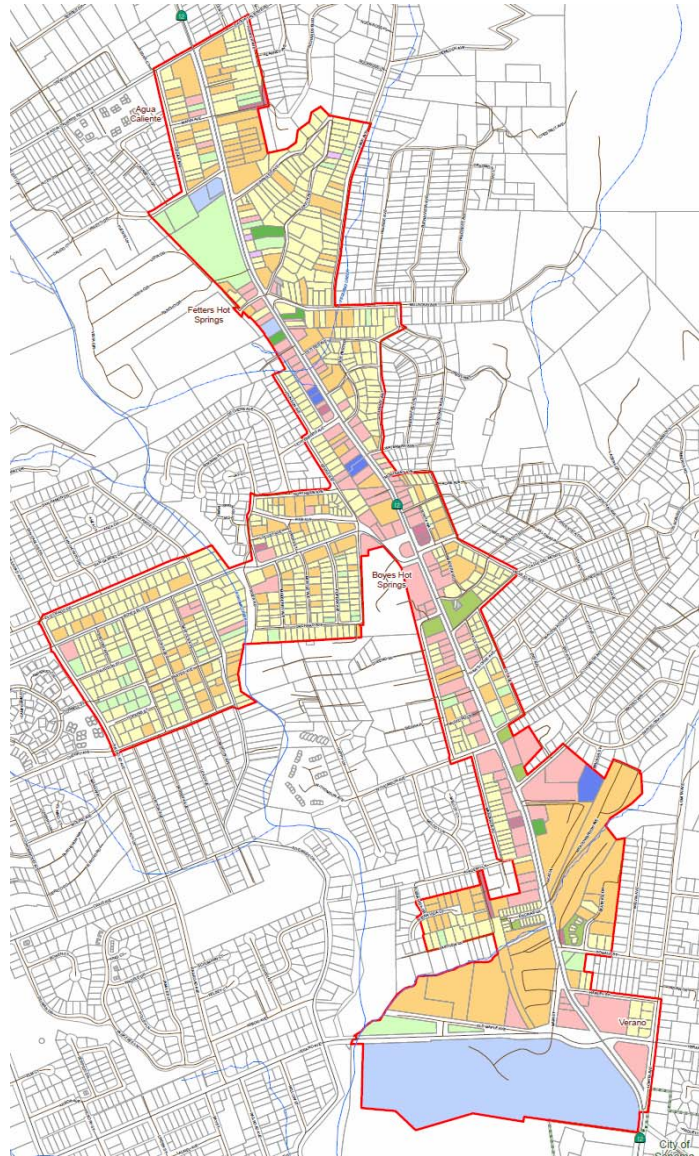


SPRINGS COMMERCIAL REHABILITATION LOAN PROGRAM GUIDELINES



Sonoma County Community Development Commission

Sonoma County Redevelopment Agency



Springs Commercial Rehabilitation Loan Program Guidelines April 2010

Springs Commercial Rehabilitation Loan Program Guidelines
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THE SPRINGS COMMERCIAL REHABILITATION LOAN PROGRAM GUIDELINES

I. Introduction

A. Purpose:

The goals of The Springs Redevelopment Project Commercial Rehabilitation Loan Program (the "Program") are to:

1. Promote and achieve the goals of The Springs Redevelopment Plan and Five Year Implementation Plan, and the Redevelopment Project Area Strategic Plan; and
2. Eliminate economic and physical blight of commercial properties within The Springs Redevelopment Project Area ("The Springs") by providing financial incentives to commercial property owners, and Business Tenants to rehabilitate, renovate and revitalize their commercial properties, resulting in:
 - a. Improved visual environment along commercial corridors,
 - b. Enhanced public health and safety in the Project Area,
 - c. Increased business retention, expansion and attraction efforts, and
 - d. Improved economic conditions in the Project Area.

Toward these goals, the Sonoma County Community Development Commission (the "Commission") has approved the Program and is offering below market interest rate loans to business and commercial property owners in The Springs, with special emphasis on the Highway 12 Corridor from Agua Caliente Road to Verano Avenue, in order to revitalize commercial properties and encourage private investment. It is intended that the Program will improve the business climate for residents and visitors to the Project Area.

B. Authority:

The five members of the Sonoma County Board of Supervisors, acting in their capacity as Commissioners, form the governing body for the Sonoma County Community Development Commission ("Commission"). These Program Guidelines, containing the policies that form the framework for the Program, have been adopted by the Commissioners. No revisions may be made hereto without the express action of the Commissioners.

C. Program Funding:

Funding for this program will primarily be from The Springs Non-Housing Tax Increment Redevelopment fund as designated from time to time by the Sonoma County Board of Supervisors / Sonoma County Community Development Commission.

II. Eligibility

The Commission shall not discriminate in the provision of financial assistance because of race, color, national origin, religion, sex, familial status or disability.

A. Conflict of Interest:

No member of the governing body of the County of Sonoma, or the Sonoma County Community Development Commission and no other official or employee or agent of the County government, or Commission who exercises any policy decision-making functions or responsibilities in connection with the planning and implementation of the Commercial

Rehabilitation Loan Program, shall directly or indirectly be eligible for assistance under the Program.

B. Eligible Participants:

Any legal owner of commercial real property (“Property Owner”) or a business owner tenant in good standing with the written approval of the Property Owner (“Business Tenant”) may apply for assistance under the Program.

1. Property taxes, sales taxes, and business licenses must be current to be eligible for the Program.
2. Applicants and applications for participation must be approved by the Commission prior to the commencement of assisted improvements.

C. Eligible Properties:

Subject to funding availability, redevelopment loans may be made available to commercial, retail, office, and/or mixed-use buildings located within The Springs Redevelopment Project Area (map attached). First priority shall be given to commercial properties located on the Highway 12 Commercial Corridor from Aqua Caliente Road to Verano Avenue.

D. Minimum Guidelines:

1. To be eligible for a Façade Improvement Loan, Commission staff must determine that project will result in a substantial visible improvement viewable from the public right-of-way.
2. To be eligible for a Commercial Rehabilitation Loan, Commission staff must determine that the improvements will eliminate enhance public health and safety in the Project Area, increase business retention, expansion or attraction efforts, or otherwise eliminate physical blight or improve economic conditions of the Project Area.
3. Retroactive applications will not be accepted. Applicants must obtain loan approval from Commission staff before work begins on any improvements to be assisted under the Program.
4. For historically significant properties, program funds shall be made available only to projects that enhance and are sensitive to the historic nature of the building façade.
5. For properties with multiple storefronts, it is recommended that the façade treatment provide a cohesive theme while also allowing for some distinctive design elements to the various businesses, such as signage, exposing transom windows, lighting, blower boxes, and murals, to provide better street visibility and promote economic development.
6. All improvements must be in conformance with applicable County Codes and the Highway 12 Design Guidelines.

III. Loan Terms and Conditions

The Commission will offer below-market interest rate loans to Business Tenants and to Property Owners for three levels of assistance as described below. Property Owners and Business Tenants will be eligible to receive professional design services in an amount up to \$1,000 per project for Façade Improvement 3-Year Forgivable Loan projects and up to

\$3,500 per project for Façade Improvement 5-Year Forgivable Loan projects and Commercial Rehabilitation Loan projects.

A. Façade Improvement 3-Year Forgivable Loans

1. Loans up to \$5,000 for smaller façade improvement projects such as paint, signage, and awnings.
2. Professional design services in an amount up to \$1,000 provided through Commission at no charge to Property Owner / Business Tenant.
3. Projects must make substantial visible improvements viewable from the public right-of-way.
4. Promissory Note with interest rate ranging from 0% to 2%. The interest rate will be prorated in direct proportion with the amount of matching funds contributed to the project. For example:
 - a. Interest rate will be 2% if applicant contributes no matching funds.
 - b. Interest rate will be 1% if applicant contributes a 50% cash match.
 - c. Interest rate will be 0% if applicant contributes a 100% cash match.
5. Loans will be deferred and unsecured; however, the property owner or business tenant will be required to sign a maintenance agreement to maintain the improvements for the term of the loan.
6. Loans will be forgiven after 3 years if the exterior of the property, including all assisted improvements, is adequately maintained.
 - a. Commission staff will inspect the property annually at the project completion anniversary to determine if the improvements are sufficiently maintained. The business tenant or property owner will be issued a letter of default if it is determined that the property is not being adequately maintained as specified in the maintenance agreement. The borrower will be given a 90-day period to cure the default and bring the property into compliance with the maintenance agreement.
 - b. If Commission determines that the improvements have not been adequately maintained after the 90-day period, the loan deferral will be terminated and the loan must be repaid over a 3-year term.
7. If applicant is a Business Tenant, the property owner must sign an authorization for the improvements and agreement to maintain the improvements should the business tenant vacate the property.

B. Façade Improvement 5-Year Forgivable Loans

1. Loans up to \$15,000 for smaller façade improvement projects such as paint, signage, awnings, architectural elements, window and door improvements, masonry, exterior lighting, landscaping, planter boxes and built-in seating.
2. Professional design services in an amount up to \$3,500 provided through Commission at no charge to Property Owner / Business Tenant.

3. Projects must make substantial visible improvements viewable from the public right-of-way.
4. Promissory Note with interest rate ranging from 0% to 2%. The interest rate will be prorated in direct proportion with the amount of matching funds contributed to the project. For example:
 - a. Interest rate will be 2% if applicant contributes no matching funds.
 - b. Interest rate will be 1% if applicant contributes a 50% cash match.
 - c. Interest rate will be 0% if applicant contributes a 100% cash match.
5. Loans will be deferred and secured by deed of trust recorded on title of the property to be improved, and the property owner or business tenant will be required to sign a maintenance agreement to maintain the improvements for the term of the loan
 - a. Alternate security arrangements may be considered on a case-by-case basis for Business Tenant applicants, such as the use of other real property.
6. Loans will be forgiven after 5 years if the exterior of the property, including all assisted improvements, is adequately maintained.
 - a. Commission staff will inspect the property annually at the project completion anniversary to determine if the improvements are sufficiently maintained. The business tenant or property owner will be issued a letter of default if it is determined that the property is not being adequately maintained as specified in the maintenance agreement. The borrower will be given a 90-day period to cure the default and bring the property into compliance with the maintenance agreement.
 - b. If Commission determines that the improvements have not been adequately maintained after the 90-day period, the loan deferral will be terminated and the loan must be repaid over a 5-year term.
7. If applicant is a Business Tenant, the property owner must sign an authorization for improvements and the deed of trust recorded on title of improved property.

C. Commercial Rehabilitation Loans

1. Loans up to \$100,000 for the rehabilitation or renovation of commercial buildings.
 - a. Additional funds may be available if the building to be occupied has been vacant for more than three years; or
 - b. The request is to expand an existing business with a proven track record that can demonstrate the ability to generate a significant increase in tax revenue for the Project Area or that will result in the creation of a significant number of new jobs in the Project Area.
2. Professional design services in an amount up to \$3,500 provided through Commission at no charge to Property Owner / Business Tenant.

3. Projects must enhance public health and safety, increase business retention, expansion or attraction efforts, or otherwise eliminate physical blight or improve economic conditions of the Project Area.
4. Loan requests will be evaluated based on the extent to which the project:
 - a. Generates private investment in the Project Area;
 - b. Reduces or eliminates blight in the Project Area;
 - c. Makes a building seismically safe;
 - d. Preserves a qualified historic structure;
 - e. Improves the visual appearance of the Project Area;
 - f. Assists an existing Project Area business to expand;
 - g. Assists a new business starting in the Project Area or relocating from outside the Project Area to the Project Area;
 - h. Generates increased annual tax revenues (i.e., property tax, sales tax, transient occupancy tax);
 - i. Generates new jobs;
 - j. Generates increased business to business spending;
 - k. Results in significant increase in energy efficiency.
5. Promissory Note with interest rate ranging from 0% to 2%. The interest rate will be prorated in direct proportion with the amount of matching funds contributed to the project. For example:
 - a. Interest rate will be 2% if applicant contributes no matching funds.
 - b. Interest rate will be 1% if applicant contributes a 50% cash match.
 - c. Interest rate will be 0% if applicant contributes a 100% cash match.
6. Loans shall be secured by the property to be improved.
7. Loans must be repaid over a 20-year term.
8. The borrower may be granted a temporary payment deferral at the start of the loan term based on project completion date, matching funds provided, status as a new business start up, and other factors that may be determined, in sole discretion of Commission, to impact the borrower's ability to repay the loan.
9. If applicant is a Business Tenant, the property owner must sign an authorization for improvements and the deed of trust recorded on title of improved property.

IV. Eligible Improvements

A. Eligible Façade Improvements:

Improvements to commercial properties must be of a permanently fixed nature and may include any cosmetic improvements to the building exterior. Repairs and improvements must make a substantial visible improvement and may include, but are not limited to:

1. New painting and plastering
2. New awning and/or canopies.
3. New signage and graphics.
4. New windows and doors.
5. Parapet wall alternations or improvements
6. Exterior lighting improvements and related electrical work.
7. Landscape and irrigation system improvements.
8. New exterior tile work

B. Eligible Commercial Rehabilitation Improvements:

Improvements must be associated with the economic development of the business for such purposes as business attraction, retention, and expansion, or correction of health and safety hazards or other blight removal actions. Improvements may include items that are eligible for Façade Improvement loans and may also include but are not limited to:

1. Improvements to the structural integrity of the building;
2. Historic building restoration;
3. Building rehabilitation and/or expansion;
4. Roof repair or replacement;
5. Parking lot resurfacing, expansion, and improvements;
6. New or improved pedestrian pathways;
7. Repairs to correct code violations;
8. Repairs to correct incipient code items;
9. ADA (Americans with Disabilities) Act Improvements (includes installation of access ramps);
10. Lead and asbestos abatement.

C. State and County Process:

All work funded in whole or in part by the Program is subject to the permit processes of the State and County.

1. All work must be done according to standards acceptable to the Sonoma County Permit and Resource Management Department and the State of California.
2. The proper permit(s) shall be obtained for all work which requires such permit(s). The cost of permits may be part of the loan.

D. Self-Help Work:

"Self-Help" work by the Property Owner or Business Tenant may not be a part of the assisted work. No "volunteer" assistance is allowed primarily for liability reasons.

V. **Loan Procedures**

A. Application Process:

1. Program Applications are available from the Sonoma County Community Development Commission office, 1440 Guerneville Road, Santa Rosa, 95403, telephone (707) 565-7523 or on-line at <http://www.sonoma-county.org/cdc/redevSonomaValley.htm>.
2. All loan applications will be processed and evaluated on a first-come, first-served basis. Completed applications will be considered for assistance based upon the order of receipt. An application will be considered to be complete when all required information has been supplied by the property owner(s) and business owner.
3. If more completed applications are received than can be assisted with funds remaining available, projects located along the Highway 12 Commercial Corridor will receive priority.
4. The application process is as follows:
 - a. All applicants will complete a pre-application and furnish Commission staff with all required documentation. The information in the pre-application will be used to determine the applicant's and property's eligibility for assistance.
 - b. Following receipt of the pre-application, the applicant will meet with Commission staff to discuss desired work to be undertaken.
 - c. After initial eligibility has been established and proposed work is determined by Commission staff to be allowed within the Program Guidelines, Commission staff will inspect the property. If necessary, additional tests and/or inspections by third parties will also be conducted. Commission staff will develop a preliminary scope of work and cost estimate based on the inspection(s), testing and consultation with the Property Owner and /or Business Tenant.
 - d. After review and acceptance of the preliminary scope of work by the Property Owner and /or Business Tenant, Commission staff will assist applicant in preparing a formal loan application.
 - e. A completed loan application will include as necessary: architectural drawings; site plans; before photographs; written estimate(s) from contractor, trade person or

supplier; additional insured for general liability insurance and/or workers compensation insurance; Property Owner's approval (if Business Tenant is applicant).

- f. The completed Loan Application will then be presented to the Loan Committee designated by Commission Executive Director for recommendation.
- g. The Loan Committee's recommendation will be forwarded to the Commission Executive Director for consideration. The Executive Director will make the final determination of approval.

B. Loan Approval:

Commission staff shall exercise sound underwriting practices in all loan transactions.

1. In all instances, the Commission's underwriting standards will be employed in a consistent, equitable manner. The Commission will at all times utilize sound judgment in making loans to ensure that the public funds are adequately protected. The Commission's underwriting standards will normally follow private lending practices.
 - a. The principal amount of the Promissory Note for each Façade Improvement 5-Year Forgivable and Commercial Rehabilitation loan must be fully secured by the fair market value of the property against which the loan deed of trust is recorded.
 - b. Property taxes, sales taxes, and business licenses must be current in order for an applicant to be considered for a loan and must remain current during the life of the loan.
 - c. Property insurance, including fire (and flood if applicable), will be required during the life of the loan. If an applicant does not have sufficient insurance to cover the amount of the Commission's loan and all senior liens or the value of the improvements whichever is less, or if the policy has lapsed, deficiencies must be corrected as a condition of loan approval. The Commission shall be named on the policy as mortgagee/loss payee for the full term of the loan.
2. Each Loan Application will be summarized by Commission staff and a recommendation for loan approval and loan amount or disapproval will be made to the Loan Committee. The Loan Committee will then make a recommendation to the Commission's Director or his/her designee. The recommendation will include the maximum recommended loan amount and repayment terms.
3. The Commission Director or his/her designee will make the final decision on each loan application.
4. A business tenant or property owner may receive only one loan over a 12 month period. However, the Community Development Commission Executive Director has the authority to consider exceptions to this policy on a case-by-case basis to provide an additional loan for a property during a 12 month period, if he/she determines that such additional loan is necessary to meet the goals and objectives of the Redevelopment Plan for The Springs Redevelopment Project Area.
5. It shall be within the purview of the Commission Director or her/his designee, to disapprove any loan application at any stage of processing through any formal or informal action which is consistent with sound underwriting practices and fair housing lending procedures.

C. Loan Documents:

1. After selection of the construction contractor by the Property Owner or Business Tenant, Commission staff will prepare loan documents.
2. Loan documents include: the Promissory Note, Loan Agreement, Deed of Trust, Request(s) for Notice of Default and Sale, and the Maintenance Agreement.
3. All legal owners of the real property shall execute Deed of Trust and Maintenance Agreement.

VI. Construction

A. Competitive Bidding:

After a loan is approved, Commission staff will coordinate the competitive bidding process to obtain fixed-price bids from qualified, licensed contractors.

1. The Commission shall determine whether a contractor is qualified through a pre-screening process. All contractors must submit a contractor application on the required forms to the Commission at, or prior to, the time of submitting their first bid.
2. The property owner may select any responsible contractor whose bid does not exceed 110% of the Commission staff's in-house cost estimate.

B. Construction Contract:

The Commission staff will coordinate contracting for all work funded through the facade loan, manage the contracts, inspect the work, and approve and disburse payments.

1. The contract for the work will be executed by the Property Owner or Business Tenant and the contractor. The Commission staff will provide the contract form.
2. The Commission staff shall assist the Property Owner/Business Tenant in the control, supervision and direction of the work to be performed under the contract.
3. Changes to the services to be provided under the contract and amounts to be paid pursuant to the contract may be made only by written change order by and between the Property Owner/Business Tenant and the contractor and only upon written approval of the Commission's Executive Director or his/her designee.
4. During the period of performance of the contract, the Property Owner/Business Tenant shall not enter into any additional agreements with the contractor, whether written or verbal, without the written approval of the Commission's Executive Director or his/her designee.
5. Commission staff will inspect each project during construction to assure that work is progressing in a timely manner and that it is being carried out in accordance with the Scope of Work.
 - a. Phase inspections will be made by Commission staff prior to the disbursement of payments to the contractor. Any work requiring a building or other permit must also have written approval by the State and/or County building inspector.

- b. The Property Owner/Business Tenant must accept all work before payment may be authorized, except payment awarded by arbitration or legal judgment.
6. Upon satisfactory completion of all work called out in the contract, the Property Owner/Business Tenant shall sign the Notice of Completion which shall be recorded in the Sonoma County Recorder's Office.

VII. Loan Administration and Collection

A. Transfer and Assumption:

Loans may be assumed by subsequent purchasers of the property at the discretion of the Commission's Executive Director or his/her designee.

B. Loan Defaults:

1. If a borrower appears to be in default of one or more of the loan terms contained in the loan documents, the Commission Executive Director shall consult with the Office of the Sonoma County Counsel.
2. If the Commission Executive Director determines that the borrower is in default of one or more of the loan terms, he/she, with the advice of County Counsel, shall initiate foreclosure proceedings.
 - a. The Commission may contract with a trust deed service company to carry out a Notice of Default and Sale on behalf of the Commission.
 - b. If the loan is reinstated, any expenses will be the responsibility of the owner as a condition of reinstatement.
3. If the property goes to sale pursuant to this section, the sale proceeds minus the amount of any senior liens and the Commission's foreclosure costs shall be credited against the outstanding loan balance.
 - a. If the sale proceeds minus the amount of any senior liens and the Commission's foreclosure costs exceed the amount of the outstanding loan balance, the excess funds shall first be used to pay any valid claims of junior lien holders and any proceeds remaining thereafter shall be forwarded to the borrower.
 - b. If the sale proceeds minus the amount of any senior liens and the Commission's foreclosure costs are less than the amount of the outstanding loan balance, the Commission shall seek a deficiency judgment for the difference by submitting the matter to Sonoma County Central Collections.

VIII. Definitions

Below Market Interest Rate: An interest rate lower than the interest rate generally accepted for use by commercial lenders at the time of consideration.

Borrower: Property Owner or Business Tenant receiving loan.

Business Tenant: Commercial tenant in good standing, leasing space from a property owner.

Code Standards: All applicable planning, fire prevention, building, zoning, and health codes, and other pertinent local ordinances.

Incipient Code Violations: An incipient code violation exists if, at the time of inspection, County staff identifies a physical condition of an element in the structure that could deteriorate into an actual code violation within one year. Examples are an old roof which is beginning to leak.

Maintenance Agreement: Loan recipients are required to sign a Maintenance Agreement which requires that the Business Tenant and/or Property Owner agree to maintain the exterior of the building and the completed improvements for specified term from the date of construction completion.

Property Owner: Owner listed on title to the property and who will be accepting responsibility for repayment of any loan made by signing the required loan documents.

I/WE, THE UNDERSIGNED, HAVE READ AND UNDERSTAND THE INFORMATION PRESENTED IN THIS PROGRAM DESIGN FOR THE COMMERCIAL FAÇADE IMPROVEMENT PROGRAM.

_____ Date	_____ Property Owner Signature
	_____ Print Name – Property Owner
_____ Date	_____ Property Owner Signature
	_____ Print Name – Property Owner
_____ Date	_____ Business Tenant Signature
	_____ Print Name – Business Tenant
_____ Date	_____ Business Tenant Signature
	_____ Print Name – Business Tenant