

STAFF REPORT

Discussion Agenda Item

DATE: June 15, 2026

TO: Honorable Mayor and Council Members

FROM: Amy Nilsen, City Manager

SUBJECT: River Lodge Lease Update and Consideration of Lease Options

STAFF RECOMMENDATION:

Receive staff report and reaffirm prior City Council direction to lease the River Lodge to another public entity.

EXECUTIVE SUMMARY:

During the April 27 Fiscal Year (FY) 2026–27 Proposed Budget presentation staff shared sales tax revenues are not keeping pace with inflation, resulting in a gap of over \$1,000,000; transient occupancy taxes revenues have declined by \$400,000; and Liability insurance has increased by over \$615,000. Therefore, staff brought several cost-saving measures to the City Council for consideration, one of which was either leasing or selling the River Lodge. City Council directed staff to not explore selling the River Lodge but instead, directed the City Manager to pursue leasing the River Lodge facility to a local public agency and return to Council to discuss the long-term viability of the River Lodge if no deal is established. Since this time the Fortuna Union High School District (FUHSD) has expressed interest in leasing the River Lodge beginning January 1, 2027.

DISCUSSION:

Surplus Land Act

The Surplus Land Act (Gov. Code § 54220 et seq.), and more specifically, under Government Code § 54221(d), a lease is only considered a “disposition” subject to the Surplus Land Act if the total lease term exceeds 15 years, inclusive of all extension or renewal options. A lease with a total possible term of 15 years or less is not a “disposition” under the statute, and therefore the Act’s notice, negotiation, and Housing and Community Development compliance requirements would not apply. Separately, the statute also provides that a lease is not a “disposition” if no development or demolition will occur on the property, regardless of the lease term.

In practical terms, the Surplus Land Act should not be triggered if the City structures the River Lodge lease with a total possible term of 15 years or less, including all extension or renewal options, or if the lease prohibits development and demolition of the property. This would allow the City to proceed without the surplus declaration, Notice of Availability, and related statutory process currently outlined in the staff report.

By contrast, if the City contemplates a lease exceeding 15 years, including all extension or renewal options, and allows development or demolition, the City should assume that the Surplus Land Act applies unless a specific statutory exemption is identified. Since the initial conversations between the City and FUHSD did not include a lease length of more than 15 years and substantial redevelopment of the River Lodge staff proceeded with negotiations.

Fortuna Union High School District

The City and FUHSD staff have met to discuss potential terms of a River Lodge lease and have also conducted a walkthrough of the facility. The potential lease would allow the City to retain ownership of the River Lodge while partnering with the Fortuna Union High School District to activate the facility for public-serving uses. The structure generally shifts day-to-day operational responsibility to the tenant, helping reduce the City's ongoing costs while maintaining long-term public benefit.

The City and FUHSD will continue to negotiate a lease over the coming months with a lease commencing on January 1, 2027.

Public, Private, and Unsolicited Proposal Consideration

On June 10, 2026, the City received an unsolicited proposal from Kinetic Hospitality Group Inc., submitted by Erica Thompson, requesting consideration of a five-year lease to operate and manage the River Lodge facility.

The proposal outlines a private operational model intended to transition the River Lodge from a City-operated facility to a privately managed hospitality and event venue. The proposal indicates that the operator would assume responsibility for day-to-day operations and maintenance and operate the facility through private revenue sources, with the objective of eliminating the current operational subsidy from the City's General Fund.

The proposal includes multiple lease structure options, including market-rate and reduced-rate models, as well as provisions for an initial improvement period and private capital investment in facility upgrades. It should be noted, the entity's mentioned in the proposal do not currently exist, and the intent of Ms. Thompson, should the City accept her proposal, is to begin the corporate entity application and apply for city business licenses. The entities mentioned in the proposal are specifically tied to the River Lodge and will not exist if this proposal is not accepted.

Because the Kinetic Hospitality Group proposal is unsolicited and has not yet been vetted, staff has not evaluated the proposer's financial capacity, operational experience, insurance capacity, entity formation status, references, proposed maintenance obligations, or ability to satisfy applicable regulatory requirements. If Council wishes to consider a private operator model, staff recommends further due diligence before entering negotiations with any private operator.

Leasing the River Lodge to a public entity, such as the Fortuna Union High School District, may provide a higher level of institutional stability and alignment with community-serving uses, while maintaining clear public accountability. In contrast, leasing to a private operator may introduce opportunities for increased revenue generation and expanded programming, but also involves

additional considerations related to financial risk, operator capacity, long-term oversight, and consistency with Council priorities for public use of the facility.

At this time, no analysis, vetting, or negotiation of the private proposal has been conducted by staff. Should the City Council wish to consider leasing to a private operator, further due diligence, financial analysis, and a formal procurement may be warranted to ensure fairness, transparency, and alignment with City policies. Although staff are not aware of a requirement mandating competitive bidding for a lease of City-owned real property to a private operator, a formal solicitation process may be advisable to promote transparency, compare market interest, and reduce concerns regarding preferential treatment.

Conclusion

The City Council now has two primary policy pathways to consider:

- (1) Continuing with the current direction to lease the facility to a public agency; or
- (2) Expanding consideration to include private operational models, which would require additional analysis and direction to staff to do so.

FINANCIAL IMPACT:

The chart below summarizes River Lodge revenues and expenditures for fiscal years 2021–22 through 2025–26, along with the corresponding General Fund subsidy required to support operations. Over this five-year period, the General Fund has contributed nearly \$1,000,000 to sustain the facility.

	FY 2025-26 Budget	FY 2024-25 Activity	FY 2023-24 Activity	FY 2022-23 Activity	FY 2021-22 Activity
Revenue	(194,000)	(209,402)	(181,778)	(186,601)	(129,299)
Expense	469,439	376,082	346,477	362,809	322,840
	275,439	166,680	164,699	176,208	193,541

Due to ongoing declines in key General Fund revenue sources, including sales tax and transient occupancy tax, it is no longer financially sustainable for the City to continue subsidizing River Lodge operations at this level. The adopted FY 2026–27 budget includes a \$180,000 reduction to River Lodge expenditures and assumes that the facility will be leased to a public or nonprofit entity effective January 1, 2027, thereby eliminating or significantly reducing the need for a General Fund subsidy.

If the City Council provides direction that alters this assumption, for example, by continuing City operation of the River Lodge beyond January 2027, additional General Fund reductions or alternative revenue sources will be necessary to offset the ongoing costs. These adjustments could include reductions to City services or staffing.

RECOMMENDED CITY COUNCIL ACTIONS:

1. Receive staff presentation and review questions with staff.
2. Open Public Comment

3. Close Public Comment
4. Provide direction to staff, which may include:
 - Reaffirming prior direction to pursue a lease with a public entity; or
 - Directing staff to evaluate private lease/operator proposals
 - Directing staff to return with a proposed process and evaluation criteria for consideration of private operator proposals.

ALTERNATIVE TO STAFF RECOMMENDATIONS:

Each alternative presents different trade-offs related to financial impact, level of public control, operational risk, and community access.

- a. Temporarily Suspend Operations (“Mothball” the Facility) - Direct staff to suspend most operations at the River Lodge on a temporary basis while preserving the asset. This is not recommended as this would reduce operating costs in the short term but would highly likely result in deferred maintenance issues and lost community use.
- b. Sell the River Lodge Property - Direct staff to explore the sale of the River Lodge property. This would require further evaluation of property value, identification of potential buyers, and compliance with the Surplus Land Act and other applicable regulations. Proceeds from a sale could be used to offset the City’s structural deficit or reinvest in core services.

ATTACHMENTS:

- A. Kinetic Hospitality Group Inc. Proposal (received June 10, 2026)
- B. Humboldt Lodging Alliance email (received June 10, 2026)