

RESOLUTION NO. 64-2007

Adopted June 19, 2007

AUTHORIZING AMENDED AND RESTATED FAÇADE IMPROVEMENT, TENANT IMPROVEMENT, AND BUSINESS ASSISTANCE LOAN AGREEMENTS WITH SHEBA LOUNGE, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY, TO AMEND THE INTEREST RATES AND OTHER TERMS OF THE EXISTING AGREEMENTS ASSOCIATED WITH ESTABLISHING A RESTAURANT/MUSIC LOUNGE AT 1419 FILLMORE STREET; WESTERN ADDITION REDEVELOPMENT PROJECT AREA A-2

BASIS FOR RESOLUTION

1. On April 19, 2005, the Commission approved a façade improvement loan in the amount of \$35,000, a tenant improvement loan in the amount of \$90,000, and a business assistance loan in the amount of \$75,000 (the "Original Loan Agreements"), under the Fillmore Jazz Preservation District Revolving Loan Program (the "Loan Program"), for a total aggregate amount of \$200,000, to Sheba Lounge, LLC, a California limited liability company ("Sheba Lounge"), to establish a restaurant/music lounge at 1419 Fillmore Street in the Western Addition Redevelopment Project Area A-2.
2. The Commission also waived the collateral requirement in exchange for Sheba Lounge's offer to pay a higher interest rate (6% simple interest per year, instead of 3.25% simple interest per year) and waived partial forgiveness of the façade and tenant improvement loans. Amortization, interest accrual, and loan repayments were deferred for approximately five months, so construction could be completed. The first payments were not due until October 1, 2005, after the projected construction completion in July 2005.
3. Unfortunately, the design and construction of the façade and tenant improvements at Sheba Lounge took longer than expected, and in late 2005, Netsanet Alemayehu and Israel Alemayehu (the "Owners") requested amendments to the Original Loan Agreements. As a result, on December 6, 2005, the Commission authorized first amendments to all three loans (the "First Amendments") which (1) extended the date when construction had to be completed to March 1, 2006; (2) extended the date when loan repayments, amortization, and interest accrual were to begin to March 1, 2006; and (3) increased the tenant improvement loan up to \$100,000 to cover prevailing wage requirements. To secure the increase in the tenant improvement loan, Sheba Lounge executed a second promissory note at 3.25% simple interest per year for a 15-year term (the "Second Promissory Note"). Interest on the Second Promissory Note does not accrue for the first five years and repayment is not required until October 1, 2010. The actual principal

amount of the Second Promissory Note was the amount needed for prevailing wages, which was later determined to be \$95,000.

4. Sheba Lounge opened in May 2006. The Owners have been making monthly payments on all three loans since March 1, 2006. To date, the Owners have paid a total of \$43,119 to the Agency in principal and accrued interest. During the past 15 months, Sheba Lounge has not been generating enough income to cover all of its expenses and debt obligations, including the debt service to the Agency. The Owners have been drawing down on their equity investment in Sheba Lounge to pay their ongoing expenses and debt obligations, including the debt service to the Agency, but the business is still operating at a loss.
5. In February 2007, due to the restaurant's ongoing operating deficit, the Owners submitted a request to the Agency to amend the interest rates and other terms of: (1) the Original Loan Agreements and associated promissory notes, and (2) the Second Promissory Note to allow the Owners to increase Sheba Lounge's performance. The Owners' requested changes include:
 - a. **Original Loan Agreements (\$200,000):** (1) suspend loan repayments, amortization, and interest accrual for all three loans from June 1, 2007 to June 1, 2008; (2) extend the maturity dates of all three loans for one additional year; and (3) reduce the interest rate on all three loans from 6% to 3.25% simple interest per year on the total outstanding balance of \$170,878, starting June 1, 2008; and
 - b. **Second Promissory Note (\$95,000):** (1) extend the date on which loan repayments, amortization, and interest accrual are to begin from October 1, 2010 to October 1, 2011; and (2) extend the date of maturity from September 30, 2020 to September 30, 2021.
6. The changes listed above have been incorporated into the proposed Amended and Restated Loan Agreements and related documents.
7. Staff intends to present this item at the next Western Addition A-2 Citizens Advisory Committee ("WACAC") meeting on June 14, 2007.
8. The proposed changes to the Amended Loan Agreements with the Owners will provide redevelopment assistance in establishing a restaurant at 1419 Fillmore Street and are exempt from the California Environmental Quality Act ("CEQA"), pursuant to CEQA Guidelines Section 15301(a), alterations to existing facilities.

RESOLUTION

ACCORDINGLY, IT IS RESOLVED by the Redevelopment Agency of the City and County of San Francisco that the Executive Director is authorized to enter into the Amended and Restated Loan Agreements with Sheba Lounge, LLC, a California limited

liability company, to amend the interest rates and other terms of the Original Loan Agreements, substantially in the form lodged with the Agency General Counsel; to further assist in establishing a restaurant/music lounge at 1419 Fillmore Street in the Western Addition Redevelopment Project Area A-2.

APPROVED AS TO FORM:


S. James B. Morales 6/14/07
Agency General Counsel