

RESOLUTION NO. 146-2008

Adopted December 9, 2008

APPROVING AN AMENDED FILLMORE JAZZ PRESERVATION DISTRICT REVOLVING LOAN PROGRAM TO PROVIDE FAÇADE IMPROVEMENT, TENANT IMPROVEMENT AND BUSINESS ASSISTANCE LOANS TO BUSINESS AND PROPERTY OWNERS IN THE FILLMORE JAZZ PRESERVATION DISTRICT; WESTERN ADDITION REDEVELOPMENT PROJECT AREA A-2

BASIS FOR RESOLUTION

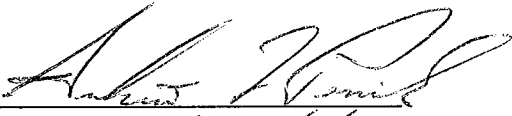
1. The economic revitalization of the Fillmore Jazz Preservation District ("District") is a significant component of the Redevelopment Agency of the City and County of San Francisco's ("Agency") completion of the Western Addition A-2 Redevelopment Plan. The District is the area generally located along Fillmore Street between Post and McAllister Streets, in the Western Addition Redevelopment Project Area A-2 ("Project Area").
2. On October 26, 1999, by Resolution No. 166-99, the Agency Commission approved the Fillmore Jazz Preservation District Revolving Loan Program ("Loan Program") to provide loans up to \$50,000 to attract new businesses and to strengthen existing businesses in the District.
3. On November 16, 1999, by Resolution No. 174-99, the Agency Commission approved a Loan Program Agreement ("Agreement") with Community Bank of the Bay ("Bank") to administer the Loan Program and appropriated \$200,000 to fund the Loan Program.
4. As recommended by the Bank, on October 24, 2000, the Agency Commission authorized changes to the Loan Program guidelines and appropriated an additional \$300,000 in funding. Elkor Realty Corporation, the former owner of The Fillmore Center, also contributed \$200,000, bringing the total Loan Program funds to \$700,000.
5. The Bank made five loans in a total amount of \$165,000 from the inception of the Loan Program until May 2001, when the Bank staff person who was appointed to administer the program resigned. Thereafter, the Bank failed to appoint a new administrator for the Loan Program or to fulfill any of its obligations under the Agreement.
6. On May 28, 2002, the Agency Commission authorized the termination of the Agreement. On July 23, 2002, the Bank returned the undisbursed loan funds, interest earnings, and loan repayments in the amount of \$601,692 to the Agency.

7. On February 15, 2005, by Resolution No. 30-2005, the Agency Commission revised the Loan Program by updating the underwriting criteria including the maximum loan amounts, adding additional funding to the Loan Program and directing Agency staff to administer the revised Loan Program in house and to collaborate with Urban Solutions, a California nonprofit public benefit corporation, to provide loan packaging and economic development assistance to loan applicants.
8. The Agency has made several loans to businesses within the Project Area pursuant to Loan Program. However, due to a severe downturn in the economy and lack of sufficient marketing of the District, several businesses who received Agency loans require additional Agency assistance in the form of loan restructuring and additional funding.
9. Agency staff has received several requests for debt restructuring and additional loans from businesses in which the Agency has already made a significant investment. Agency staff desires to recommend relief for these businesses in order to safeguard the prior Agency investments and to fulfill the objective of the Loan Program to promote economic revitalization in the District.
10. However, the relief request by the businesses and contemplated by Agency staff would require an amendment to the Loan Program. California Health & Safety Code Section 33763.5 requires that "All loans made by a redevelopment agency shall be made according to a regulation that contains standards, qualifications, and criteria for the making and approval of loans and that has been adopted by the redevelopment agency at a public meeting."
11. Agency staff recommends that the Agency Commission approve an amendment to the Loan Program to increase the maximum loan amounts for non-forgivable Façade Improvement Loans, Tenant Improvement Loans and Business Loans and add certain provisions that allow for existing and new loans to be restructured as set forth in more detail in the Amended Fillmore Jazz Preservation District Revolving Loan Program, Attachment 1.
12. In a separate action, Agency staff will request that the Agency Commission consider an Agency budget amendment which, if approved by the Commission and the Board of Supervisors of the City and County of San Francisco, would provide additional funding for the Loan Program.
13. The amendment to the Loan Program that increases the maximum loan amounts for non-forgivable Façade Improvement Loans, Tenant Improvement Loans and Business Loans and adds certain provisions that allow for existing and new loans to be restructured are Agency administrative activities that are not Projects as defined by the California Environmental Quality Act Guidelines Section 15378(b)(5) and will not cause any physical change in the environment.

RESOLUTION

ACCORDINGLY, IT IS RESOLVED by the Redevelopment Agency of the City and County of San Francisco that the amended Fillmore Jazz Preservation District Revolving Loan Program for the Western Addition Redevelopment Project Area A-2, substantially in the form lodged with the Agency General Counsel, is hereby approved with such changes that hereafter become necessary, which changes do not materially affect the substance of the Loan Program or materially increase the obligations of the Agency.

APPROVED AS TO FORM:


for James B. Morales 12/4/08
Agency General Counsel

ATTACHMENT 1

AMENDED FILLMORE JAZZ PRESERVATION DISTRICT REVOLVING LOAN PROGRAM AND GUIDELINES

AGENCY LOAN PROGRAM GUIDELINES

The San Francisco Redevelopment Agency established the Fillmore Jazz Preservation District - the area bound by McAllister, Post, Steiner and Webster Streets (the "District") to revitalize Fillmore Street in the Western Addition Redevelopment Project Area A-2. The primary focus of the District is to highlight the significant role that jazz music played in the District and to continue the legacy of jazz by creating an entertainment district comprised of dining, jazz music and shopping venues and activities.

TYPES OF LOANS

The following five types of loans are available to eligible property owners, business owners and non-profits under the respective loan programs: 1) façade improvements, 2) tenant improvements and 3) business assistance loans,

- 1.) The façade improvement program provides forgivable loans on a matching basis, up to \$10,000. The Agency will provide matching loan funds at 6% interest per annum; which will be forgiven incrementally over the term of the loan. The façade improvement and tenant improvement programs also offer non-forgivable loans up to \$250,000, at 3.25% interest rate per annum.
- 2.) The tenant improvement program provides forgivable loans on a matching basis, up to \$25,000. The Agency will provide matching loan funds at 6% interest per annum; which will be forgiven incrementally over the term of the loan. The façade improvement and tenant improvement programs also offer non-forgivable loans up to \$500,000 respectively, at 3.25% interest rate per annum.
- 3.) The business loan program provides non-forgivable loans up to \$1,500,000 at rates between 3.25% interest rate per annum.

Each program has different loan terms, which are listed in Attachment A, Outline of Primary Terms. Under the façade improvement and tenant improvements program business and property owners who contribute their own funds can receive deferred, forgivable loans on a matching basis at 6% interest per year. To encourage wider participation and investment beyond the forgivable loan limits, non-forgivable loans for greater amounts are available for façade improvements, tenant improvements and business assistance at a low interest rate of 3.25% per annum.

**Summary of Maximum Loan Amounts and
Equity Requirements for Maximum Loan Amounts**

Loan Types	Forgivable Loan			Non-Forgivable Loan				Combined Loans	
	Loan Max.	Equity	Interest Rate	Loan Max.	Equity	Interest Rate	Term	Loan Max.	Equity
Façade Improvements	\$10,000 1:1 match	\$10,000	6%	\$250,000	15%	3.25%	Up to 20 yr	\$260,000	\$47,500
Tenant Improvements	\$25,000 1:2 match	\$25,000	6%	\$250,000	15%	3.25%	Up to 20 yr	\$275,000	\$62,500
Business Assistance	None	None	None	\$1,500,000	15%	3.25%	Up to 20 yr	\$1,500,000	\$225,000

Applicants may qualify for a maximum of \$2,035,000 under the Loan Program by combining the three loan types, provided that applicants meet the established eligibility criteria for each Loan Type and are deemed creditworthy in accordance with the underwriting criteria listed in Attachment “B.” Preference criteria and loan covenants are listed as Attachment “C” and Attachment “D,” respectively.

After loan approval and permit approval by the Department of Building Inspection (“DBI”), the Agency will disburse loan funds monthly to reimburse actual expenses incurred, supported by approved invoices.

Funds may **not** be used to address code violations, make payment on delinquent taxes or purchase real estate or securities held for investment purposes. All cited code violations pertaining to retail or residential uses in the building must be corrected or in the process of being corrected prior to loan approval.

Façade Improvement Program

The lack of regular maintenance has contributed to the deterioration of building façades in the District, creating an overall impression of neglect. While painting and cleaning may improve the appearance of some storefronts, many require more extensive work. The Façade Improvement Program will provide loans to property owners to rehabilitate the storefronts, which would not only improve the store’s image and marketability, but also boost the overall image of the street and promote business throughout the District.

Façade improvement loans can fund: the repair or replacement of doors and windows; detailing, painting and cleaning of storefronts and façades; removal of safety grilles and guards; repair or replacement of signage, awnings, exterior lighting fixtures and tiles; installation of hose bibs to assist sidewalk cleaning; and other façade improvements.

Forgivable Loan: The Agency will match private funds on a **one-to-one** basis with forgivable loans up to \$10,000. The matching loan funds will be provided at 6% interest per annum and will be forgiven incrementally over the term of the loan.

Non-Forgivable Loan: The Agency will also provide non-forgivable loans up to \$250,000 with interest at 3.25% per annum. Qualified applicants must contribute at least 15% of the project cost funded by the non-forgivable loan. If the applicant applies for and obtains both a forgivable and non-forgivable loan, the 15% equity requirement must be met **in addition to** the matching funds that the applicant must provide for the forgivable loan. These loans will facilitate more extensive work, beyond minor capital improvements and rehabilitation, such as painting or repairing the storefront. With the non-forgivable loan, owners could rehabilitate their entire building façade, replace windows and doors, improve accessibility of entrances, improve signage, and restore historic architectural elements. The proposed loan term is up to twenty years, with repayment beginning within five (5) years of loan execution.

Tenant Improvement Program

The high percentage of vacant storefronts in the District is one of the root causes of economic blight on Fillmore Street. Given the amount of funds necessary to bring these storefronts into leasable condition, many property owners have allowed their storefronts to remain vacant and deteriorated. In order to assist owners to bring commercial spaces back into marketable condition, tenant improvement loans are available to property and business owners to make the following improvements to storefronts in their buildings or tenant spaces: demolition, construction, floor coverings, wall finishes, ceilings, equipment, cabinetry, plumbing, HVAC, electrical, and other necessary work.

Forgivable Loan: The Agency will provide a forgivable, **one-to-two** matching loan up to \$25,000. The matching loan funds will be provided at 6% interest per annum and will be forgiven incrementally over the term of the loan. Borrowers who are property owners will be required to limit rent increases to the increase in the Consumer Price Index ("CPI") for the first five years after securing a new tenant or any new lease amendments or extensions made within five years after tenant improvement work is completed, and thereafter at increments not to exceed reported increases in prevailing commercial rents in the District for the following 10 years. The loan will be forgiven incrementally over the term of the loan, provided the property owner has complied with the loan terms. Property owners must be in compliance with any Owner Participation Agreement/Land Disposition Agreements with the Agency in order to qualify for this program.

Non-Forgivable Loan: The Agency will provide non-forgivable tenant improvement loans up to \$250,000 at 3.25% interest per annum. Qualified applicants must contribute at least 15% of the project cost funded by the non-forgivable loan. If the applicant applies for and obtains both a forgivable and non-forgivable loan, the 15% equity requirement must be met **in addition to** the matching funds that the applicant must provide for the forgivable loan. The proposed loan term is up to twenty years, with repayment beginning within five (5) years of loan execution. Loans will be secured by a promissory note and deed of trust.

Business owners are eligible for both forgivable and non-forgivable tenant improvements provided that: 1) the landlord's consent to a leasehold lien; or 2) the business owner provides alternative collateral acceptable to the Agency in its sole discretion.

Business Assistance Program

The Agency will invest in business owners who want to start a new business, remodel, or expand their business in the District. The work that may be covered includes: fixed equipment, moving expenses, and construction of the interior space and working capital.

The Agency will provide non-forgivable loans up to \$1,500,000, with interest at 3.25% per annum. Qualified applicants must contribute at least 15% of the project cost funded by the non-forgivable loan. Non-forgivable loans will have a term of up to twenty (20) years with repayment beginning within five (5) years after loan execution. Loans will be secured by liens on the business owner's equipment personal property. Guaranties may be required.

Operations

Through its business assistance program, Urban Solutions will provide assistance with loan packaging and economic development activities through a business development contractor. Urban Solution's role in implementing the Loan Program will be as follows:

- Market the program to business and property owners in the District
- Market the program to eligible businesses outside of the District
- Develop property and business improvement plans in conjunction with owners
- Assist business applicants with their business plans and financial projections
- Review applications to ensure they are complete and appropriate
- Offer referrals to construction contractors
- Offer ongoing technical assistance to business owners

Loan Workouts

The Agency will reserve the right to restructure loans, upon a showing of good cause, on an as needed basis. The Revolving Loan Program deferment period has been extended to a 5 year maximum and the loan term has been extended to a maximum of 20 years to allow for potential loan restructurings.

Public Benefits

The goal of the Loan Program is to attract new businesses and to strengthen existing businesses in the District to create a viable commercial core for this neighborhood by providing retail services, jobs and a safe environment. Given the inability of the market to attract investment, Agency funds are necessary to nurture the cycle of investment and economic development. An

improved business climate would attract a larger consumer base with higher disposable incomes to infuse the District with economic growth and counter the cycle of disinvestment.

New businesses can serve to attract other businesses to the area by attracting more customers for all the businesses on the street. A stronger business sector would also help maintain the streetscape improvements. The new sidewalks, trees, light poles, banners, and safety bump-outs installed by the Agency recently create a pedestrian-friendly environment in the District. Loan Program would encourage businesses and property owners to maintain and secure the sidewalk in front of their property.

Attachments: Attachment A: Outline of Primary Terms
Attachment B: Underwriting Criteria
Attachment C: Preference Criteria
Attachment D: Loan Covenants

ATTACHMENT A: Outline of Primary Terms

	Façade Improvements	Tenant Improvements	Business
Maximum Forgivable Loan	Up to \$10,00, one-to-one match	Up to \$25,000, one-to-two match (owner must invest \$50,000 to get a match of \$25,000)	None
Maximum Non-forgivable Loan	Up to \$250,000	Up to \$250,000	Up to \$1,500,000
Required Equity Investment	15% of total project costs	15% of total project costs	15% of total project costs
Interest Rate for Forgivable Loans	6%	6%	N/A
Interest Rate for Non-Forgivable Loans	3.25%	3.25%	3.25%
Loan Term	Up to 20 years	Up to 20 years	Up to 20 years
Loan Repayment begins	Five Years	Five Years	Five Years
Fees	None	None	None
Eligibility	District property owners & business owners with 3 yrs on their lease & agreement from the property owner.	District property owners with space available to rent to a retail tenant and business owners with 3 yrs on their lease.	Business owners with at least 10% equity in the business.
Use of Funds	Repair/replace doors, windows, signs, awnings, tiles & exterior lighting, Clean/paint facades; Remove safety bars/gates, Install hose bibs, etc.	Tenant improvements in commercial spaces.	Fixed Equipment, Capital Construction (other than façade improvements), Moving expenses and working capital, etc.

ATTACHMENT B: Underwriting Criteria

Facade Improvement Loans

Property owners and business owners in leased space are eligible for the façade improvement program. However, business owners are required to have at least three years remaining on the lease or have the property owner co-sign for the loan. In all cases, the property owner must approve the proposed improvements.

Tenant Improvement Loans

Preference for the tenant improvement program will be given to property owners who have a business tenant secured or business tenants who have their landlord's consent. Normally, tenant improvement loans will not exceed 150% of the total collateral value. Collateral may include:

- Real estate
- Business assets, such as machinery and equipment
- Cash in the form of a certificate of deposit or interest bearing escrow account
- Bank issued letter of credit
- Personal residence

Business Loans

Urban Solutions will assist owners in developing their business plans, financial projections and improvement plans. The following criteria for business loans take into account the need to assist existing businesses where possible.

- 1) **Equity**: Each application will be reviewed to determine the feasibility of the business based on its business plan, market/competition research, credit/financial strength of the applicant, and ability to service debt. The applicant must provide at least 15% of the total project cost, but a greater owner contribution will be a positive factor indicating the applicant's commitment. Equity must be represented by the owner's monetary funds, not sweat equity.
- 2) **Collateral**: Normally, loans will not exceed 150% of total collateral value, which may include:
 - Real estate
 - Business assets, such as machinery and equipment
 - Cash in the form of a certificate of deposit or interest bearing escrow account
 - Bank issued letter of credit
 - Personal residence
- 3) **Cash Flow**: The projected business cash flow should exceed the proposed debt service and all other expenses by at least 15%.
- 4) **Credit History**: A current credit report on an existing business and a personal credit report on any principals is required. Applicant should have a credit history demonstrating prior debt repayment and all derogatory credit must be satisfied or

sufficiently explained. There may not be a bankruptcy or outstanding tax liens within a two-year period.

- 5) Management Experience: Applicant must be able to exhibit at least two years of relevant experience in managing a business or have relevant experience in the field in which the new business would be started.
- 6) Feasible Business Plan: A business plan must be submitted, including a description of the company, the industry, the product or service, knowledge of the competition, knowledge of the market, sales projections, management structure, key operational processes, financial projections, type and amount of non-forgivable and/or forgivable loan requested, and purpose of funds.
- 7) Financial Statements: For existing businesses, two years of historical financial statements and business income tax returns, as well as an updated personal financial statement along with personal income tax returns, are required. For new businesses (in business less than two years), the most recent business tax return and financial statement, two years of personal tax returns, and a current personal financial statement are required. The Agency may also require additional documentation, such as bank statements.
- 8) Project Pro Forma: Applicants must provide pro forma profit and loss (income) statements and balance sheets, including assumptions (for a minimum of three years).

ATTACHMENT C: Preference Criteria

In addition to the underwriting criteria, preference in any of the loan programs will be given to projects that could accomplish one or more of the following objectives:

- 1) Assist disadvantaged businesses, which are unable to obtain financing for total project costs as evidenced by a letter from a bank declining the applicant of a loan for total project costs.
- 2) Leverage other funding sources, including State and Federal programs (i.e., Enterprise Zone Tax Credits, etc.) or private sources (i.e., banks, credit unions, etc.).
- 3) Add to the mix of existing businesses (grocery store, pharmacy, credit union, deli, cafe, bakery, hardware store, florist, used bookstore, used clothing store, martial arts studio, etc.).
- 4) Complement existing businesses (i.e., restaurant, neighborhood-serving retail, etc.).
- 5) Serve the District neighborhood.
- 6) Attract customers from outside the Project Area.
- 7) Bring in resources from established businesses outside of the Project Area.
- 8) Assure continuous business operations on-site for the term of the loan.
- 9) Hire low-income residents from the Western Addition and/or San Francisco.

Ineligible Businesses

The following businesses are not eligible for a loan under this program:

- 1) Professional offices;
- 2) Wholesale businesses, except discount offerings to the general public;
- 3) Unlawful or unlicensed businesses;
- 4) Retail franchises or chain stores; or
- 5) Uses that have led to recurrent problems of public safety and welfare or that contribute to conditions of blight (including liquor stores) as defined by Community Redevelopment Law.

the sixth year after securing a business tenant, then the property owner must repay 67% of the forgivable loan. If the property owner raises the rent above prevailing rents in the seventh year after securing a business tenant, then the property owner must repay 60% of the forgivable loan. By this mechanism, the amount repaid will decrease in accordance with the degree of public benefit achieved.

Given the amount of public investment in private property under the tenant improvement program, the Agency will require property owners to repay the balance of their forgivable and non-forgivable loans if the property is sold or refinanced prior to the end of the loan term. This requirement will ensure that public funds would not provide a windfall profit to private owners.

ATTACHMENT D: Loan Covenants

Property and business owners will be subject to the usual Agency contracting and sourcing requirements. These include the following:

- 1) Pay prevailing wages for all construction loans.
- 2) Recruit from local employment agencies, i.e., Ella Hill Hutch Community Center.
- 3) Submit Certified Payroll for construction loans above \$10,000.
- 4) Secure bids or quotes from the Agency's list of contractors, which includes certified Local Small Business Enterprises (SBE's), or the Human Rights Commission's list of contractors.
- 5) Attend pre-construction meeting with the Agency's Contract Compliance Division.
- 6) Comply with Minimum Compensation Policy and Health Care Accountability Policy (for businesses with twenty or more employees).
- 7) Insurance and indemnification satisfactory to the Agency.

In addition, to achieve the community objectives of the program, the loan recipients must:

- 1) Maintain retail spaces in leasable condition;
- 2) Keep the sidewalk in front of property clean and clear of litter and graffiti at all times;
- 3) Call the SFPD in the event of illegal activity, including narcotics and loitering, in or in front of building.

As conditions to loan closing applicants must: (a) join the Fillmore Jazz Preservation District Merchants Association or a comparable organization to work cooperatively to improve conditions in the District; and (b) correct or begin to correct any code violations cited in the building or leasehold area (if the applicant is the property owner or operator of the activities giving rise to the violations).

Tenant Improvement Performance Covenants

In order to prevent exorbitant rent increases as a result of the tenant improvement program, property owners are required to control rent at the CPI for the first five years after securing a tenant, and thereafter at increments not to exceed prevailing commercial rents in the District (currently \$1.50 to \$2.50 per square foot) for the following 10 years. If the business tenant leaves before the fifteen-year period expires, the rent restriction must be continued with future tenants under the same terms through the expiration of the fifteen-year period.

Over the fifteen-year term, one-fifteenth of the matching loan will be forgiven each year, provided the property owner has complied with the loan terms. In the event that the property owner breaches the rent restriction, the property owner will be required to repay the balance of the forgivable loan. For example, if the property owner raises the rent above prevailing rents in