

RESOLUTION NO. 152-2008

Adopted as amended December 16, 2008

AUTHORIZING A FIRST AMENDMENT TO THE WORKING CAPITAL LOAN AGREEMENT WITH FOOD FOR SOUL, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY, TO INCREASE THE LOAN AMOUNT BY \$524,000 TO A TOTAL AGGREGATE AMOUNT NOT TO EXCEED \$624,000 FOR TENANT IMPROVEMENTS AND OPERATING EXPENSES FOR THE 1300 ON FILLMORE RESTAURANT LOCATED AT 1300 FILLMORE STREET; WESTERN ADDITION REDEVELOPMENT PROJECT AREA A-2

BASIS FOR RESOLUTION

1. On November 18, 2008, the Redevelopment Agency of the City and County of San Francisco's ("Agency") Commission held a workshop on the proposed restructuring of several Agency Jazz District loans. Agency staff informed the Commission during the November 18 workshop that Food for Soul, LLC, a California limited liability company ("FFS"), was seeking a total of \$624,000 in additional Agency funding to augment its working capital for its *1300 on Fillmore* restaurant operations and to pay for recently constructed tenant improvements.
2. *1300 on Fillmore* is a restaurant/music lounge, located at 1300 Fillmore Street in Western Addition Redevelopment Project Area A-2 ("Project Area"). It is one of the retail/entertainment businesses the Agency helped established as part of the economic revitalization of the Fillmore Jazz District. *1300 on Fillmore* began full operations in November 2007.
3. On November 18, 2008, by Resolution No. 131-2008, the Commission approved a Loan Agreement ("Loan Agreement") with FFS for \$100,000 to pay off a portion of the past due operating expenses of *1300 on Fillmore*. Funding for this loan came from Community Development Block Grant ("CDBG") program income from the Project Area.
4. Agency staff informed the Commission that an amended Loan Agreement for the \$524,000 balance of the requested funding would be brought to the Commission for consideration after Agency staff has analyzed FFS's operation to determine how a loan restructuring would impact *1300 on Fillmore's* viability.
5. On December 9, 2008, by Resolution No. 146-2008, the Commission approved an amended Fillmore Jazz Preservation District ("District") Revolving Loan Program ("Amended 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 on an as needed basis, upon a showing of good cause. The Amended Loan Program allows the Agency to consider restructuring loans made to

borrowers who need such restructuring to strengthen their business operations and to safeguard the Agency's investments related to the loans. The Commission requires Agency staff to undertake a due diligence review of the loan to be restructured to determine how the restructuring (which may include an increase to loan amounts) would impact the viability of the business funded and what steps the business is taking to improve its operations.

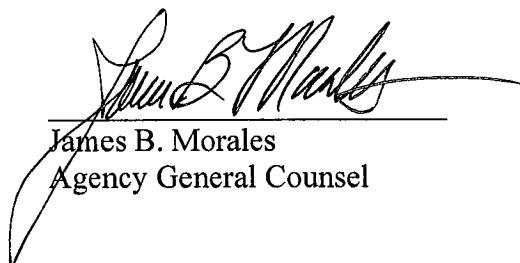
6. Agency staff analyzed FFS's operations. According to records provided by FFS based on actual data from its operations between January and October 2008 and its projections for November and December 2008, FFS projects for 2008, \$2.92 million in gross revenues, \$3.142 million in operating expenses, and \$222,163 in deficit. The deficit results from inadequate marketing, business start-up issues, and the difficult economic climate that started in early 2008.
7. Agency staff has held discussions in recent weeks with FFS about the steps it taking to control operating expenses and increase revenues and profit. FFS is taking pragmatic steps to increase its revenues by improving marketing efforts, launching new events, programs, and promotions to increase patronage of its restaurant. Based on these steps and in light of the current economic climate, FFS is expecting a modest profit of \$86,038 in 2009 based on projected total operating revenues of \$2.421 million and total expenses of \$2.335 million.
8. FFS has indicated that it needs the additional loan from the Agency to pay off accrued current operating expenses, pay for recently constructed tenant improvements, and fund a working capital reserve to sustain its operations through the current economic difficulties. Without this restructuring and the additional injection of capital, *1300 on Fillmore* would go out of business resulting in a loss of employment for at least seventeen (17) full-time low and moderate income employees.
9. The recently approved \$100,000 working capital loan for FFS has a fixed simple interest rate of 6% per year with loan repayment starting in May 2010 – a 18-month deferral. The loan is to be repaid within 10 years through quarterly payments of principal and interest, and it is secured with UCC-1 Financing Statement – a security recorded against its fixtures, furniture and equipment. FFS is not requesting any changes to its second loan of \$2.588 million with the Agency.
10. Under the proposed first amendment to the working capital loan agreement ("First Amendment"), as amended by Commission at its public hearing on December 16, 2008, all of the above terms would remain the same except that the loan amount would increase by \$524,000 of which \$481,000 will be CDBG program income and \$43,000 will be tax increment funds from the Project Area; interest rate will decrease from 6% to 5% per year and loan repayment will start in November 2010 – a 24 month deferral—instead of May 2010. If approved and subject to FFS meeting the criteria for receipt of additional CDBG funds, the total aggregate amount of the loan will be \$624,000.

11. The first disbursement from the additional loan will be limited to 50% (\$262,000) to cover accrued unpaid operating expenses and tenant improvement construction costs. The remaining \$262,000 will be disbursed: (1) upon a showing of compliance with CDBG funding requirements; and (2) when FFS has met operating benchmarks set either by a restaurant-consultant retained by the Agency or by Agency staff. FFS will be required to work with the restaurant-consultant approved by the Agency. Also, for the 24 months, FFS will provide Agency staff quarterly reports showing operating revenues, expenses and profit (or loss) and steps being taken to further improve its operations. The Agency Commission also amended the staff proposal to require that, for the first 12 months, the restaurant consultant will supplement the quarterly reports with its evaluation of FFS operation directly to the Agency.
12. Agency authorization of the proposed First Amendment with FFS to provide funding to pay for tenant improvements and to stabilize the operation of the existing business, is exempt from the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines Section 15061(b)(3). The provision of working capital would facilitate the continued operation of the *1300 on Fillmore* business, such that the business can repay outstanding loan amounts to the Agency over time. Approval of the First Amendment would not lead to any significant physical effects on the environment.
13. Agency staff recommends approval of the First Amendment with FFS as described herein.

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 a first amendment to a working capital loan agreement with Food for Soul, LLC, a California limited liability company, to increase the loan amount by \$524,000 to a total aggregate not to exceed \$624,000 for tenant improvements and operating expenses for the *1300 on Fillmore* restaurant located at 1300 Fillmore Street, San Francisco in the Western Addition Redevelopment Project Area A-2, substantially in the form lodged with the Agency General Counsel, and to enter into any and all ancillary documents or take any additional actions necessary to consummate the transaction.

APPROVED AS TO FORM:



James B. Morales
Agency General Counsel