RESOLUTION NO. 10-2009

Adopted January 13, 2009

AUTHORIZING A FIRST AMENDMENT TO THE AMENDED AND RESTATED TENANT IMPROVEMENT LOAN AGREEMENT WITH SHEBA LOUNGE, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY, TO CONSOLIDATE ITS TENANT IMPROVEMENT, FAÇADE IMPROVEMENT, AND BUSINESS ASSISTANCE LOANS INTO ONE COMBINED LOAN IN THE AMOUNT OF $295,000; TO INCREASE THE CONSOLIDATED LOAN AMOUNT BY $90,000 FOR ADDITIONAL TENANT IMPROVEMENTS, FOR A TOTAL AGGREGATE AMOUNT NOT TO EXCEED $385,000; TO DEFER THE REPAYMENT OF THE CONSOLIDATED LOAN FOR TWO YEARS; TO NULLIFY THE LOAN DOCUMENTS RELATED TO TWO OF THE THREE CONSOLIDATED LOANS; AND TO FORGIVE $95,000 OF THE CONSOLIDATED LOAN UPON FULFILLMENT OF CERTAIN TERMS AND CONDITIONS; ALL ASSOCIATED WITH SHEBA LOUNGE, A RESTAURANT AT 1419 FILLMORE STREET; WESTERN ADDITION

BASIS FOR RESOLUTION

1. On April 19, 2005, by Resolution No. 59-2005, 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, for a total aggregate amount of $200,000, to Sheba Lounge, LLC, a California limited liability company ("Sheba" or "Sheba Lounge"), to establish a restaurant/music lounge (the "Restaurant") at 1419 Fillmore Street in the Western Addition Redevelopment Project Area A-2.

2. On December 6, 2005, by Resolution No. 203-2005, the Commission approved First Amendments to the Original Loan Agreements to provide, among other things, a separate $95,000 loan to Sheba to pay for additional tenant improvement cost related to prevailing wages (the "Prevailing Wage Loan").

3. Between August 2004 and March 2006, the Mayor's Office of Community Development provided Sheba with two loans totaling $250,000 for tenant improvements (TI) and working capital. Sheba Lounge opened in May 2006.

4. On June 19, 2007, by Resolution No. 64-2007, the Commission approved an Amended and Restated Loan Agreement with Sheba to reduce interest rates on its four loans with the Agency and to suspend for one year the monthly repayments of three of the loans. Repayment of the three loans was set to start on June 1, 2008.

5. In May 2008, Sheba informed the Agency that the Restaurant is yet to generate enough cash flow to cover its expenses and debt obligations, including debt service to the Agency. The two owners of Sheba, Netsanet Alemayehu and Israel Alemayehu (the "Owners"), have been drawing down on their equity investment in Sheba Lounge to pay their ongoing expenses and debt obligations, but the business is still operating at a loss. The Owners indicated that the continuing operation loss is due to increase competition for customers, the lack of ongoing promotion of the Fillmore Jazz Preservation District (the "Jazz District"), the softening of the economy, and Fillmore Center Plaza reconstruction activities that have reduced visibility of the Restaurant's storefront and impeded customer walk-ins. The Owners continued to fund the operation deficit hoping that with the opening of the nearby Yoshi's, the renewed promotion of the Jazz District, and the recent completion of the Fillmore Center Plaza would increase patronage of their business leading to increase sales.

6. The Owners expressed optimism at improving Sheba's operations through a number of steps:

   - **Increase Revenue** – Expand entertainment offerings through more bookings and multiple performances per day to draw additional guests; hire a special event manager/promoter; utilize the recently re-vamped patio area of the premises to increase seating capacity; increase off-premises sales by expanding catering services; and extend kitchen operations to include late night services.

   - **Reduce Expenses** – Preserve operation cash flow by not leasing operation equipment; instead, use the requested Agency funds to buy the needed equipment and fixtures; streamline operations to reduce cost; become more cost conscious; and tie costs to benchmarks.

   - **Marketing** – Expand media campaign through SF Chronicle, SF Weekly, SF Bay Guardian, 7x7, along with a national print media to target food/entertainment/lifestyle editors of trade magazines; and outreach to local jazz radio stations, KKSF, KCSM, KBLX and KPOO to promote awareness about Sheba Lounge.

7. On December 9, 2008, by Resolution No. 146-2008, the Commission approved an amended Fillmore Jazz Preservation District Revolving Loan Program (the "Amended Loan Program") to increase the maximum loan amounts for non-forgivable façade improvement loans, tenant improvement loans and business assistance 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.

8. In following the Commission's direction to determine the viability of the borrowers' businesses under the proposed loan restructuring, staff analyzed Sheba's 2008 performance and the steps its taking to improve its operations. According to records provided by Sheba based on actual data from its operations between January and October 2008, its projections for 2008 includes $407,660 in gross revenues, $430,632 in operating expenses, and a $22,972 deficit. Sheba's operation deficit for 2008 is due to increased business competition, inadequate marketing, and declining revenues due in large part to the current difficult economic climate that started in early 2008.

9. Agency staff has held discussions in recent weeks with Sheba about the steps it is taking to improve its operations. Sheba is taking pragmatic steps to streamline its operations, control costs and increase revenues by expanding its entertainment offerings, hiring a special event manager/promoter; expanding its restaurant seating capacity and catering services; and increasing its marketing efforts to generate more attendance. Based on these steps and in light of the current economic climate, Sheba is expecting a profit of about $34,669 in 2009 based on projected total revenues of $514,483 and total expenses of $480,162.

10. The existing four Agency loans to Sheba described above are each secured with a promissory note, a recorded leasehold deed of trust, a security agreement, loan guaranties, and UCC-1 Financing Statement. Each of the loans carries a fixed interest rate of 3.25% per year that began accruing on July 1, 2008. The combined loan repayment schedule includes a monthly repayment of $2,648.64 for July 2008 through October 1, 2011, thereafter the repayment increased to $3,576.97. The terms of the loans vary from three and a half (3.5) years to 13 years.

11. Sheba is requesting **(a)** the consolidation of its Tenant Improvement, Façade Improvement and Business Assistance Loans in the combined loan amount of $295,000, all to ease its debt servicing; **b)** increase the consolidated loan principal by $90,000 to an aggregate total amount not to exceed $385,000, **(c)** defer the repayment of the consolidated loan to 2012 with no interest accruing; **(d)** base the monthly loan repayment on 50% of profit; **(e)** nullify the loan documents related to the two smaller loans being consolidated; and **(f)** forgive the fourth loan TI loan with a principal of $95,000.

12. Under the proposed First Amendment to the Amended and Restated Tenant Improvement Loan Agreement (the "First Amendment"), all of the above terms would remain the same except for the following:

- Increase the $295,000 loan amount of the proposed consolidated loan by $90,000 to $385,000.

- Interest not to accrue for five (5) years from the First Amendment execution date and thereafter to accrue at 3.25% simple interest, no compounding.

- The accrued unpaid interest on the existing loans (approximately $2,776) is to be waived.

- Monthly loan repayment of $1,475 will start on January 1, 2011 and continue thereafter until the end of the loan term, 2019. The consolidated loan is due and payable by the end of 2019.

- The first disbursement from the additional loan will be limited to 50% ($45,000) to reimburse incurred tenant improvement costs, and the remainder, $45,000, will be disbursed subject to providing required documentations and/or meeting operating benchmarks set by an Agency-approved restaurant consultant or Agency staff.

- The Prevailing Wage Loan will be forgiven after Sheba has paid to the Agency 24 monthly repayments under the proposed consolidated loan. If Sheba has not made the 24 monthly payments to the Agency by December 2013, then it shall use 15% of its profit as monthly payment on the Prevailing Wage Loan until it has made 24 monthly payments on the consolidated loan.

- The Owners are required to work with an Agency-approved restaurant consultant who will set operation benchmarks for Sheba with the aim of improving its operations, grow its revenues, and help it succeed.

- The Owners are required to provide to the Agency quarterly business operation reports for the next 24 months showing operating revenues, expenses, and profit (or loss) and the steps being taken to further improve its operations.

- The security for the consolidated loan will be limited to UCC-1 Financing Statement – a security against the fixtures, furniture and equipment of Sheba.

13. The disbursement of the loan increase is subject to the Board of Supervisors' approval of the Agency's budget amendment that the Commission adopted by Resolution No. 145-2008 on December 9, 2008 to reprogram funds for the Western Addition Redevelopment Project Area A-2 budget.

14. Commission authorization of the proposed First Amendment with Sheba will consolidate three of four existing loans into one loan that increases the consolidated loan amount for additional tenant improvements and allows for repayment of the consolidated loan amount over an extended period of time, and cancel the fourth loan. The majority of the original loan amounts and the additional loan amount are for completing tenant and façade improvements,

which are activities that are alterations to an existing facility that would have no resultant significant environmental impacts and are categorically exempt from the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines Section 15301(a). The provision of business assistance funds would not have directly caused any significant physical effect on the environment and is exempt from CEQA pursuant to CEQA Guidelines Section 15061(b)(3). Approval of the proposed First Amendment will provide extended repayment terms to the loan agreement in order to facilitate the continued operation of the Sheba Lounge business, such that the consolidated loan amount can be repaid over time. This action will not lead to additional changes to the environment and will not cause any significant physical effects on the environment, and is exempt from CEQA pursuant to CEQA Guidelines Section 15061(b)(3).

15. Agency staff recommends approval of the proposed First Amendment and the increase in loan amount 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 the Amended and Restated Tenant Improvement Loan Agreement with Sheba Lounge, LLC, a California limited liability company, to consolidate its Tenant Improvement, Façade Improvement, and Business Assistance Loans into one combined loan in the amount of $295,000; to increase the consolidated loan amount by $90,000 for additional tenant improvements, for a total aggregate amount not to exceed $385,000; to defer the repayment of the consolidated loan for two years; to nullify the loan documents related to two of the three consolidated loans; and to forgive $95,000 of the consolidated loan upon the fulfillment of certain terms and conditions; all associated with *Sheba Lounge* located at 1419 Fillmore Street in the Western Addition, 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:

for. James B. Morales 1/8/09
Agency General Counsel