

## RESOLUTION NO. 9-2009

*Adopted January 13, 2009*

**AUTHORIZING A FIRST AMENDMENT TO THE AMENDED AND RESTATED LOAN AGREEMENT WITH AGONAFER SHIFERAW, A SOLE PROPRIETOR, DOING BUSINESS AS RASSELAS JAZZ CLUB, TO INCREASE THE AGENCY TENANT IMPROVEMENT LOAN BY \$251,000 TO REIMBURSE THE OWNER FOR INCURRED TENANT IMPROVEMENT COST, FOR A TOTAL AGGREGATE AMOUNT NOT TO EXCEED \$1,256,000 AND TO DEFER THE LOAN REPAYMENT FOR TWO YEARS, ALL RELATED TO THE COSTS ASSOCIATED WITH ESTABLISHING A JAZZ CLUB/RESTAURANT AT 1534-40 FILLMORE STREET; WESTERN ADDITION**

### BASIS FOR RESOLUTION

1. On December 17, 1997, by Resolution No. 102-97, the Commission approved a Loan Agreement (the "Loan Agreement") with Mr. Agonafer Shiferaw (the "Owner") for \$737,000 to pay for tenant improvements (TIs) for Rasselas Jazz Club and Restaurant ("Rasselas") at 1534-40 Fillmore Street (the "Property") in the Fillmore Jazz Preservation District (the "Jazz District") in the Western Addition Redevelopment Project Area A-2. Rasselas opened for business in October 1999.
2. On January 13, 2000, by Resolution No. 5-2000, the Commission approved a First Amendment to the Loan Agreement that extended the date for the first loan repayment from January 15, 2000 to January 15, 2001.
3. On November 28, 2000, by Resolution No. 235-2000, the Commission approved a Second Amendment to the Loan Agreement that increased the amount of the loan by \$268,000 for a total principal amount of \$1,005,000 and restructured the loan's repayment terms. Mr. Shiferaw used the funds from the Agency loan along with his own funds to cover the TIs in establishing the Rasselas Jazz Club and Restaurant in the Jazz District.
4. On June 15, 2004, by Resolution No. 83-2004, the Commission approved an Amended and Restated Loan Agreement with Mr. Shiferaw to incorporate a new repayment schedule and to allow private-lender financing of Mr. Shiferaw's acquisition of the Property. Mr. Shiferaw acquired the Property and the Agency loan was subordinated to the acquisition loan.
5. Mr. Shiferaw has not missed any loan repayments to the Agency, except for a brief period this year, which it has since brought current. He recently received a refinancing loan of \$1.3 million from Sequoia Capital Mortgage to replace the loan he used to acquire the Property housing its club and fund past due operating expenses. Because of business competition and the current economic climate, he reported that Rasselas' revenue has declined prompting him to ask the Agency to restructure his loan to reduce debt-service burden and preserve cash flow for Rasselas' operations.

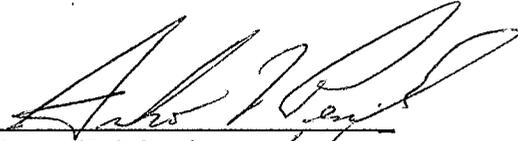
6. On December 9, 2008, by Resolution No. 146-2008, the Commission approved an amended Fillmore Jazz Preservation District Revolving Loan Program (the "Amended Loan Program") to increase the maximum loan amounts for non-forgivable façade improvement loans, tenant improvement loans and business assistance 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.
7. In following the Commission's direction, Agency staff analyzed Rasselas' 2008 performance and the steps it is taking to improve its operations. Staff analyzed Rasselas' monthly profit and loss statements for January through November 2008 and its expected performance from December 2008 through December 2009. Rasselas' year-end projections for 2008 show \$607,264 in gross revenues and \$698,382 in operating expenses, resulting in a deficit of (\$91,118) for the year. Mr. Shiferaw anticipates the fourth quarter 2008 deficit to be about \$14,625 given the steps he is taking to improve its operations. Mr. Shiferaw attributed his projected 2008 operation deficit to increased business competition and the current economic climate. He also cited the lack of ongoing promotion of the Jazz District.
8. Agency staff has held discussions in recent weeks with Mr. Shiferaw about the steps he is taking to control operating expenses and increase revenues and profit. Mr. Shiferaw is streamlining Rasselas' operations and controlling its operation costs to increase its revenues by improving its marketing efforts, launching new events, programs, and promotions. Based on these steps and in light of the current economic climate, he is projecting for 2009 a profit of approximately \$91,752 based on total revenues of \$1,008,000 and total expenses of \$916,248.
9. The existing Agency/Mr. Shiferaw Amended and Restated Loan Agreement includes a compounding interest rate of 3.5% per year with a monthly loan repayment of \$4,834.33 based on a 30-year amortization. The loan has a 20-year term, and since it was originated in 1997, it is due and payable in December 2017 with a balloon payment. It is secured with recorded trust deed which has been subordinated to a private lender's loan.
10. Under the proposed First Amendment to the Amended and Restated Loan Agreement (the "First Amendment"), all of the above terms would remain the same except for the following:
  - The outstanding loan balance of \$1,027,081 would increase by \$251,000 to \$1,278,081.

- Interest will not 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 loan (approximately \$6,000) is to be waived.
  - Monthly loan repayment of \$4,470 will start on January 1, 2011 and continue thereafter until the end of the loan term, 2017. The loan is due and payable by the end of 2017.
  - The first disbursement from the additional loan will be limited to 50% (\$125,500) to reimburse incurred tenant improvement costs, and the remainder, \$125,500, will be disbursed to reimburse tenant improvement costs subject to providing required documentations and/or meeting operating benchmarks set by an Agency-approved restaurant consultant or Agency staff.
  - Mr. Shiferaw is required to work with an Agency-approved restaurant consultant who will set operation benchmarks for Rasselas with the aim of improving its operations, grow its revenues, and help it succeed.
  - Mr. Shiferaw is required to provide to the Agency quarterly business operation reports for Rasselas for the next 24 months showing operating revenues, expenses, and profit (or loss) and the steps being taken to further improve its operations.
  - The loan increase will be secured under the existing security instruments of the existing loan agreement, and a notice of additional loan under a deed of trust will be recorded for the new loan increase.
11. 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.
  12. Agency authorization of the proposed First Amendment with Mr. Shiferaw for tenant improvements will stabilize the operation of an existing business and it is exempt from the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines Section 15061(b)(3). The provision of the loan increase would facilitate the continued operation of the Rasselas business, such that the business can remain viable and provide needs, services, and employments. 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 Mr. Shiferaw to modify the terms the Amended and Restated Loan Agreement and increase the 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 (1) execute a First Amendment to the Amended and Restated Loan Agreement with Agonafer Shiferaw, a sole proprietor, doing business as Rasselas Jazz Club, to increase the Agency Tenant Improvement Loan by \$251,000 to reimburse the Owner for incurred tenant improvement cost, for a total aggregate amount not to exceed \$1,256,000 and to defer the loan repayment for two years, all related to the tenant improvement cost associated with establishing a jazz club/restaurant at 1534-40 Fillmore Street in the Western Addition; and (2) any and all ancillary documents necessary to consummate this transaction substantially in the form lodged with the Agency General Counsel.

**APPROVED AS TO FORM:**



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