ATTACHMENT 1

SIX ON SIXTH PROGRAM DESCRIPTION
Sixth on Sixth Program Description

The Six on Sixth Economic Revitalization Program (the “Six on Sixth Program” or the “Program”) seeks to attract new retail tenants to Sixth Street and the South of Market Redevelopment Project Area (the “Project Area”) and improve conditions for existing business and nonprofit tenants by providing loans and technical assistance. Through façade improvement, tenant improvement, and business assistance loans and design assistance grants, the San Francisco Redevelopment Agency (the “Agency”) seeks to alleviate economic blight in the Project Area.

BACKGROUND

The Project Area was created in 1990 as an earthquake recovery redevelopment project area to repair damage caused by the 1989 Loma Prieta Earthquake. The Redevelopment Plan for the South of Market Redevelopment Project Area (the “Redevelopment Plan”) was amended in December 2005 to covert the project to a traditional redevelopment project area with the full complement of redevelopment tools.

In November 2000, an economic study funded by the Agency and conducted by the South of Market Foundation concluded that market conditions on the Sixth Street corridor had not improved since the earthquake. The study reported that thirty percent of the storefronts on Sixth Street were vacant and many had been vacant for years. The study also found that:

- Even during the dot-com boom in the surrounding area, Sixth Street was resistant to investment and economic growth;
- The lack of market-rate development on Sixth Street was due primarily to the prevalence of crime, the condition of vacant commercial spaces, the difficulty potential new businesses faced in securing funds, and a neighborhood consumer base with little disposable income;
- These conditions made it difficult to market commercial property to a wide range of retail uses, resulting in a street dominated by businesses similar to those already there, such as liquor stores and pawn shops;
- The high percentage of vacant storefronts had contributed to disrepair, graffiti and crime, which further hinder new investment and potential new tenants;
- With costs estimated at $100 per square foot (in 2000 dollars) to bring these storefronts into leasable condition, few property and business owners were willing to invest given the low marginal returns; and
- Many new businesses have been unable to obtain loans to fund façade and tenant improvements.

In November 2002, in response to the conditions cited in this study, the Six on Sixth Program was adopted in order to provide façade improvement, tenant improvement, and business assistance loans and design assistance grants to commercial property and business owners on Sixth Street between Market and Harrison Streets. The goal of the Program was to revitalize retail activity along the street by bringing at least six new or improved businesses to Sixth Street during its first year of operation. Although a small portion of Sixth Street between Market and Stevenson Streets is outside of the Project Area, the Program’s revitalization goals primarily benefit the Project Area. The California Community Redevelopment Law (“CRL”) defines “redevelopment activity” as that which “primarily
benefits the project area.” [CRL, Chapter 5, Article 6, **Health and Safety Code**, Section 33678 (b) 1 (B)]

In September 2005, the Program was amended to: (1) expand the geographic boundaries to include the entire Project Area, while retaining its focus on the Sixth Street corridor; (2) allow nonprofit organizations to apply for forgivable façade improvement loans; and (3) allow businesses to apply for forgivable tenant improvement loans.

In June 2007, the Program was further amended to provide higher levels of assistance specifically for the most deteriorated commercial spaces on Sixth Street. These amendments included: (1) increasing the maximum forgivable loan amounts and reducing the matching requirements for the most deteriorated spaces on Sixth Street; (2) reducing the forgivable period for tenant improvement loans to businesses in the most deteriorated spaces on Sixth Street; and (3) requiring that borrowers utilize loan or grant funds within one year of the start of a façade or tenant improvement project. In December 2007, the Executive Director’s budgetary authority to approve maximum aggregate loans in the amount of $70,000 per retail space/storefront was clarified.

In September 2010, the Program was amended to provide higher levels of assistance specifically for corner catalysts sites at Sixth and Market and Sixth and Howard Streets. These amendments included: (1) increasing the forgivable loan amounts for catalyst corner sites and (2) reducing the matching requirements for catalyst corner sites. At this time, more general changes to the Program were approved, including: (1) restructuring the forgivable tenant improvement loan period for all businesses (including catalyst corner sites) and (2) increasing the amounts of design assistance grants available through the Program.

The Six on Sixth Program provides incentives for commercial property owners to rehabilitate their storefronts to attract tenants, and for businesses and nonprofit organizations to establish new operations or improve existing operations. In furtherance of the CRL, the program addresses economic blight, i.e., “depreciated or stagnant property values; abnormally high business vacancies; abnormally low lease rates; high turnover rates; lack of necessary commercial facilities that are normally found in neighborhoods (grocery stores, drug stores, banks and other lending institutions); an excess of businesses that cater exclusively to adults; and a high crime rate.” [CRL, Chapter 1, Article 3, **Health and Safety Code**, Section 33031 (b) 1-5].

**TYPES OF PROGRAMS AND ELIGIBLE PROPERTIES**

Generally, the Six on Sixth Program offers façade improvement, tenant improvement, and business assistance loans. Façade improvement loan funds can be used for exterior improvements including doors, signs, awnings, tiles, exterior lighting, painting, hoses, bibs, etc. and for removing safety bars/gates. Tenant improvements loan funds can be used for interior improvements including capital construction, fixtures, equipment, etc. Business assistance loan funds can be used for fixed equipment, capital construction (other than façade improvements) and moving expenses.

Under the Program, there are three categories of properties: 1) deteriorated buildings on Sixth Street; 2) catalyst corner sites; and 3) all other commercial properties in the Project Area. Loan terms and matching requirements vary based on the type of property, and whether an applicant is a business, nonprofit organization, or property owner. These terms for each category are described below and in Attachment A.
The Basic Program

The basic façade improvement and tenant improvement programs provide matching forgivable loans at 0% interest, non-forgivable loans at 6% interest, and architectural design assistance to all commercial buildings in the Project Area. For façade improvements, the matching loan is deferred and forgivable upon completion of work. For tenant improvements, the matching loan is deferred and forgivable over a five year term (from the date a business begins operations) for businesses and over a fifteen-year term for property owners. To encourage wider participation and investment beyond the forgivable loan limits, non-forgivable façade, tenant improvement, and business assistance loans for greater amounts are offered at a low interest rate of 6%.

As shown below, the terms and matching requirements for the loans vary depending on whether an applicant is a business, nonprofit organization, or property owner.

<table>
<thead>
<tr>
<th>PROGRAM TYPE</th>
<th>DESIGN ASSISTANCE</th>
<th>FORGIVABLE LOANS</th>
<th>NON-FORGIVABLE LOANS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Maximum – Match Required</td>
<td>Forgivable Period</td>
</tr>
<tr>
<td>Façade Improvements</td>
<td>$5,000</td>
<td>$9,500 – SFRA dollar for dollar match</td>
<td>Forgiven upon completion of work</td>
</tr>
<tr>
<td>• Businesses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Property Owners</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Façade Improvements</td>
<td>$5,000</td>
<td>$9,500 – No match required</td>
<td>Forgiven upon completion of work</td>
</tr>
<tr>
<td>• Nonprofits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tenant Improvements</td>
<td>$10,000</td>
<td>$25,000 – SFRA gives one dollar for every two invested</td>
<td>5 years – 4/5th of loan is forgiven at end of Year 4, 1/5 at end of Year 5</td>
</tr>
<tr>
<td>• Businesses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tenant Improvements</td>
<td>$10,000</td>
<td>$25,000 – SFRA gives one dollar for every two invested</td>
<td>15 years – 1/15th of loan is forgiven each year</td>
</tr>
<tr>
<td>• Property Owners</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Assistance</td>
<td>$3,000</td>
<td>None</td>
<td>N/A</td>
</tr>
<tr>
<td>• Businesses</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Deteriorated Buildings

In June 2007, the Program was amended to provide additional incentives for businesses to move into the most deteriorated spaces on Sixth Street, as well as an incentive for property owners to invest in these spaces. Agency staff surveyed all of the buildings on or near Sixth Street and identified the most deteriorated retail spaces. All of these buildings were also identified in the 2005 Report on the Plan Amendment for the South of Market Redevelopment Plan Amendment.
as having a building condition rating of either 1 (Very Extensive Deficiencies) or 2 (Extensive Deficiencies) out of a maximum rating of 5 (Generally Excellent Condition). The addresses of these retail spaces are listed below:

<table>
<thead>
<tr>
<th>Number</th>
<th>Street</th>
<th>2005 Building Condition Rating*</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>Sixth</td>
<td>1 – Very Extensive Deficiencies</td>
</tr>
<tr>
<td>28</td>
<td>Sixth</td>
<td>1 – Very Extensive Deficiencies</td>
</tr>
<tr>
<td>65-77</td>
<td>Sixth</td>
<td>1 – Very Extensive Deficiencies</td>
</tr>
<tr>
<td>72-76</td>
<td>Sixth</td>
<td>1 – Very Extensive Deficiencies</td>
</tr>
<tr>
<td>99</td>
<td>Sixth</td>
<td>2 – Extensive Deficiencies</td>
</tr>
<tr>
<td>100</td>
<td>Sixth</td>
<td>1 – Very Extensive Deficiencies</td>
</tr>
<tr>
<td>101</td>
<td>Sixth</td>
<td>2 – Extensive Deficiencies</td>
</tr>
<tr>
<td>109-115</td>
<td>Sixth</td>
<td>2 – Extensive Deficiencies</td>
</tr>
<tr>
<td>132-134</td>
<td>Sixth</td>
<td>2 – Extensive Deficiencies</td>
</tr>
<tr>
<td>137-139</td>
<td>Sixth</td>
<td>1 – Very Extensive Deficiencies</td>
</tr>
<tr>
<td>138</td>
<td>Sixth</td>
<td>2 – Extensive Deficiencies</td>
</tr>
<tr>
<td>144</td>
<td>Sixth</td>
<td>2 – Extensive Deficiencies</td>
</tr>
<tr>
<td>148-160</td>
<td>Sixth</td>
<td>1 – Very Extensive Deficiencies</td>
</tr>
<tr>
<td>162-164</td>
<td>Sixth</td>
<td>1 – Very Extensive Deficiencies</td>
</tr>
<tr>
<td>200-212</td>
<td>Sixth</td>
<td>1 – Very Extensive Deficiencies</td>
</tr>
<tr>
<td>228-232</td>
<td>Sixth</td>
<td>1 – Very Extensive Deficiencies</td>
</tr>
<tr>
<td>201</td>
<td>Howard</td>
<td>1 – Very Extensive Deficiencies</td>
</tr>
<tr>
<td>496-498</td>
<td>Natoma</td>
<td>1 – Very Extensive Deficiencies</td>
</tr>
<tr>
<td>501-505</td>
<td>Minna</td>
<td>2 – Extensive Deficiencies</td>
</tr>
<tr>
<td>1003</td>
<td>Mission</td>
<td>1 – Very Extensive Deficiencies</td>
</tr>
</tbody>
</table>

*Report on the Plan Amendment for the South of Market Redevelopment Plan Amendment, Chapter IV, September 2005

For the addresses listed above, the program allows higher maximum forgivable loan amounts and reduced matching requirements for façade and tenant improvement projects and a reduced forgivable period for tenant improvement loans to businesses. The requirements are summarized in the table below:
Corner Catalyst Sites

In September 2010, the Program was amended to provide additional incentives to prospective tenants at two corner “catalyst” sites. The Program had been unable to attract tenants to some of the most challenging spaces on the corridor, including the large corner space at Sixth and Market Streets, because of the high façade/tenant improvement costs and the relatively high rents associated with these spaces. Highly visible corner locations serve as gateways to the Sixth Street retail corridor from two of the city’s main arteries, and are therefore important catalysts to the overall success of the corridor. In addition, the Hugo Hotel site at Sixth and Howard Streets was also identified as an important “catalyst” location.

In order to revitalize these two corner spaces and attract successful and appropriate retail tenants, the following changes were made to the Six on Sixth Program: (1) increasing the forgivable loan amounts from $70,000 to $150,000-$200,000 per retail space/storefront and (2) reducing the matching requirements from $1 for every $2 from the Agency to $1 for every $3 from the Agency. These changes strictly apply to the two catalyst corner sites (Sixth and Market and Sixth and Howard Streets), and only apply to new businesses leasing the spaces, not to property owners.
The requirements are summarized in the table below:

<table>
<thead>
<tr>
<th>PROGRAM TYPE</th>
<th>LOCATION</th>
<th>DESIGN ASSISTANCE</th>
<th>FORGIVABLE LOANS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combined Façade &amp; Tenant Improvements • New Businesses only</td>
<td>Sixth &amp; Market (Southwest Corner)</td>
<td>$10,000</td>
<td>Maximum – Match Required $200,000 – SFRA gives three dollars for every dollar invested</td>
</tr>
<tr>
<td>Combined Façade &amp; Tenant Improvements • New Businesses only</td>
<td>Sixth &amp; Howard (Hugo Hotel Site)</td>
<td>$10,000</td>
<td>Maximum – Match Required $150,000 – SFRA gives three dollars for every dollar invested</td>
</tr>
</tbody>
</table>

**EXECUTIVE DIRECTOR’S BUDGETARY AUTHORITY**

The Executive Director’s budgetary authority for the Six on Sixth Program is $70,000 for each retail space/storefront. This authority also extends to multiple storefronts within the same building. For example, in a building with two storefronts, a property or business owner would be eligible for, and the Executive Director has the budgetary authority to approve, an aggregate total of $140,000 in forgivable loans. Loan requests in excess of $70,000 per retail space/storefront require Commission approval.

As an additional layer of oversight, the Executive Director consults with an internal panel of Agency staff before approving loan requests in excess of $50,000 total for a single retail space or a single borrower. The panel reviews loan requests from property and business owners to ensure that any request for multiple loans totaling more than $50,000 is consistent with the Agency’s goals for Sixth Street and the Agency’s approval criteria for the Six on Sixth Program.

**OTHER PROGRAM TERMS**

To qualify for the program, applicants must meet established criteria and be deemed creditworthy by a loan committee composed of Agency staff. Underwriting criteria are listed in Attachment B. Preference criteria and loan covenants are listed in Attachments C and D, respectively.

Loan funds are disbursed to reimburse actual expenses supported by approved invoices. Disbursement of funds for construction loans begins after permit approval by the Department of Building Inspection, if required.

Funds cannot be used to address code violations, retire existing debt, make payment on delinquent taxes, or purchase real estate or other 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.

Since architectural fees are frequently an initial impediment to improvement projects, the Agency provides design services through an architectural firm retained by the Office of Economic and
Workforce Development. For façade improvements, the Agency provides up to $5,000 of architectural services. Since tenant improvements involve more design work, the Agency provides up to $10,000 of architectural services. Subsequent to a preliminary meeting with an architect, participants are asked to make a deposit of $500. The deposit is refunded upon completion of the project, but forfeited if the participant did not complete it for any reason. For loans involving construction, prior to start of work the architectural design is approved by the Agency’s Architecture Division.
## ATTACHMENT A: Outline of Primary Terms

### SIXTH ON SIXTH PROGRAM SUMMARY – BASIC PROGRAM

<table>
<thead>
<tr>
<th>PROGRAM TYPE</th>
<th>DESIGN ASSISTANCE</th>
<th>FORGIVABLE LOANS</th>
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<tr>
<td></td>
<td>Maximum – Match Required</td>
<td>Forgivable Period</td>
<td>Maximum</td>
</tr>
<tr>
<td>Façade Improvements • Businesses • Property Owners</td>
<td>$5,000</td>
<td>$9,500 – SFRA dollar for dollar match</td>
<td>Forgiven upon completion of work</td>
</tr>
<tr>
<td>Façade Improvements • Nonprofits</td>
<td>$5,000</td>
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<tr>
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</tr>
<tr>
<td>Business Assistance • Business</td>
<td>$3,000</td>
<td>None</td>
<td>N/A</td>
</tr>
</tbody>
</table>

### SIXTH ON SIXTH PROGRAM SUMMARY – DETERIORATED BUILDINGS ON SIXTH STREET*

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</tr>
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<td>• New Businesses only</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ATTACHMENT B: Underwriting Criteria

For all non-forgivable loans, amortization and repayment of the loans begins after Agency loan approval.

Facade Improvement Loans
Property owners, businesses and nonprofit organizations are eligible for the façade improvement loan program. However, business owners and nonprofit organizations 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 is given to property owners who have a business tenant secured. Tenant improvement loans must not exceed 100% of the total collateral value, which includes:

- 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 owners are eligible for tenant improvement loans if have at least three years remaining on a lease with options to renew. Tenant improvement loans must not exceed 100% of the total collateral value, which includes:

- Deed of Trust on leasehold 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.
ATTACHMENT C: Preference Criteria

In addition to the underwriting criteria, preference in any of the loan programs is 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 South of Market 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 South of Market and/or San Francisco.

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

1) Professional offices;

2) Wholesale business, except discount offerings to the general public;

3) Any unlawful or unlicensed business; or

4) Uses that have led to recurrent problems of public safety and welfare or that contribute to conditions of blight as defined by Community Redevelopment Law.
**ATTACHMENT D: Loan Covenants**

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

1) Pay Prevailing Wages for all construction loans, comply with Prevailing Wage Provisions.

2) Recruit from local employment agencies, i.e., South of Market Employment 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 Small Business Enterprises (SBE’s), or the Human Rights Commission’s list of contractors, and comply with the Agency’s Small Business Enterprise Program.

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) Comply with Non-Discrimination in Benefits.

8) Comply with the Agency Construction Workforce Agreement.

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 a condition at loan closing, applicants must join the West SOMA Merchants Association or comparable organization to work cooperatively to improve conditions on the street.

Also as a condition at loan closing, any cited code violations pertaining to retail or residential uses in a building must be corrected or in the process of being corrected.

**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 rents along Fifth and Seventh Streets between Stevenson and Harrison Streets for the following ten years. Since most rents along Sixth Street are currently $0.50 to $0.75 per square foot, this formulation will result in rents less than or comparable to rents in the Project Area after fifteen 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.
Under the basic program, 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. For businesses (but not property owners), fourth-fifths of the loan amount would be forgiven at the end of four years of operation, while the remaining one-fifth would be forgiven at the end of five years of operation.

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 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 with the tenant improvement program, the Agency requires 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 fifteen-year term. This requirement will ensure that public funds will not provide a windfall profit to private owners.

The Agency’s property acquisition program provides for the acquisition of blighted properties on Sixth Street for the rehabilitation or new construction for affordable housing, ground level retail, and cultural or community serving uses. Properties that participate in Six on Sixth and are acquired by the Agency at a later date will be required to credit the Agency in the purchase agreement for the amount of the improvements funded by Six on Sixth.