

TRANSMITTAL

To:

THE COUNCIL

Date: SEP 07 2011

From:

THE MAYOR

TRANSMITTED FOR YOUR CONSIDERATION. PLEASE SEE ATTACHED.



(Matt Karatz)

ANTONIO R. VILLARAIGOSA
Mayor

RICHARD L. BENBOW
GENERAL MANAGER

CITY OF LOS ANGELES
CALIFORNIA



ANTONIO R. VILLARAIGOSA
MAYOR

COMMUNITY DEVELOPMENT
DEPARTMENT

1200 W. 7TH STREET
LOS ANGELES, CA 90017

August 24, 2011

Council File: New
Council District No.: 10
Contact Persons/Telephone No.:
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Economic Development Division

The Honorable Antonio R. Villaraigosa
Mayor, City of Los Angeles
Room 303, City Hall

Attention: Pamela Finley, Legislative Coordinator

**COMMITTEE TRANSMITTAL: REQUEST AUTHORITY TO EXECUTE \$2,629,000
CITY LOAN AGREEMENT WITH HAROLD & BELLE'S, LLC FOR THE ACQUISITION
AND EXPANSION OF HAROLD & BELLE'S CREOLE RESTAURANT**

The General Manager of the Community Development Department (CDD) of the City of Los Angeles, respectfully requests that your office process this transmittal to the appropriate City Council Committee(s) and the Los Angeles City Council for consideration and approval.

RECOMMENDATIONS

The General Manager of CDD, requests that the Mayor and City Council:

1. AUTHORIZE the General Manager of CDD, or designee, to negotiate and execute a Promissory Note in favor of the U.S. Department of Housing and Urban Development (HUD) and related documents (HUD Documents) to borrow up to \$2,629,000 pursuant to Section 108 Loan Guarantee Program, to provide financial assistance for the acquisition, rehabilitation and other eligible expansion costs of Harold and Belle's Creole Restaurant (Project), subject to approval of the City Attorney as to form and legality;
2. AUTHORIZE the General Manager of CDD, or designee, to negotiate and execute amendments of HUD Documents that may be necessary, relative to the intent of this

transmittal, subject to approval of the City Attorney as to form and legality;

3. AUTHORIZE the General Manager of CDD, or designee, to negotiate and execute a City Loan Agreement and related documents (City Loan Documents) for City Loan of up to \$2,629,000 to Harold and Belle's, LLC (Borrower), subject to approval of the City Attorney as to form and legality;
4. AUTHORIZE the General Manager of CDD, or designee, to negotiate and execute amendment(s) to City Loan Documents relative to the intent of this transmittal, subject to approval of the City Attorney as to form and legality;
5. AUTHORIZE the General Manager of CDD, or designee, to prepare Controller instructions and make any technical adjustments, that may be required, and are consistent with this action subject to the approval of the Chief Administrative Officer (CAO) and instruct the City Controller (Controller) to implement these instructions;
6. AUTHORIZE the Controller to:
 - a. Establish new account 22H621 Harold and Belle's Expansion and appropriate \$2,629,000 within Fund 43F of the CDD Section 108 Loan Guarantee Program;
 - b. Expend funds upon proper request of the General Manager of CDD;
7. FIND that the Project and City Loan meet National Objective, Eligible Activities and Public Benefit as per the Code of Federal Regulations (CFR); and that the Project is necessary and appropriate to accomplish the City's economic development objectives; and
8. APPROVE the City Loan subject to environmental assessment of the Project to be in compliance with the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA).

FISCAL IMPACT STATEMENT

There will be no fiscal impact on the City General Fund.

The one time flat fee of one percent of City Loan will generate \$26,470. In addition, the City Loan outstanding will earn interest at spread of 1.25 percent, per annum, over index, as described in this transmittal.

PROJECT SUMMARY

Founded in 1969, Harold & Belle's Creole Restaurant and Catering (Harold & Belle's) is a well-known business in the south Los Angeles community. It was originally founded by the Legaux family, who migrated from Louisiana to Los Angeles. Currently, the ownership of Harold & Belle's and the real property where it is situated is Harold and Belles Jefferson Inc. Since 1980, Harold & Belle's has been operated by Al Honore who together with his wife Sue Honore have a 50 percent interest. The balance of ownership

interest is held by Denise Legaux, the widow of the original founder.

Harold & Belle's is located at 2920 West Jefferson Blvd. (Property), at the southeastern corner of Jefferson Blvd. and 10th Avenue. The rectangular-shaped site is comprised of two parcels totaling 14,419 square feet – the building structure is 5,289 square feet. The Property is identified by the Los Angeles County Assessor's Parcel numbers 5044-014-001 and 002.

Interior of Harold & Belle's restaurant is aged and requires moderate rehabilitation. The current ownership has reached the age of retirement and desires to sell the business and Property. In the absence of a planned sale, the possible closure of Harold & Belle's will result in a permanent loss of 50 full time equivalent jobs, in a region afflicted by disproportionately high rates of unemployment.

Acquisition

Currently, the Property and Harold & Belle's, as a business, are under contract to be sold to Harold & Belle's, LLC for \$2,370,000. Managing member of the buyer is Mr. Ryan Legaux, with 50 percent interest, who has been general manager of Harold & Belle's since 2002. The other member of buying entity is Jessica Legaux, Ryan's wife, with 50 percent interest, who has been director of operations and catering.

As of March 2011, Harold & Belle's, as a business, was valued at \$1,309,914. In addition, an appraisal report dated May 2011 has market value of \$2,000,000 for the Property. The purchase price of \$2,370,000 is 71.6 percent of the combined value of the business and Property totaling \$3,309,914.

Through escrow, sales proceeds will repay an existing first mortgage loan of \$1,200,000, currently encumbering the Property. The balance of \$1,170,000 will be paid to seller in three installments. Sum of \$570,000 will be paid on close of escrow. The balance \$600,000 is payable to the seller on the first and second anniversaries, each for \$300,000, subject to the business operation of Harold & Belle's, after this purchase and sale transaction, meeting specific performance and results, as per the Covenants section of the City Loan - Terms & Conditions in this transmittal.

The City Loan of up to \$2,629,000 is 79.4 percent of the combined value of the Property and Harold & Belle's business that will be provided as collateral to the City.

Rehabilitation and Business Expansion Plan

Immediately upon acquisition, the buyer's plan is moderate rehabilitation of the exterior of the restaurant building and major revamp of the interior. The buyer's plan entails repositioning the restaurant business to grow beyond its on-site potential, by expanding its catering capacity and services, and introducing a food trailer and towing vehicle that will facilitate service to patrons off-site at major events throughout Southern California. The plan for remodeling the building's exterior includes applying new paint, installing a new awning, and increasing the number of parking stalls. Remodeling the interior will consist of changes to flooring, wall coverings and lighting fixtures, in addition to

modernizing kitchen equipment, increasing guest seating capacity in the private dining area, and installing new affixed furnishings.

ECONOMIC DEVELOPMENT AREA

Within Council District Ten, the Property is located within the Mid City Recovery Community Redevelopment Project Area of the Community Redevelopment Agency of the City of Los Angeles, the Central City Revitalization Zone, and the Los Angeles State Enterprise Zone. The Property is also situated in the West Adams – Baldwin Hills - Leimert Community Plan Area, and is represented by the South Los Angeles Area Planning Commission.

Council Office is in support of the City Loan for the Project.

CITY LOAN – TERMS & CONDITIONS:

Borrower: Harold & Belle's LLC, a Delaware limited liability company, whose controlling and managing member is Ryan Legaux.

The city at its reasonable discretion may approve Borrower's admitting additional members to the limited liability company.

The Borrower must be a special purpose and single asset entity, with assets comprising solely of the Project and Collateral described herein.

Collateral: The City Loan will be secured by:

1. First deed of trust security interest in the Property and all real and personal assets of the Borrower;
2. Assignment of the leases and rents from all operations and every use of the Property; and
3. Assignment of net operating income from Harold & Belle's on-site and off-site operations.

Appraisal: Provision of City Loan is subject to appraised value of Collateral, both the Property and Harold & Belle's, as a business, not to be less than 125 percent of City Loan.

Covenant: Borrower and Seller covenants shall include:

A) Acquisition price of Harold & Belle's business and Property:

The Borrower, as buyer, shall pay the acquisition price to seller, after repayment of \$1,200,000 first mortgage loan, in the sum of up to \$1,170,000 in three installments.

Acquisition price may be paid to the seller as follows:

- Upon transfer of ownership \$570,000 (close of escrow);
- First year anniversary of sale \$300,000 (2nd installment);
and
- Second Anniversary of sale \$300,000 (3rd installment)

B) Seller shall guaranty the projected operating results, in terms of combined operation at Harold & Belle's restaurant, catering and mobile food truck, in amounts not less than those in Attachment B hereto, as a condition precedent to earning the second and third installments of the sales price.

If the conditions precedent to satisfying the second or third installments were not met, CDD shall apply the budgeted amounts, in whole or in part, towards permanent reduction of City Loan.

Jobs Creation: Borrower shall commit to:

1. Retention of the existing 50 full-time equivalent (FTE) employees;
2. Creation of 26 new permanent FTE jobs at the 2920 West Jefferson Blvd. location and mobile food truck operation; and
3. Listing all job openings by Harold & Belle's, whether on-site or off-site, at the CDD administered WorkSource Centers.

Loan Fee: One percent of City Loan is payable to City, from the initial disbursement of City Loan.

Interest Rate: Variable Interest Rate Period – Commencing on the initial date of disbursement, City Loan shall bear interest-only, set at three months LIBOR, reset monthly, plus spread of 1.25 percent per annum, payable quarterly in arrears.

Fixed Interest Rate Period – Commencing on conversion of City Loan from the Variable Interest Rate to a Fixed Interest Rate, City Loan will be subject to quarterly installments of principal amortization and interest – with interest rate indexed to the yield of ten year U.S. Treasury Notes, plus spread of 1.25 percent, per annum, payable in the arrears.

Amortization: During the Fixed Interest Rate period, City Loan will amortize fully based on an 18 year schedule.

Conversion: The City Loan shall convert from the initial Variable Interest Rate to

a Fixed Interest Rate, at the latest of:

1. Two years from inception of City Loan;
2. Stabilized Operation of Project, as defined herein; and
3. A public offering of a fixed rate issuance by HUD.

Stabilized Operation shall mean when the ratio of Net Operating Income from the Project exceeds the projected installment of debt service (principal and interest), at the Fixed Interest Rate, by a ratio of 1.2:1.0.

Net Operating Income shall mean gross revenue from all and every business operation of Harold & Belle's, whether on-site or off-site, less, reasonable costs and expenses related to the Property and the Harold & Belle's business.

Interest Reserve: CDD shall withhold \$78,870 from City Loan to establish Interest Reserves to pay the interest-only obligations of City Loan during the Variable Interest Rate period.

Recourse: The City Loan will have recourse to Borrower for the following:

1. Replenishment of Interest Reserve when it is depleted by 85 percent or more, by an amount to be determined by CDD at its reasonable discretion. Upon conversion of City Loan to a Fixed Interest rate, if there were unexpended Interest Reserve funds, will be paid for either (a) reasonable and eligible costs of the Project, or (b) permanent repayment of City Loan.
2. Rehabilitation and Expansion completion guaranty on date(s) approved by CDD.
3. Guaranteed conversion of City Loan from the initially Variable Interest Rate to a Fixed Interest Rate, at a debt coverage ratio of 1.2:1.00, which may result in partial prepayment of City Loan in order to meet the debt coverage ratio at the then prevailing Fixed Interest Rate.

Other: City Loan agreement will contain provisions to document the Borrower's compliance with CFR, Federal Commercial Davis-Bacon Wages, and other laws and regulations of the State of California and the City of Los Angeles.

FINANCIAL FEASIBILITY

Attachment B hereto is the CDD-modified copy of the Borrower's pro forma for Harold & Belle's at stabilized operation.

After remodeling, the restaurant will consist of 150 seats, a full bar and a modern kitchen to enhance the Harold & Belle's dining experience, as well as, accommodate off-site catering services. The proposed enhancements to the restaurant will also support operation of the new mobile food trailer. At an assumed 140 percent daily occupancy, and an average meal price of \$23.00 per person, restaurant operations are projected to generate an annual Gross Revenue of \$1,738,800.

Harold & Belle's uses the highest quality of food materials and products for on and off-site meal preparation. The buyer is committed to pursue the same practice. Therefore, the projected Cost of Sales of \$608,580 is 35 percent of Gross Revenue. As a result, Gross Margin Ratio of 65 percent is higher than the market norm 60 percent for comparably seasoned restaurant operations.

The projected payroll for fully staffed operations, including business taxes, license fees, and valet parking, is projected at 32 percent of Gross Revenue, which amounts to \$556,416. For comparable operations, the ratio is 29.7 percent. Thus, Harold & Belle's is projected to exceed the market norm by 2.3 percent.

As a result of the remodeling and rehabilitation, property taxes are not expected to increase beyond the current level.

The Other Operating Expenses are projected to be 15 percent of Gross Revenue, which amounts to \$260,820. The ratio exceeds the operating ratio of comparable restaurants by 7.7 percent. The higher projected ratio at Harold & Belle's is to account for the operating cost of the new mobile food trailer.

As a result, the projected Net Operating Income of \$304,353 is 17.5 percent of Gross Revenue. The ratio of the Net Operating Margin is lower (projected more conservatively) when compared to the market norm of more than 20 percent.

Debt service for the City Loan of up to \$2,629,000 is projected at the assumed yield for 10 year US Treasury Notes at 4 percent, plus a spread of 1.25 percent, per annum. The Borrower's all-in projected interest rate of 5.25 percent, with the City Loan amortizing in 18 years, will result in a projected debt service of \$229,315. With respect to the projected Net Operating Income, the corresponding debt coverage ratio is anticipated to be 1.33:1.00.

Attachment A hereto is a summary of the Sources and Uses of Funds for acquisition and rehabilitation of Harold & Belle's. The City Loan of up to \$2,629,000, with a first deed of trust security interest in the Property and all assets of the Borrower, accounts for 90 percent of (i) acquisition price, (ii) rehabilitation, and (iii) other costs of the Project. Disbursement of the City Loan funds will be subject to draws meeting the test of reasonability and eligibility as per the CFR.

Direct investment by the Borrower (\$292,111) in the Project will be through escrow, which accounts for the remaining 10 percent of the total development budget (\$2,921,111).

RISKS AND MITIGATING FACTORS

1. As a result of the change in ownership, the buyer may fail in seamless continued operation and/or execution of the planned expansion. The risk is mitigated by the following:
 - Mr. Al Honore, the chief operator in-charge, who is part-seller, will remain on board for two years after consummation of the purchase and sale transaction. This will assure seamless transition of all operations from the seller to the buyer. The seller, where Mr. Honore has a 50 percent interest, will receive two annual installments of the sales proceeds, each for \$300,000, only subject to the Borrower's operation meeting the targeted performance measures.
 - Since 2002, the managing member of Borrower (buyer) has been an active party in day to day operation. Therefore, after the purchase, the aim for taking the full charge of all operations will be a natural transition for the buyer.
 - The components comprising the business expansion are based on established practices and do not involve unorthodox elements with high risk of failure.
2. Operating Results of Harold & Belle's may fall short of projections in this transmittal. The risk is mitigated by the following:
 - The Buyer is seasoned with nine years of hands-on experience at Harold & Belle's.
 - The CDD modified pro forma, when applied in sizing the City Loan, are more conservative than those provided by Borrower, and when compared to the market norms.
 - Projected debt coverage ratio provides strong cushion of excess Net Operating Income over the projected debt service.
 - As a last measure of recourse, City Loan will be secured by a first deed of trust security interest in the Property and all assets of the Borrower.
3. Indexes of LIBOR and/or the yield for ten year US Treasury Notes may exceed the projections. The risk is mitigated by the following:
 - The amount of Interest Reserve is ample to meet debt service until City Loan is converted to a fixed interest Rate. The Interest Reserve amount is sized for two years, while the plan for the completion of rehabilitation is only six months.
 - The City Loan is sized assuming the yield for 10 year US Treasury Notes is 4.75 percent, while current yield has fluctuated below 2 percent, providing a sizable margin of cushion.

HUD REQUIREMENTS

Eligible Activity:

The City Loan funding will pay for acquisition, related pre-development costs and financing/closing costs, which are eligible activities under HUD guidelines – Special Economic Development Activities as per 24 CFR 570.203(a).

National Objective:

The Project will benefit low and moderate-income persons by retention and creation of jobs, as per 24 CFR 570.208(a)(4).

Public Benefit:

The Project will fulfill the HUD Public Benefit requirement by creation and retention of full-time equivalent jobs as per 24 CFR 570.209(b)(1)(i).

CDBG IMPACT STATEMENT

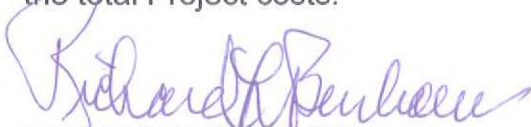
The City Loan is funded by borrowings of City from HUD pursuant to Section 108 Loan Guarantee Program (Program) of the Federal Housing and Community Development Act of 1974. The City borrowing(s) from HUD under the Program is limited to up to five times the current year's entitlement of Community Development Block Grants (CDBG) provided to the City.

The City's debt payment obligation for the borrowing(s) from HUD under the Program is a function of its receivables from the City loans made for economic development purposes. In case of a default by any of the City loans, there will be a mismatch of payables and receivables, and thus, the necessity to meet this shortfall from the future years' CDBG funds, as provided by CFR and the City's promissory notes made to HUD.

In case of a default by any of the City loans, the City's remedies are subject to terms of the City loan and underlying documentation. The remedies available to the City may include foreclosure of collateral, pursuit of guarantees and adjudication of the City's rights against the borrowers.

NECESSARY AND APPROPRIATE STATEMENT

The funding is deemed appropriate under the federal assistance guidelines, terms of the financing are reasonable and the public benefits are adequate to meet the established guidelines. The \$2,647,000 financing assistance from the City represents 90 percent of the total Project costs.



RICHARD L. BENBOW
General Manager

RLB:RS:NB

Attachment A: Projected Sources and Uses of Funds
Attachment B: Projected Stabilized Operating Pro Forma
Attachment C: Project Site – Plat Map

CITY OF LOS ANGELES
Community Development Department
Economic Development Division

ATTACHMENT A

PROJECTED SOURCES AND USES OF FUNDS

<u>Projected Sources of Funds</u>		<u>% Total</u>
City (108) Loan	\$2,629,000	90.0%
Borrower's Equity	\$292,111	10.0%
Total Sources of Funds	<u>\$2,921,111</u>	100.0%

<u>Projected Uses of Funds</u>		
Acquisition Cost	\$2,370,000	81.1%
Acquisition - Food Truck	\$95,000	3.3%
Rehabilitation Costs	\$350,951	12.0%
Loan Fee	\$26,290	0.9%
Interest Reserve	\$78,870	2.7%
Total Budget	<u>\$2,921,111</u>	100.0%

CITY OF LOS ANGELES
Community Development Department
Economic Development Division

ATTACHMENT B

PROJECTED STABILIZED OPERATING PRO FORMA

	<u>Annual</u>	<u>% Total</u>
Harold & Belle's (150 seat restaurant)	\$1,738,800	100.0%
Gross Revenue	\$1,738,800	
Cost of Goods Sold	(\$608,580)	35.0%
Gross Profit	<u>\$1,130,220</u>	65.0%
Payroll & Taxes	(\$556,416)	32.0%
Property Taxes (Existing Facility)	(\$8,631)	0.5%
Operating Expenses	(\$260,820)	15.0%
Total Expenses	<u>(\$825,867)</u>	47.5%
Net Operating Income	<u>\$304,353</u>	17.5%
Maximum Debt Service	\$243,482	14.0%
Free Cash Flows	\$60,871	3.5%

Community Development Department
Economic Development Division

ATTACHMENT C

Project Site – Plat Map

2920 W. Jefferson Boulevard Los Angeles, CA 90004

PT. No. 13-001

SITE ANALYSIS

Los Angeles County Tax Assessor's Plat Map

