

CITY OF OAKLAND
AGENDA REPORT

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2010 MAY -6 PM 7:27

TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Office of Mayor Ronald V. Dellums
DATE: May 11, 2010

RE: A Report And Resolution Authorizing The City Administrator To Provide A Loan To McKinney Griff, Inc., Dba Merritt Bakery & Restaurant ("Merritt Bakery") In The Amount Of \$150,000 To Preserve Approximately 55 Jobs Maintained At Merritt Bakery

SUMMARY

The City Council is asked to approve a Resolution authorizing the City Administrator to enter into a Loan Agreement ("Loan Agreement") with McKinney Griff, Inc., dba Merritt Bakery and Restaurant for \$150,000

In October 2009, the City extended a loan in the amount of \$162,000 to Merritt Bakery and commissioned Fare Resources, an independent business consulting firm to conduct a comprehensive operations and financial review of Merritt Bakery to "best facilitate the assessment and proposed expansion of Merritt Restaurant and Bakery in order to boost sales, efficiently pay back outstanding loans, retain jobs and regenerate the volume and success with which Merritt [previously] operated" at \$5 million annual revenue. The Fare Resources report was issued in January 2010 and is attached hereto as **Exhibit B**. The Agency provided an additional \$46,000 of interim debt financing in March 2010 following the issuance of the report.

The Fare Resources report suggests up to \$800,000 of funding for (a) approximately \$400,000 to be "invested in façade and tenant improvements", and (b) \$400,000 to provide operating cash flow by repaying some existing debt and providing some working capital. See **Exhibit A, page 22 and 23**.

This report recommends that the City provide \$150,000 of additional funding to enable the continued operations of the current business and retention of 55 employees by Merritt Bakery. Additionally, the Agency Staff and the Mayor's staff will work with Merritt Bakery, its landlord and creditors to utilize the \$150,000 to leverage additional funding to meet the suggested capital investment recommended by the report noted above.

FISCAL IMPACT

The proposed \$150,000 loan to Merritt Bakery will be funded from surplus HUD 108 loan repayment funds, which will be moved from Fund No. 2108 (Community Development Block Grant (CDBG), Organization 88949 (CDBG), Account No. 78811 (Carryforward), Project No. G296310, Program YS11 to Fund No. 2108 (Community Development Block Grant (CDBG), Organization 88579 (Commercial Lending), Account No. 58311 (Loan Expenditures), Project No. G296310, Program SC04 (Commercial Lending). These funds will not result in any direct adverse fiscal impact to the City's General Fund. Moreover, Merritt Bakery reported sales taxes paid of \$139,000 in 2008 and \$176,000 in 2007, respectively. Increasing the retail sales base is an important component of strengthening the City's general fund. This City Council adopted a new business recruitment policy that allows for qualifying businesses to obtain public subsidies based on creating at least 20 new jobs and sales tax generated. Similarly, this business would retain (though not create) approximately 55 jobs, and generate meaningful sales tax revenue.

BACKGROUND

Merritt Bakery is located at 203 East 18th Street, at 2nd Avenue in Oakland, California. The restaurant is widely viewed as a landmark, community asset with nearly 60 years of service to the City of Oakland and the Lake Merritt Community. According to the Fare Resources report, McKinney Griff, Inc. purchased the Merritt Bakery restaurant approximately 11 years ago, and grew sales 100% in the first 3 years with sales peaking at \$5 million in 2001. At that time the business employed over 100 workers. **See Exhibit A, page 3.** Currently the restaurant has approximately 55 employees, and the restaurant has a dining room capacity of 170 guests.

Merritt Bakery experienced substantial disruption to their business during the construction and expansion of the Albertson's Supermarket (now operating as a Lucky grocery store). According to the Fare Resources Report, this construction lasted for two years, and dramatically reduced the parking spaces allotted to Merritt Bakery. Merritt Bakery filed a lawsuit against the landlord. The landlord and Merritt Bakery entered into a comprehensive settlement agreement that resolved the dispute and resulted in a long-term lease extension, and financial consideration.

KEY ISSUES AND IMPACTS

This City Council adopted a new business recruitment policy that allows for qualifying businesses to obtain public subsidies based on creating at least 20 new jobs and sales tax generated. Similarly, this business would retain (though not create) approximately 55 jobs, and generate meaningful sales tax revenue.

Item: _____

Business attraction and retention initiatives, as well as public subsidies to any development project, inherently benefit some businesses to the exclusion of others. Importantly, the critical considerations are whether important public objectives are furthered by the public subsidies. Here, enabling the company to continue to provide gainful employment to 55 employees serves an important public interest. In particular, Fare Resources noted:

“Merritt offers strong benefits to the [local] economy and community, most notably:

- it’s an African American and female-owned business
- employs 58 employees, 90% of whom live within Oakland’s borders and come from 13 different ethnicities
- the restaurant is an Oakland institution and landmark with more than half a century of service to patrons.” See Exhibit A, page 4.

PROJECT DESCRIPTION

The proposed funding in the amount of \$150,000 to Merritt Bakery is focused on retaining 55 jobs, assisting with the working capital needs of the business. This report does not recommend that the Agency provide such capital improvements funding at this time. If Merritt Bakery is able to achieve self-sustaining operations with the reduced funding recommended by this report, then it may be advisable to revisit this issue if there is a further public benefit sufficient to warrant investment in capital improvements.

SUSTAINABLE OPPORTUNITIES

Economic: This proposal will assist a well-known community institution in remaining open to serve the community and continue to employ 58 employees, as well as providing sales tax revenue to the City’s General Fund.

Environmental: No material environmental impacts.

Social Equity: Merritt Bakery provides working class, entry level jobs for dozens of persons and some managerial positions. Many of the employees have barriers to entry such as limited English proficiency, no educational attainment beyond high school, and/or previous incarceration.

DISABILITY AND SENIOR CITIZEN ACCESS

Our understanding is that Merritt Bakery is in compliance with all applicable State and Federal accessibility laws and regulations. The business has a substantial senior citizen clientele

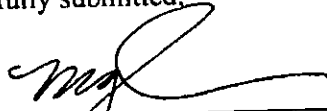
RECOMMENDATION AND RATIONALE

This report recommends that the City provide \$150,000 of additional funding to enable the continued operations of the current business and retention of the 55 employees by Merritt Bakery, and that Agency Staff and the Mayor's staff work with Merritt Bakery, its landlord and creditors to leverage this funding with other resources.

ACTION REQUESTED OF THE REDEVELOPMENT AGENCY AND THE COUNCIL

Adopt A Resolution authorizing the City Administrator to provide a loan to McKinney Griff, Inc., DBA Merritt Bakery & Restaurant ("Merritt Bakery") in the amount of \$150,000 to preserve approximately 55 jobs maintained at Merritt Bakery.

Respectfully submitted,



Marisol G. Lopez
Chief of Staff
Mayor Ronald V. Dellums

Prepared By:
Theo Oliphant
Office of the Mayor
Executive Director of Private Public Partnerships

Attachments

OAKLAND CITY COUNCIL

FILED
OFFICE OF THE CITY CLERK
OAKLAND

~~DRAFT~~
City Attorney

RESOLUTION No. _____ C.M.S.

2010 MAY -6 PM 7:28 Introduced by Councilmember _____

REVISED

RESOLUTION AUTHORIZING THE CITY ADMINISTRATOR TO PROVIDE A LOAN TO MCKINNEY GRIFF, INC., DBA MERRITT BAKERY & RESTAURANT ("MERRITT BAKERY") IN THE AMOUNT OF \$150,000 TO PRESERVE APPROXIMATELY 55 JOBS MAINTAINED AT MERRITT BAKERY

WHEREAS, the City of Oakland is committed to retaining small businesses that create job for Oakland residents; and

WHEREAS, the principals of Merritt Bakery & Restaurant "Merritt Bakery", are experienced business owners who need financial assistance to support the business, provide operating cash flow and retain 55 employees; and

WHEREAS, the Borrower has received two City Loans in the amount of \$162,000 and \$46,000 as interim debt financing to assist with the retention of jobs and liquidating outstanding debts; and

WHEREAS, Merritt Bakery is located at 203 East 18th Street, at 2nd Avenue in Oakland, California and the restaurant is widely viewed as a landmark, community asset with nearly 60 years of service to the City of Oakland and the Lake Merritt Community; and

WHEREAS, a surplus of HUD Regular 108 loan repayment funds have been identified and upon approval will be appropriated to fund the proposed loan in the amount of \$150,000 from Fund No. 2108 (Community Development Block Grant (CDBG), Organization 88949 (CDBG), Account No. 78811 (Carryforward), Project No. G296310, Program No. YS11 and which will be requested to move to a spendable Fund No. 2108 (Community Development Block Grant (CDBG), Organization 88579 (Commercial Lending), Account No. 58311 (Loan Expenditures), Project No. G296310, Program SC04 (Commercial Lending); now, therefore be it;

RESOLVED: That the City hereby authorizes an allocation for a CDBG loan of surplus HUD 108 loan repayment funds in an amount not exceed \$150,000, to fund a loan to Merritt Bakery; and be it

FURTHER RESOLVED: That the making of a City Loan shall be contingent upon and subject to such appropriate terms and conditions as the City Administrator, or his designee may determine; and be it

FURTHER RESOLVED: That all agreements shall be approved as to form and legality by the Agency Counsel and shall be placed on file in the Office of the City Clerk.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 20_____

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, DE LA FUENTE, KAPLAN, KERNIGHAN, NADEL, QUAN, REID, and PRESIDENT BRUNNER

NOES -

ABSENT -

ABSTENTION -

ATTEST: _____
LaTonda Simmons
City Clerk and Clerk of the Council
of the City of Oakland, California