



**SACRAMENTO  
HOUSING AND REDEVELOPMENT  
AGENCY**

*Agnew*

September 19, 1984

City Council of the City  
of Sacramento  
Sacramento, California

CITY MANAGER'S OFFICE  
**RECEIVED**  
SEP 19 1984

Honorable Members in Session:

**APPROVED**  
BY THE CITY COUNCIL

SUBJECT: Kanpai Restaurant UDAG Loan

SEP 25 1984

SUMMARY

OFFICE OF THE  
CITY CLERK

The attached resolution authorizes the Executive Director of the Redevelopment Agency to take action necessary to recover part of the Agency loan to Kanpai Restaurant in Old Sacramento.

BACKGROUND

On March 27, 1981 the City agreed to loan the amount of \$217,000 to Kanpai Corporation, Inc. to cover the cost of tenant improvements and equipment for the Kanpai Restaurant in Old Sacramento. Funds for the loan came from an Urban Development Action Grant by the United States Department of Housing and Urban Development. An additional loan of \$270,000 was made to Kanpai by the Small Business Administration.

The City and SBA loans were secured by trust deeds on two homes belonging to the Kanpai owners. SBA took second trust deeds and the City had third trust deeds. The City and SBA also received security interests in the restaurant equipment and tenant improvements. The City had a first lien on specific restaurant equipment listed in its security agreement. The SBA had a second lien on such listed equipment and a first lien on any additional equipment and tenant improvements in the restaurant. No other security was provided for these loans. The value of this security is substantially lower than the amount of the two loans.

The loan was made by the City in order to promote minority-owned business and create employment in Old Sacramento. The UDAG grant was available for this project because the UDAG Program had a high priority for minority-owned businesses. The loan was given despite the lack of security because of the availability of the Federal grant and the nature of the business. It was recognized as a very high risk loan.

9-25-84

D-1

(1)

# SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

City Council of the  
City of Sacramento  
September 19, 1984  
Page Two

The equipment was purchased and tenant improvements were constructed pursuant to the loan agreement and the restaurant opened for business. HUD closed out the project and issued a certificate of completion under the UDAG Grant on January 19, 1983. HUD does not require repayment of the loan, but any funds recovered must be used only for activities eligible under the Community Development Block Grant Program.

Kanpai rented space for the restaurant from the Pacific Barriga-Frey Limited Partnership. The lease provided for escalations of the rent after the first year. The business did not generate sufficient income to cover the cost of rent increases. The owners made partial rent payments and attempted to negotiate a lower rent. In May 1984, Kanpai received an eviction notice for nonpayment of rent. According to the property owner, Kanpai owed approximately \$60,000 in back rent and approximately \$30,000 for tenant improvements provided by the landlord.

During the last week in May the Agency was notified by Kanpai that they had gone out of business and would not be able to repay their loan. They also notified us that they were considering bankruptcy. In order to avoid filing bankruptcy, they requested the Agency and SBA to liquidate their security and accept partial repayment of the loans. Because the City loan required interest only payments, at the time of the default, the entire principal amount of \$217,000 remained unpaid. No interest was due. The balance remaining on the SBA loan was approximately \$190,000.

The staff recommends the following actions in order to recover part of the loan principal.

1. Trust Deed

The City holds a third deed of trust on two homes owned by the Kanpai owners. A current valuation of the properties has not been completed. However, based on information available in 1980, when the loans were approved, it is not anticipated that sufficient value in the two homes to pay off the first trust deeds (totaling approximately \$60,000) and the SBA second trust deed (approximately \$190,000) exists. No action is recommended until current valuations are available.

2. Restaurant Equipment and Tenant Improvements

Geiger Auction Sales, Inc., under contract with SBA, appraised Kanpai's restaurant equipment. They estimated the highest price the equipment could generate at auction is \$48,000. According to SBA staff, auction proceeds are likely to be as low as \$25,000. Agency Chief of Central Services reviewed this appraisal and conducted an inventory of the property securing the City's loan and concurred with Geiger's high

# SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

City Council of the  
City of Sacramento  
September 19, 1984  
Page Three

27

appraisal and SBA's estimate of the downside risk. Gross auction revenues must be reduced by a number of items. SBA has agreed to a 10% share of proceeds. The City must also pay 90% of the auctioneer's fee and costs (the other 10% share of the fee and costs would be paid by SBA). The auctioneer's fee is 10% of sales proceeds plus \$1,500 for advertising costs. Assuming a range of gross sales proceeds of \$25,000 to \$48,000, net revenues to the City could be between \$18,900 and \$37,530.

The owner of the Barriga-Frey Building, Ed Voorhees, has offered to buy all the equipment in place for \$32,500. Of this amount, 10% or \$3,250, would be paid to SBA. The Agency would net \$29,250. In order to surpass this net return at auction the gross proceeds must be no less than \$38,000. While it is possible to receive this much at auction, it is also just as likely to receive less.

The sale to Mr. Voorhees would have a number of advantages. First, it would eliminate the downside risk of an auction. Second, with all equipment in place, it will be much easier to secure a tenant for the Barriga-Frey Building. It is beneficial to Old Sacramento in general to keep as many buildings rented as possible.

On August 31, the Matsuedas, the owners of Kanpai Corporation, asked the Agency for a one week delay in approval of the sale to Mr. Voorhees, because they believed they could secure an offer from another buyer for at least \$35,000. As of September 19, the date this report was transmitted, the Matsuedas were unable to obtain this offer. Because Mr. Voorhees is unable to lease his building until final disposition of the restaurant equipment is settled, staff recommends against further delay in approving the sale. If the Matsuedas can provide this alternative offer prior to final approval of the sale to Mr. Voorhees, staff recommends that he be given an opportunity to match the offer.

### 3. Kanpai Liquor License

Kanpai, Inc. owns a liquor license. Under State law, the liquor license may not be pledged as security for a loan. However, the sale of liquor licenses is regulated to assure that the owner's creditors have opportunity to claim revenues derived from license sales. When a liquor license is sold, the law requires the seller to open an escrow account and to give 30 days public notice that the account has been opened. Creditors may then make a claim against the escrow.

# SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY

City Council of the  
City of Sacramento  
September 19, 1984  
Page Four

27

State law establishes priority for distribution of escrow funds to creditors. First priority goes to pay taxes, second priority goes to pay employees' wages and third priority goes to pay secured creditors and back rent to landlords. The City is within this third priority category. Kanpai has not entered into an agreement to sell its liquor license at this time. However, when this sale takes place, it is recommended that the City make a claim into escrow.

#### 4. Action Against the Individual Owners of Kanpai

The owners of Kanpai Corporation signed the loan agreement in their own names and therefore can be held personally liable for repayment of the loan. However, these people have no resources from which to repay the loan. If the Agency sues them for loan repayment, they will file bankruptcy and the debt will be discharged. Therefore, no legal action against the Kanpai owners is recommended at this time.

#### FINANCIAL STATUS

The actions recommended by Agency staff are expected to result in a return to the City of between \$35,000 and \$40,000. It is very unlikely that the City will recover the remaining loan balance.

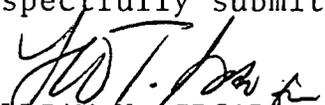
#### POLICY IMPLICATION

The actions proposed in this staff report are consistent with previously approved policy and there are no policy changes being recommended.

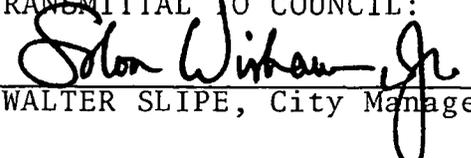
#### RECOMMENDATION

The staff recommends adoption of the attached resolution which (1) authorizes the Executive Director to carry out, jointly with the Small Business Administration, the sale of restaurant equipment and tenant improvements at Kanpai Restaurant to Ed Voorhees, for the total amount of \$32,500; (2) authorizes the Executive Director to submit a claim in the escrow established for sale of the liquor license belonging to Kanpai Corporation; and (3) authorizes the Executive Director to take any other action necessary to secure repayment of the loan.

Respectfully submitted,

  
WILLIAM H. EDGAR  
Executive Director

TRANSMITTAL TO COUNCIL:

For:   
WALTER SLIPE, City Manager

27

**RESOLUTION NO. 84-827 as amended**

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

September 25, 1984

**KANPAI RESTAURANT UDAG LOAN  
PARTIAL RECOVERY OF LOAN PROCEEDS**

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

SECTION 1. The Executive Director of the Redevelopment Agency is authorized, on behalf of the City, to carry out jointly with the Small Business Administration, the sale of restaurant equipment and tenant improvements at Kanpai Restaurant in Old Sacramento, to Ed Voorhees, for the total amount of \$32,500. Sale proceeds will be divided 90% to the Agency and 10% to SBA.

SECTION 2. The Executive Director of the Redevelopment Agency is authorized, on behalf of the City, to submit a claim in the escrow established for the transfer of the liquor license owned by Kanpai Corporation.

SECTION 3. The Executive Director of the Redevelopment Agency is authorized to take any other action necessary to secure repayment of a loan extended by the City of Sacramento to the Kanpai Corporation under a Loan Agreement dated March 27, 1981.

\_\_\_\_\_  
MAYOR

ATTEST:

\_\_\_\_\_  
CITY CLERK

**APPROVED**  
BY THE CITY COUNCIL

SEP 20 1984

OFFICE OF THE  
CITY CLERK