



CITY OF LONG BEACH

R-20

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

January 9, 2007

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to Amend a Loan Agreement with John Morris for Smooth's Sports Grille, located at 144 Pine Avenue. (District 2)

DISCUSSION

Various economic development-related loans were made to John Morris dating back to 1988 when the Long Beach Local Development Corporation, on behalf of the City, loaned him \$613,000 comprised of a \$500,000 SBA 503 loan and a separate \$113,000 loan. Subsequent loans, in the amount of \$87,000 and \$92,000, were made in 1989 and 1990, respectively, for a total of \$792,000. Mr. Morris (and then Mum's restaurant) has played a vital role in the redevelopment of downtown Long Beach and, in particular, Pine Avenue for many years. The loans to Mr. Morris were made at a time when Pine Avenue was suffering economically, and struggling to become a major site for restaurants and other businesses critical to the success of any downtown.

On January 20, 2004, Mr. Morris repaid the \$500,000 SBA 503 loan. Simultaneously, the City Council approved the restructuring of these remaining loans into a zero percent interest, six-year loan with equal monthly payments commencing January 1, 2005 and ending on December 1, 2010 (see attached City Council letter).

Consistent with the 2004 agreement to restructure the loans, Mr. Morris made an initial payment of \$29,199.96 to bring his account current and prepaid the 2004 calendar year payments totaling another \$29,199.96. However, since January 2005, Mr. Morris has made only 4 monthly installment payments. As of December 31, 2006, the outstanding loan balance, including accrued penalties, was \$167,778.48.

Attached is a copy of the letter, dated August 14, 2006, in which Mr. Morris requested that the monthly payments of \$2,433.34, including past due amounts, be deferred until May 2008. Mr. Morris points to several factors that slowed the economic growth of his business, Smooth's Sports Grille (Smooth's), including the slow pace of area residential

development, on-going construction of residential development adjacent to his business which impacts parking, and other issues such as the advent of the Pike at Rainbow Harbor development. On-going Promenade residential housing development, and a planned new hotel that will be completed in phases over the next 24 to 36 months are expected to have a positive and substantial fiscal impact on Pine Avenue merchants and restaurants.

City Financial Management Director Michael Killebrew met with Mr. Morris and his accountant on September 28, 2006 to review his financial statements and to discuss possible solutions to the delinquency of his loan payments. Given the current economic environment and operating decisions affecting Smooth's financial position, the current \$2,433.34 per month debt payment perpetuates a negative net income situation.

Consent is requested to authorize the City Manager to restructure the existing economic development loan to John Morris as follows:

1. Adjust the term of the loan to be from January 1, 2007 through December 1, 2010;
2. Payments of \$500 per month to commence January 1, 2007 through April 1, 2008;
3. Payment of accrued late fees totaling \$2,433.35 on January 1, 2007;
4. Re-establish payments at \$2,433.34 per month on May 1, 2008 through December 1, 2010;
5. On December 1, 2010, in addition to the monthly payment shown in number 4 above, the remaining unpaid balance of \$79,478.25 will be due and payable. At that time, Mr. Morris will have fully paid the original loan amount of \$175,200.16 plus \$2,433.35 in late fees;
6. All other terms and conditions outlined in the Promissory Note Dated January 21, 2004 will remain in effect without modification, including without limitation, Sections titled LATE CHARGE, INTEREST AFTER DEFAULT, DEFAULT, and ATTORNEY'S FEES; EXPENSES; and
7. Any change of ownership of Smooth's will cause the entire unpaid balance of the loan to become immediately due and payable. Such balance will be paid prior to repayment of loans to Mr. Morris as he may, from time to time, loan to Smooth's in lieu of receiving a paycheck acting as Officer, or in any other capacity as an employee of Smooth's, and prior to any distribution of equity from Smooth's to Mr. Morris.

This letter was reviewed on December 6, 2006 by Richard Anthony, Deputy City Attorney and Budget Management Officer Dave Wodynski on October 17, 2006.

TIMING CONSIDERATIONS

City Council action is requested at the January 9, 2007 Council meeting in order for Mr. Morris to attain an improved financial position for Smooth's Sports Grille.

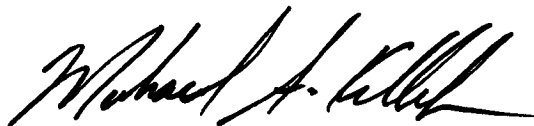
FISCAL IMPACT

This proposed restructuring of the existing loan will have no impact to the General Fund.

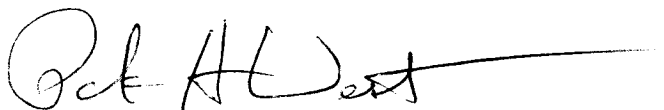
SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



Michael Killebrew
Director of Financial Management



Patrick West
Director of Community Development

RIH:MK:PW:pc
Attachments

APPROVED:



Gerald R. Miller
City Manager