



SUCCESSOR AGENCY AGENDA REPORT



DEPARTMENT: Administration

MEETING DATE: May 21, 2012

PREPARED BY: Jennifer McLain, Management Assistant

AGENDA LOCATION: SA AR-2

TITLE: Amendment to the Loan Agreement with A & M Hospitality Located at 110 East Colorado Boulevard

OBJECTIVE: To amend the terms of the Loan Agreement ("Agreement") between the Successor Agency and A & M Hospitality.

Background: Prior to the effective date of ABX1 26, the Redevelopment Agency Dissolution Act ("the Dissolution Act"), the Monrovia Redevelopment Agency ("the former Agency") entered into a loan agreement in 2008 as part of the Old Town Business Development Assistance Program (the "Program") with A & M Hospitality, doing business as Merengue Bakery and Café ("Merengue Café"). As part of the business attraction element of the Program, the former Agency actively sought specific business profiles that were desired by the community. One of the desired profiles was a specialty high quality bakery/café. In November 2007, the former Agency was contacted by the owners of Merengue Café, who were interested in leasing 110 East Colorado Boulevard (the "site"). The owners proposed to operate the site as a specialty bakery/café modeled after Porto's Bakery.

The site, which was vacant for over a year, was in need of extensive interior and exterior renovations. Under the executed Agreement, the former Agency loaned Merengue Café \$75,000 to be used for an exterior rehabilitation and the addition of a grease interceptor. The Agreement contained an Opening Covenant that called for the site to open as a restaurant for a minimum three-year period. The Agreement also contained a Promissory Note. At the end of the three years, the full loan amount was to be repaid in full or could be extended for an additional 7-year term with an annual interest rate of 7%. A copy of the Loan Agreement is available in the City Clerk's Office.

Since the approval and execution of this Agreement, California redevelopment agencies have been eliminated and the subsequent post-compliance bill, AB 1484, has been enacted to ensure the successful wind-down of redevelopment agencies. Pursuant to Section 34181 (e) of the Dissolution Act, it is the obligation of the Successor Agency to determine if any contracts, agreements, or other arrangements between the Successor Agency and any private parties should be terminated or renegotiated to reduce liabilities and increase new revenues to the taxing entities, and present the proposed termination or amendment agreements to the Oversight Board for its approval.

The Successor Agency is being asked to renegotiate the Agreement with Merengue Café as a way to reduce liability and increase new revenues to the taxing entities.

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ANALYSIS: In 2011, the owners of Merengue Café opted to extend the loan repayment, and activated the 7% interest rate over the 7 year time frame. Under this arrangement, Merengue Café is responsible for paying the following:

- **Year 1:** Due February 2012- \$5,250.00. **(This has been paid in full.)**
- **Year 2:** Due February 2013- \$5,250.00 **(This is an outstanding balance.)**
- **Year 3:** Due February 2014- \$5,250.00
- **Year 4:** Due February 2015- \$5,250.00
- **Year 5:** Due February 2016- \$5,250.00
- **Year 6:** Due February 2017- \$5,250.00
- **Year 7:** Due February 2018- \$80,250.00 (includes principal and final interest payment)

Total Outstanding Balance- \$106,500

During Year 1, Merengue Café successfully made their interest loan repayments under a monthly payment plan. However, in Year 2, Merengue Café owners have indicated that making these repayments in this slow business climate and at a time where they continue to see rent increases has and will continue to be challenging.

As a way to continue to make payments, Merengue Café is requesting that the Successor Agency:

- Forgive all existing and future interest fees, totaling \$31,500.
- Reduce the principal by 50%, from \$75,000 to \$37,500.
- Pay the Successor Agency at an accelerated rate as a way to ensure repayment as quickly as possible:
 - Instead of paying the new proposed principal of \$37,500 in 2018, this would be paid over four installments of \$9,375 each year between 2013 and 2016.
- This proposal would result in a loss to the Agency of \$69,000, but avoids an overall loss of \$106,500.

If Merengue Café cannot reduce its interest payment and principal, the owners have stated that they will not be able to afford the lump sum payment of \$75,000 due in February 2018, and will not only default on their loan agreement, but will have to close the doors of their business.

This would trigger an Event of Default, as stated in the Agreement. The Successor Agency could pursue legal action in an attempt to regain the outstanding balance. Attorney's fees would become another enforceable obligation of the Successor Agency, and there is no guarantee this money would be regained. Merengue Café's inability to reduce the payment could possibly have other economic impacts to Old Town: it would result in the vacancy of a nearly 5,000-square-foot building that has historically been difficult to fill, would result in a loss of sales tax revenue, and would further decrease the chances of being able to expeditiously recuperate the loans.

It is important to note that any action decided upon the Successor Agency is subject to Oversight Board approval and Department of Finance approval.

OPTIONS: The Successor Agency Board's options are as follows:

1. **Reduce the interest rate to 0% and the principal by 50 percent as requested by Merengue Café, and require the remaining loan balance of \$37,500 to be paid back by 2016.** This would result in Merengue Cafe continuing to generate sales tax,

employing an estimated 20 people and in the Successor Agency recouping a portion of the loan in a more expeditious manner than the existing Agreement. This option would result in a reduction of \$69,000 to the Successor Agency, but prevents the overall loss of \$106,500.

2. **Reduce the interest rate to 0% but begin implementing an annual installment plan immediately to repay the \$75,000 loan amount so that is fully repaid by 2018.** This would result in a reduction of \$31,500 to the Successor Agency, though would generate \$12,500 a year for the next six years to the Successor Agency.
3. **Reduce the interest rate to 0% for Year 2, and maintain the original principal and all other terms.** Reconsider the interest rate a year from now to determine whether the financial situation has improved. This would result in a reduction of \$5,250 to the Successor Agency.
4. **Maintain existing loan agreement, and do not reduce payments.** This would result in Merengue defaulting on their loan, and possibly preventing the owners from ever successfully repaying the outstanding loan amount; could negatively impact sales tax revenue generated; could result in increased attorney's fees; and could result in the closure of Merengue.

FISCAL IMPACT: Option 1 would result in a \$69,000 loss in Successor Agency funds, which are ultimately used to pay for Enforceable Obligations. Option 2 would result in a loss of \$31,500 to the Successor Agency. Option 3 would result in a loss of \$5,250. Option 4 would not immediately impact Successor Agency funds but could ultimately lead to Merengue Café being unable to pay any of their outstanding \$106,500 balance.

RECOMMENDATION: Staff recommends that the Successor Agency Board consider renegotiating the loan terms with Merengue by pursuing Options 1, 2 or 3.

AGENCY ACTION REQUIRED: If the Agency Board concurs, the appropriate action would be a motion to amend the terms of the Loan Agreement between the Successor Agency and A & M Hospitality, and authorize the Executive Director to execute the necessary documents.