

Information Item

Date: March 1, 2018

To: The City Manager

From: Derwick L. Paige, Assistant City Manager
Marla Newman, Community Development Director

Subject: Consider a request from KQC Investors, LLC regarding outstanding City loans and deed restrictions to Northwest Child Development Center.

Strategic Focus Area: Livable Neighborhoods

Strategic Objective: Improve Character and Condition of Neighborhoods

Strategic Plan Action Item: No

Key Work Item: No



In August 2011, City Council authorized the sale of a parcel of City-owned land to the Northwest Child Care Development Centers (NWCDC) for the construction of a new childcare center, Mudpies-East. The 1.25 acres parcel was sold to NWCDC for \$362,504.56 under the provisions that allow a private sale to any non-profit entity which carries out a public purpose (NCGS 160A-279). Under the terms of the agreement, NWCDC paid the City \$203,754.56 upfront and the remaining \$158,750 was to be forgiven over a 10-year period based upon the creation of new jobs and required payment of property taxes. To date, NWCDC has earned a credit of approximately \$103,912 and made a \$7,125 payment in lieu of taxes (PILOT).

To further assist with the project, City Council authorized three additional loans in 2013 and 2014 totaling \$483,300. One of these loans has been paid in full (\$75,000), and the other two loans are meeting their terms and conditions. The current balance on these loans is \$364,672. In addition to the City loans, NWCDC also has a loan of approximately \$2.2 million with Branch Bank & Trust (BB&T) and an equipment lease of approximately \$300,000. The City's loans are subordinated to the BB&T loan.

KQC Investors, LLC (KQC) has entered into a letter of intent with NWCDC to purchase Mudpies-East, 251 East Seventh Street, for \$1,865,000. This property currently serves as collateral on the City's above-referenced loans. The first lienholder, BB&T has agreed to accept \$1,500,000 on its outstanding debt of approximately \$2,435,000. KQC is requesting that the City agree to the following terms as part of the transaction:

- 1) KQC would assume the original \$300,000 loan (current balance of \$258,047) with the following modifications
 - a. City would delete \$6,000 annual replacement reserve requirement
 - b. City would subordinate to KQC up to \$900,000 for purchase of facility

- 2) KQC would assume the balance of the forgivable loan of approximately \$47,713 based upon credits earned for job creation and property taxes and a PILOT payment by NWCDC. For this loan, the following modifications are being requested:
 - a. City would allow purchase debt and subordinate up to \$1,500,000 to KQC
 - b. City would allow the current deferral terms to continue with KQC along with the assumption provisions.
- 3) The City would forgive the outstanding loan of \$108,300 because no sales proceeds are available to cover any portion of this loan, or the City would negotiate repayment of this outstanding loan with NWCDC. The subject property would no longer serve as collateral for this loan. Although the total offer by KQC to NWCDC has excess proceeds of more than \$100,000, two Federal tax liens totaling \$109,982.37 and a \$60,000 line of credit must be satisfied at or before closing; however, this latter debt appears to be subordinate to the City's debt.
- 4) The City would release the deed restrictions requiring the property to be used for a non-profit daycare center and the ownership be retained by NWCDC for a period of 25 years. In exchange, KQC would agree to operate or ensure operation of the facility as a daycare for at least 10 years. If they fail to do so, KQC would pay the City \$55,000 as liquidated damages.

KQC is a locally-based developer and owner of early childcare learning facilities throughout the United States. Their representatives will appear at the March 19th Finance Committee meeting to discuss this request.

The funding source for the above city loans was from the Housing Finance Fund; therefore, Council has much more flexibility in considering this request from KQC; however, should the Council wish to consider this request, staff recommends that the following conditions be considered:

- 1) KQC should make a good faith effort to ensure that at least 33% of the families served are low- to moderate-income for at least 10 years.
- 2) KQC should make a good faith effort to retain at least 50% of employees for 5 years.

The following table summarizes the City's investments in the project:

Commitment	Source	Balance	Purpose	Request
\$300,000	HFF	\$258,047	Construction	Continue same terms
158,750	HFF	47,713	Land Acquisition (from LISC)	Continue with conditions
108,300	HFF	108,300	Operations	Forgive
75,000	HFF	0	Operations	N/A-(paid in full)