

City Council – Action Request Form

Date: March 28, 2018

To: The City Manager

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

Council Action Requested:

Approve 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



Summary of Information:

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 in excess of \$2.4 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 and BB&T has the contractual right to obtain release of the 251 East Seventh Street property from deed restrictions in the event of foreclosure upon payment of

Committee Action:

Committee	Finance 4/9/18 Public Works 4/10/18	Action	Approval
For	Unanimous	Against	

Remarks:

\$200,000 to the City. 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 \$1,500,000 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) KQC would assume the outstanding \$108,300 City loan. The loan would be an unsecured, subordinated loan forgiven at a rate of \$7,220/year over a 15 year period based upon KQC demonstrating, on an annual basis, a good faith effort to ensure that at least 33% of the families served at the facility are low- to moderate- income (based upon families’ qualification for child care subsidies, grants or programs for which qualification is income-based or based on HUD definition). This provision would apply over the term of the forgiveness period (15 years) and would be reduced annually on a pro rata basis.
- 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 15 years pursuant to the terms of the assumed City \$108,300 loan as identified above. If they fail to do so, KQC would pay the City \$47,700 as liquidated damages. This provision would apply over the first 10 years and would be reduced annually on a pro rata basis.

For the City’s consideration of these terms, the City is requesting that KQC agree to the following terms as part of the transaction:

- 1) KQC makes a good faith effort to retain at least 50% of employees for 5 years.
- 2) KQC makes a good faith effort to ensure that at least 33% of families served, on an annual basis, are low-to-moderate income families based upon families’ receiving state subsidies, grants or vouchers based on household income or based on HUD definition.

KQC is a locally-based developer and owner of early childcare learning facilities throughout the United States. Their representatives appeared at the March 19th Finance Committee meeting to discuss this request and will be available at the April 9th Finance Committee meeting to answer any further questions. 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	Continue with new terms
75,000	HFF	0	Operations	N/A-(paid in full)