

To: City of Winston-Salem  
From: KQC Investors, LLC  
Re: 251 East 7<sup>th</sup> Street; Property of Northwest Child Development Centers, Inc. (NWCDC)  
Date: January 26, 2018

## **Background**

KQC Investors, LLC (“KQC”), a locally-based developer and owner of early childhood learning facilities throughout the United States, has entered into a letter of intent with NWCDC to purchase its real property and child care operations at 251 East 7<sup>th</sup> Street, Winston-Salem, as well as real property located at 2530 Pittsburg Avenue which is not currently in operation. The total proposed purchase price for the properties is \$1,865,000, including the assumption of two City loans, and would require the release of deed restrictions in favor of the City from the property at 251 East 7<sup>th</sup> Street (all as described in further detail below). A copy of the signed letter of intent between NWCDC and KQC is attached.

The first lienholder, BB&T, has agreed to accept a substantially reduced sum of \$1,500,000 in full satisfaction of its loans to NWCDC. Per the terms of the City’s agreement with BB&T, the City would receive payment of \$200,000 for release of the deed restrictions, in the event BB&T were to foreclose and/or acquire title to the 251 East 7<sup>th</sup> Street property. The current balance of the BB&T loan, to our knowledge, exceeds \$2,435,000, and the City would not receive more than the agreed \$200,000 payment from BB&T in the event of a foreclosure unless the properties sold for more than the BB&T debt amount and expenses in a foreclosure sale. Accordingly, the offer outlined below would in all likelihood ensure significantly greater repayment of City loans, as well as assurance of the smooth transition and continued provision of high quality, affordable child care at 251 East 7<sup>th</sup> Street.

## **Proposal**

KQC proposes to acquire the NWCDC properties on or about March 26, 2018, but has agreed to make the 251 East 7<sup>th</sup> Street facility available rent-free to NWCDC to operate its program through the end of the current school year. Thereafter, KQC will lease the facility to Foundations Early Learning Center to run the child care operation. An affiliate of KQC previously acquired the program operated by NWCDC at 300 North Poplar Street, which was seamlessly transitioned from NWCDC and has been successfully operated by Foundations since September, 2016. KQC would work toward a similar transition with NWCDC at 251 East 7<sup>th</sup> Street, hoping to retain most of the teachers and enrolled children.

Foundations Early Learning Center offers child care to families without regard to income level, and readily welcomes families at low to moderate income levels. As with Foundation’s operation at North Poplar Street, for those families qualifying for subsidized child care, families are required to pay just the difference between the unsubsidized child care fee and the subsidy amount. It is KQC’s understanding that this is consistent with the existing policy and requirements of NWCDC, so should represent no change to existing enrolled families. All children presently enrolled with NWCDC will be offered enrollment with Foundations Early Learning Center effective upon the transition of operations. Further, Foundations Early Learning Center will offer interviews to all current NWCDC teachers with the hope of employing all or most of the existing teachers who meet qualifications and accept employment. Foundations Early Learning Center will also agree to offer an ongoing employment preference to applicants who live within the Neighborhood Revitalization Strategy Area and will provide annual reports to the City as required by Loan #930028 (described in more detail below). It is important to note that none of these objectives are

likely to be met if the property is sold in a foreclosure sale, with the City likely receiving only \$200,000 payment.

Following is a summary of the proposed terms for assumption or release of existing City loans, consistent with the letter of intent between KQC and NWCDC, as well as proposed terms for release of the City's existing deed restrictions which would otherwise prohibit this transaction from moving forward.

Outstanding Northwest Child Development Loans from the City

1. #460024

Amount: \$300,000  
Balance: \$259,131 (as of 1-23-2018)  
Date: 10/25/2013  
Terms: After a deferral period of one year, payable with 2% interest over 20 years will full amortization. First payment was due on or about November 1, 2014. This loan is current.

Proposal: KQC proposes to assume payment of this loan as a portion of the purchase price, according to its terms with modifications described below.

Modifications: -delete Section 6 (annual \$6,000 replacement reserve – to our understanding has not been paid by NWCDC)  
-update notice address for Borrower (KQC)  
-subordinate to KQC purchase money debt (not to exceed \$900,000 – consistent with the City's existing lien position but far less first lien debt)

2. #930028

Amount: \$158,750  
Balance: \$48,000 +/-\* (after pending credits)  
Date: 4/2/2012  
Terms: Term is 10 years, no interest and no payments. Any remaining balance after 10 years is then due to be paid over a period of 5 years with interest at 5%, although it is expected that this note will be fully satisfied at 10 years.

Proposal: KQC proposes to assume this loan with existing structure of credits for taxes and employees. (NOTE: This loan assumption was not included in the total contract purchase price because the remaining uncredited balance of \$48,000 +/- should easily be satisfied within the remainder of the 10-year term with credits for property taxes alone. KQC is a for-profit entity and will be required to pay property taxes.)

Modifications: -modify section 3 to allow purchase money debt and subordinate to KQC purchase money debt (not to exceed \$1,500,000)  
-update notice address for "Developer" (KQC)  
-together with assumption provisions, confirm deferral terms continue with KQC according to terms

\*Nothing is credited toward the balance until the 10<sup>th</sup> year, although the City provides annual updates of the amount that has been credited to date. Credits are given for City taxes paid and

for each 12-month employee making at least \$8/hour (credit of \$2,000 to \$2,500 per employee annually). No credits are given after 10 years.

3. #930032

Amount: \$108,300

Balance: [need to verify]

Date: 6/24/2014

Terms: Full balance due July 1, 2019. No interest or payments, except that all federal or state funds received must be applied to principal, after payment of the \$75k note (below).

Proposal: KQC has no proposal with respect to this loan other than requiring release of the Deed of Trust against the NWCDC properties. Any funds from closing proceeds or other funds available to pay on this loan would have to be negotiated with the City by NWCDC. (Although KQC's total contract offer to NWCDC exceeds the BB&T payoff by more than \$100,000, there are two Federal tax liens against the properties which will need to be satisfied at or before closing. We are awaiting further information from NWCDC on the resolution of those liens.)

4. Deed Restrictions

Terms: The Special Warranty Deed from the City to NWCDC for the property at 251 East 7<sup>th</sup> Street includes certain restrictive covenants requiring that the property be used for a non-profit daycare center and that ownership be retained by NWCDC, among other restrictions, for a period of 25 years after issuance of the certificate of occupancy (The C/O was issued August 2, 2013). The City entered into an Agreement for Release of Restrictions and Termination of Reversionary Interest pursuant to which the City agreed to release the deed restrictions in their entirety, in the event of foreclosure or if for any reason the City had the right to invoke the restrictions, upon BB&T's payment of \$200,000.

Proposal: The City is requested to release the deed restrictions in substantially the same form of Release as was agreed with BB&T. (In comparison to BB&T's \$200,000 release fee, KQC has already agreed to assume and pay/perform City loans #460024 and #930028, with a total unsatisfied balance in excess of \$300,000.) In addition, KQC proposes to enter into a new agreement with the City by which KQC will agree, for a period of at least ten (10) years from the date of acquisition, to operate or ensure the operation of the facility at 251 East 7<sup>th</sup> Street as a child care facility. If it fails to do so, KQC will pay \$55,000 to the City as liquidated damages.