



MEMORANDUM

AGENDA ITEM #IV.G

DATE: NOVEMBER 14, 2016

TO: COUNCIL MEMBERS

FROM: STAFF

SUBJECT: RATIFY LOAN CHARGE OFF(S): SUPER KIDS CHRISTIAN DAY CARE, INC. AND BROADWAY PLACE, INC.

Super Kids Christian Day Care, Inc.

Based on the recommendation of staff, Super Kids Christian Daycare, Inc.'s loan was recently approved for charge-off by Chair Asseff. The Council's Revolving Loan Fund Operating Plan with the U.S. Department of Commerce requires that any charge-off of the Revolving Loan Fund be approved by the full Council. The Council is being asked to ratify the decision that was made by the Chair.

Background

Super Kids Christian Daycare, Inc. (SCD) is a for-profit day care center located in Miami, Florida on NE 54th Street and NE 3rd Avenue. The Council loaned SCD \$300,000 to help finance the construction of the daycare center. Unfortunately, the borrower was not able to develop a business that could support the repayment of loans from its lenders.

After two meetings with the owners, Mr. Edward T. McGann, Director of Finance and Loans, determined the breakeven student enrollment for SCD was 65 students. However, current student enrollment was at 40% of this level (25-30). The company's recent sales history had been flat to declining with fiscal year 2015 finishing 15% behind fiscal year 2014. As a result, the current business could not sustain the existing debt load.

Mr. McGann recommended to the owners a refinancing strategy which would lower the total level of debt on the business from \$600,000 to \$300,000. In his opinion, this was the only way to avoid legal collection action which could include foreclosure and the sale of their real estate assets.



The owners requested that the Council please delay pursuing legal remedies related to the note default until September 30, 2017. This time was requested in order to determine the company's best course of action and to give the company time to try once more to reach their goal of having 85 students at the center. With 85 students (center capacity) the business can support the total debt load of \$600,000.

In return for this 12 month forbearance period, the borrower would agree to make \$1,000 monthly payments starting October 1, 2016. However, before the plan was presented to the Executive Director for approval, the borrower was able to obtain alternative financing and offered to settle any and all claims the Council may have for a one time payment of \$250,000 to be paid in 5 business days.

The total principal outstanding at that time was \$298,000. As per the attached breakeven analysis, the offer of \$250,000 to settle any and all claims is 72% or \$105,000 better than pursuing our legal options through the courts.

Broadway Place, Inc. (A dissolved Florida Corporation)

Based on the recommendation of staff, Broadway Place Inc.'s loan was recently approved for charge-off by Chair Asseff. The Council's Revolving Loan Fund Operating Plan with the U.S. Department of Commerce, requires that any charge-off of the Revolving Loan Fund be approved by the full Council. The Council is being asked to ratify the decision that was made by the Chair.

Background

Broadway Place was a coin operated laundry store that was originally financed by Miami Capital Development, Inc. in 1999. The Council refinanced the outstanding balances of the Miami Capital Development, Inc. loan(s) in December 2004. Due to unfortunate circumstances, the laundry store was shuttered in 2007. Since 2007 the borrower has been making good faith payments while trying to rebuild this business.

The borrower is now ready to abandon this project and would like to settle his debt with the Council before doing so. However, he can only pay \$75,000, versus the \$142,000 he owes. A counter offer of \$100,000 was made but rejected.

Broadway has agreed and is expected to pay the \$75,000 within the next 30 days. Based on the attached breakeven analysis, the Council is better off by accepting the \$75,000 as opposed to pursuing their claims through legal means on assets which will be difficult to monetize.

Recommendation

Ratify the approval of the actual charge off of the Super Kids Christian Daycare loan and approved potential charge off of the Broadway Place loan.

Staff note: Both of these loans were included in the Loan Loss Reserve the Council posted for fiscal year 2015. Because of General Accepted Accounting Principals (GAAP) The Council's auditors recommended that the Council reserve for loans for which it had been receiving payments, but the collection of 100% of the loan was questionable. As a side benefit of these collections, the revolving loan fund will have a positive financial reporting impact in the Council's Fiscal year 2016 reporting.