1 MOTION TO USE CASH COLLATERAL

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Main Document

Pursuant to Fed. R. Bank. P. 4001 and 9014, and Section 363(c) of Title 11 of the United States Code, 11 U.S.C. §§ 101, et seq. (the "Bankruptcy Code"), Bear Figueroa LLC, the Debtor and Debtor-in-Possession in the above-captioned case (the "Debtor"), moves the Court to authorize Debtor's post-petition use of cash collateral on an interim basis and to authorize such use on a final basis after hearing on the motion can be held (the "Motion").

In support of the Motion, the Debtor states the following:

#### II. <u>BACKGROUND</u>

#### A. The Debtor's Business and the Chapter 11 Filing

- 1. Bear Figuroa LLC ("Debtor") is California Limited Liability Company owned by Denise Johnson and her mother, Gladney Johnson (hereafter called the "Owners").
- 2. The Debtor is the owner of a twenty-one unit apartment building located at 10520 Figueroa Blvd., Los Angeles, CA 90009 ("Property").
- 3. The Property is encumbered by a first mortgage in favor of Evergreen Advantage LLC ("Evergeen") and is serviced by FCI Lender Services Inc. The current balance of Evergeen mortgage is \$1,928,454. The loan will mature in August 1, 2017. Debtor was in the process of refinancing the Evergreen mortgage when it fell behind on its monthly payments beginning in November 16, 2016. Since Debtor defaulted on its monthly obligations, Evergreen has charged an additional \$10,000 per month for default interest. As of the filing of this case, the debtor is behind in the amount of \$180,152.42,
- 4. The current market value of the Property is approximately \$ 2,900,000.
- 5. The Property currently generates rental income of \$19,525. See Exhibit "B".
- 6. On April 6, 2017, (the Petition Date), the debtor filed with the court the voluntary petition of relief under Chapter 11 of the Code. The Debtor is operating its business as a debtor-in-possession pursuant to Code §§ 1107(a) and 1108.

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#### MEMORANDUM OF POINTS AND AUTHORITIES

#### Cash Collateral

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11. As of the Petition Date, the Debtor has assets including the Real Property and improvements, the fair cash value of which is being determined. The Debtor's liabilities include secured claims in the principal amount of approximately \$1,928,454.00 (Evergreen), \$42,012.37 (Los Angeles County Tax Collector) and approximately \$60,000.00 in unsecured claims.

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#### **Argument For Relief And Applicable Authority**

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2017 (the "Petition Date"). Debtor continues to manage its financial affairs and operate its

12. Debtor filed a voluntary petition under Chapter 11 of the Bankruptcy Code on April 6,

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bankruptcy estate as a debtor-in-possession pursuant to Sections 1107 and 1108 of the

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Bankruptcy Code.

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13. The Debtor's use of the Cash Collateral is imperative for Debtor to continue ordinary

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course operation, to protect the Property against catastrophic loss and to maximize the

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creditors' recovery. Entry of an interim order authorizing the use of the Cash Collateral is

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necessary to avoid immediate and irreparable harm to the Debtor's business, the value of

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its assets, its creditors, and other parties in interest.

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14. By this Motion, Debtor seeks interim authority to use the cash collateral of Evergreen

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Advantage LLC (hereinafter referred to as the "Lender"). Debtor believes, after

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preliminary investigation including title search, that Lender has some perfected security

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interest in the cash collateral of the Debtor, including part of the Debtor's cash on hand.

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The Debtor's use of cash collateral is essential to Debtor's reorganization success, in that

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Debtor needs the funds generated to keep the Debtor in operation and to pay for Debtor's

post-petition operating expenses.

- 15. Specifically, the Debtor must be able to use cash collateral to pay for all necessary postpetition operating expenses including post-petition mortgage, maintenance, supplies, property taxes, utility bills, and other normal and necessary operating expenses of real properties leasing. Here, the Debtor's business cannot survive without any use of cash collateral. Debtor must be able to pay expenses in accordance with the attached Budget pending a final hearing in order to avoid immediate and irreparable harm to the Debtor's business and this bankruptcy estate.
- 16. The Debtor estimates that use of the Cash Collateral in an amount up to the attached budget, being the amount necessary to continue its normal business operations and meet its Chapter 11 obligations and responsibilities.
- 17. The Debtor seeks to use Cash Collateral for payment of insurance premium installments, utilities, management and general maintenance to keep the Property in good repair and other expenditures for debt service, real property taxes and other expenses the Debtor will be required to fund in Chapter 11.
- 18. It is in the best interests of the estate and its creditors that the Debtor be authorized to use the Cash Collateral pursuant to the terms contained herein.
- 19. The Debtor will continue to account for all post-petition cash use and proposed cash use.
- 20. The Debtor further moves the Court to fix a hearing date to consider the entry of a final order authorizing the Debtor's continued use of the Cash Collateral.
- 21. Debtor's approximate monthly income from the debtor's business are as follows: See Rent Roll attached as **Exhibit "B"**.

Property	Gross Rental/Business Income	
	(approximate)	

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10520 Figueroa Blvd.	\$19,525 monthly
Los Angeles, CA 90009	(Currently Property is 81% leased)
(Multi-Unit Property)	
1 3/	

#### **Creditors' Committee**

22. No creditors' committee has been appointed by the United States Trustee.

#### **Debtor's Pre-Petition Financing and Pre-petition Loan Documents**

- 23. Debtor and Lender entered into certain loan arrangements evidenced by, among other things, instruments and agreements (hereinafter, collectively with all other related documents, the "Loan Documents").
- 24. Upon information and belief, Lender alleges that the amounts due under the Loan Documents as of the Petition Date (the "Pre-Petition Indebtedness") is as follows:

Property	Lender	Approximate Balance Owed to Lender	Approximate Fair Market Value of Property
10520 Figueroa Blvd, Los Angeles, CA 90009	Evergreen Advantage LLC	\$1,928,454.00	\$ 2,900,000.00
Total		\$1,928,454.00	\$2,900,000.00

#### **Pre-Petition Collateral**

25. Lender alleges that the Pre-Petition Indebtedness is secured by substantially all of Debtor's Property (the "Collateral"). Subject to verification by post-petition appraisal, Debtor believes that Lender is fully secured on the Property, as described on line 14 above.

#### <u>Perfection of Pre-Petition Security Interests and Liens</u>

26. The Debtor is not, by the filing of this motion, waiving any right to contest the amount due under the Loan Documents or the priority or perfection of the security interests alleged to 6 MOTION TO USE CASH COLLATERAL

be held by Lender and the debtor is not admitting that the rental income from the Property is cash collateral of Lender.

#### **Debtors' Urgent Need for Use of Cash Collateral**

- 27. Upon information and belief debtor contends that Lender has a security interest in all business income of the Debtor pursuant to the Loan Documents. As of the Petition Date, the Debtor has insufficient unencumbered cash on hand to operate without the use of the cash on hand.
- 28. Debtor wishes to commence making adequate protection payment to the Lender. Specifically, without the use of said cash collateral, the Debtor cannot pay the mortgage payments or pay any the necessary expenses required for the upkeep and maintenance of the debtor's business. Debtor's failure to keep its obligations to its lender and vendors will be tantamount to immediate and irreparable harm to the Debtor and its estate.
- 29. Based upon the foregoing, it is evident that the consequence of leaving Debtor without use of cash collateral would cause a materially adverse effect on the estate and its creditors.
- 30. Without the immediate access to cash collateral, the Debtor's business operations will be greatly impaired. Debtor will be unable to make the mortgage payments, pay for its management expenses and will not be able to make other necessary maintenance and upkeep of the debtor's business. Debtor will be unable to keep its business obligations to its tenants, such as paying for the utilities, cleaning, maintenance services and management services that is required to operate its business.
- 31. Debtor has determined, in the exercise of its sound business judgment that it requires the use of the Lenders cash collateral in the specific monthly amounts detailed on the rental properties budget, See Denise Johnson's declaration, attached thereto. The cash flow budget (Exhibit "A") details the expenses by which the business income will be used for the period of *May 2017 through July 2017*, or for the period to be determined by this Court.

  7 MOTION TO USE CASH COLLATERAL

## Relief Requested

- 32. By this Motion, Debtor requests, pursuant to § 363(c)(2) of the Bankruptcy Code, that this Court enter an order authorizing Debtor to use cash collateral of the Lender in the specific amounts set forth in the Denise Johnson's Declaration. In connection with the foregoing, Debtor also offers to adequately protect the interests of Lender by granting post-petition liens on, and security interest in, the Property of the estate in favor of the Lender as adequate protection for its secured claims and by making adequate protection payments to Lender in the amount of \$10,500 per month.
- 33. Section 363(c)(2) of the Bankruptcy Code provides that:
- a) The trustee may not use, sell, or lease cash collateral under paragraph (1) of this subsection unless— . . .
- b) The court, after notice and hearing, authorizes said use; sale or lease in accordance with the provisions of this Section . . . .
- 11 U.S.C. § 363(c)(2). Section 363(e) provides that the Court may condition said use, sale or lease as is necessary to provide adequate protection to Lenders.
- 34. Based upon the foregoing, this Court is authorized to grant the interim and final relief requested in this Motion and to authorize and approve the use of cash collateral by the Debtor. Approval of the requested relief is in the best interests of creditors and of the bankruptcy estate.
- 35. Debtor believes that the terms and conditions of the requested relief are fair and reasonable.

  Debtor has engaged in a reasonable exploration of the availability of alternate credit and is unable to obtain post-petition credit.

11 U.S.C. § 363(c) (1).

- 36. Entry of the proposed order is in the best interests of Debtor, its bankruptcy estate and creditors and will enable Debtor among other things, to: (a) maintain continuity of operations; (b) pay creditors, and (c) maximize the value of the debtor's business.
- 37. In addition, the availability of funds under the proposed order will instill confidence in creditors of Debtor which will facilitate a smooth transition into chapter 11 and a successful reorganization.
- 38. Moreover, Debtor submits that the use of cash collateral contemplated by the proposed order is appropriate and proper under the facts herein. Part of the funds available to the Debtor is cash on hand, checking and other deposit accounts claimed by the Lender to constitute cash collateral within the meaning of section 363 of the Bankruptcy Code. As indicated above, Debtor cannot operate post-petition without the use of its pre-petition cash.
- 39. Based upon the foregoing, Debtor urges the Court to approve the proposed order, thereby authorizing Debtor to use cash collateral and incur the secured obligations as provided therein.

#### **DISCUSSION**

# <u>Debtor Must Be Authorized To Use Cash Collateral to Operate, Maintain and</u> <u>Preserve its Business in Accordance with the Budget</u>

- 40. The Debtor's use of properties of its estate is governed by Section 363 of the Bankruptcy Code. Section 363(c) (1) provides in pertinent part:
  - If the business of the debtor is authorized to be operated under section. . . 1108. . . of this title and unless the court orders otherwise, the trustee may enter into transactions, including the sale or lease of properties of the estate, in the ordinary course of business, without notice or a hearing, and may use properties of the estate in the ordinary course of business without notice or a hearing.

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41. A Debtor-in-Possession has all of the rights and powers of a trustee with respect to properties of the estate, including the right to use properties of the estate in compliance with Section 363. See 11 U.S.C. § 1107(a). "Cash collateral" is defined as "cash, negotiable instruments, documents of title, securities, deposit accounts or other cash equivalents in which the estate and an entity other than the estate have an interest. . . . " 11 U.S.C. § 363(a).

Section 363(c) (2) allows the use of "cash collateral".... if:

- (A) Each entity that has an interest in such cash collateral consents; or
- (B) The court, after notice and a hearing, authorizes such use, sale or lease in accordance with the provisions of this section.

See 11 U.S.C. § 363(c)(2)(A) and (B).

- 42. It is well settled that it is appropriate for a chapter 11 debtor to use cash collateral for the purpose of maintaining and operating its properties. 11 U.S.C. § 363(c)(2)(B); In re Oak Glen RVee, 8 B.R. 213, 216 (Bankr. CD. Cal. 1981); In re Tucson Industrial Partners, 129 B.R. 614 (B.A.P. 9th Cir. 1991).
- 43. In addition, where the Debtor is operating a business, it is extremely important that the access to cash collateral be allowed in order to facilitate the goal of reorganization: "The purpose of Chapter 11 is to rehabilitate debtors and generally access to cash collateral is necessary to operate a business." In re Dynaco Corporation, 162 B.R. 389 (Bankr. D.N.H. 1993), quoting In re Stein, 19 B.R. 458, 459 (Bankr. E.D. Pa. 1982).
- 44. The only sources of revenue available to the Debtor to operate, maintain and preserve its business is the Debtor's cash existing on the Petition Date and post-petition revenues from the operation of its leasing business.
- 45. Debtor will have no ability to continue to operate its business and maintain and preserve the going concern value of its business unless the Debtor is able to use its cash which

includes cash that constitute the cash collateral of the Lenders to pay the Debtor's ordinary operating expenses, including, but not limited to, utilities, insurance, maintenance, etc.

#### Transactions in the Ordinary Course of Business

- 46. A debtor-in-possession generally may enter into transactions in the ordinary course of business, including the sale or lease of properties of the estate, without notice or a hearing. See 11 U.S.C § 363(c)(1).
- 47. The debtor-in-possession may employ, hire and fire employees and continue their employment of their management, subject to the imposition of restrictions on compensation if such compensation is determined to be excessive.
- 48. Unless the Court orders otherwise, the debtors-in-possession also may obtain unsecured credit and incur unsecured debt in the ordinary course of business. See 11 U.S.C § 364(d).

  Accordingly, Debtor's post-petition lease of its Property is in the ordinary course of business.

#### The Lender is Adequately Protected by the Debtor's Continued Use of Cash Collateral

- 49. To the extent that an entity has a valid security interest in the revenues generated by properties, those revenues constitute "cash collateral" under Section 363(a) of the Bankruptcy Code. Pursuant to Section 363(c)(2), the Court may authorize the debtor to use a secured creditor's cash collateral if the secured creditor is adequately protected. In re Mellor, 734 F.2d 1396, 1400 (9th Cir. 1984). See also In re O'Connor, 808 F.2d 1393, 1398 (10th Cir. 1987); In re McCombs Properties VI, Ltd., 88 B.R. 261, 265 (Bankr. C.D. Cal. 1988) ("McCombs").
- 50. Pursuant to the Supreme Court case of <u>United Savings Association v. Timbers of Inwood</u>

  <u>Forest Associates</u>, 108 S.Ct. 626, 629 (1988) ("Timbers") and subsequent case law, the properties interest that a debtor must adequately protect pursuant to Sections 361(1) and

(2) of the Bankruptcy Code is only the value of the lien that secures the creditor's claim. Timbers at 630. See also McCombs, Id. at 266. Section 506(a) "limit[s] the secured status of a creditor (i.e., the secured creditor's claim) to the lesser of the [allowed amount of the] claim or the value of the collateral." McCombs, Id. at 266.

- 51. Additionally, the law is also clear that the preservation of the value of a secured creditor's lien is sufficient to provide adequate protection to a secured creditor when a debtor seeks to use cash collateral. <u>In re Triplett</u>, 87 B.R. 25 (Bankr. W.D.Tex. 1988). See also <u>In re Stein</u>, 19 B.R. 458 (Bankr. E.D.Pa. 1982).
- 52. The following chart illustrates the adequate protection payments proposed by Debtor to the Lender.

Type of Claim	DESCRIPTION	TREATMENT	
Secured Claim	Name = Evergreen Advantage LLC	Pymt Interval	Month
	Collateral = 10520 Figueroa Blvd, Los Angeles, CA 90009	Pymt/interval	\$10,500.00
	Collateral Value = \$2,900,000.00	Begin date End date	05/01/2017 09/01/2017
	Priority of Sec = 1 <sup>st</sup>	Principal Amount	\$1,928,454

53. Additionally, in determining adequate protection, Courts have stressed the importance of promoting a debtor's reorganization. In <u>In re O'Connor</u>, supra, the Tenth Circuit stated:

In this case, Debtor, in the midst of a Chapter 11 proceeding, has proposed to deal with cash collateral for the purpose of enhancing the prospects of reorganization. This quest is the ultimate goal of Chapter 11. Hence, the Debtor's efforts are not only to be encouraged, but also their efforts during the administration of the proceeding are to be measured in light of that quest. Because the ultimate benefit to be achieved by a successful reorganization inures to all the creditors of the estate, a fair opportunity must be given to the Debtors to achieve that end. Thus, while interests of the secured creditor whose properties rights are of concern to the court, the interests of all other creditors also have bearing upon the question of whether

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1	use of cash collatera 808 F.2d at 1937.	shall be permitted during the early stages of administration.	
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3		CONCLUSION	
4 5	WHEREFORE, Deb	tor respectfully requests that this Court enter an Order in the fo	orm
6	annexed hereto, which amor	g other things:	
7	1. Authorizes D	ebtor to use the cash collateral of the Lender as detailed In Ex	hibit
8	"A";		
9	2. Set the last ti	me and date for the filing of objections to approval of the prop	osed
10	order on a final basis;		
11			,
12	3. Set a hearing	to consider approving the Proposed Order on a final basis pur	suant
13	to Bankruptcy Rule 4001 if	an objection to the approval of the proposed order on final bas	is is
14	filed;		
15	4. After the fina	l hearing (if necessary), enter a final order authorizing Debtor	to
16	utilize the cash collateral in	accordance with the terms and subject to the provisions of the	
17	proposed order; and		
18		har and further ratiof as is just and proper	
19	3. Grant such of	her and further relief as is just and proper.	
20	Datada May 1, 2017	Law Office of Lional Cinen	
21	Dated: May 1, 2017	Law Office of Lionel Giron	
22		/s/ Kevin Tang	
24		Kevin Tang Proposed Attorneys for the Debtor-in-possess	sion,
25		Bear Figueroa LLC	,
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#### DECLARATION OF DENISE JOHNSON

I, Denise Johnson, do hereby declare that all of the following is true and correct to the best of my personal knowledge and if called upon as a witness, I could and would competently testify to the truthfulness of all of the below statements:

- 1. I am the Managing Member of the debtor in the instant bankruptcy proceeding, Case No. 2:17-bk-14249-VZ.
- 2. I make this declaration in support of Debtor's Motion For Order Authorizing Use of Cash Collateral.
- 3. The projected cash flow for the Property for May 2017 to July 2017 is attached as **Exhibit** "A".
- The rent roll for the Property is attached as **Exhibit "B"**. Currently, four units are vacant. Debtor expects income to increase by \$2,400 per month by June 1, 2017.
- 5. I am in the process of refinancing the Evergreen mortgage and I need to use cash collateral for the next three months while I am working to obtain refinancing for the Evergreen mortgage.
- I declare under penalty of perjury under the laws of California that the foregoing is true and correct and that this Declaration was executed this 1st day of May, 2017, fat Los Angeles,

### **EXHIBIT A: Bear Figueroa LLC**

**Three Month Projected Cash Flow** 

Date of Filing

6-Apr

Month/Yr	May-17	Jun-17	Jul-17	Total
Gross Rental Income	19,525	21,925	21,925	63,375
Rental Expenses				
First Mortgage	10,500	10,500	10,500	31,500
Property Taxes				0
Gas	450	450	450	1,350
Water	3,125	3,500	3,500	10,125
On Site Manager	550	550	550	1,650
Gardening	160	160	160	480
Trash	550	550	550	1,650
Management Fee	3,375	3,375	3,375	10,125
US Trustee's Fee			650	650
Insurance	700	700	700	2,100
Maintenance and Retrofit		1,900	1,250	3,150
Total Rental Expenses	19,410	21,685	21,685	62,780
Net Disposable Income	115	240	240	595

**EXHIBIT B: Bear Figueroa LLC Rent Roll** 

Units	Rent		Туре	Tenants
	1	1305	2BR	George and Alicia Hernandez
	2	1195	2BR	Valerie Bogle
	3		2BR	Vacant
	4	1050	1BR	Jackie Surez
	5	995	1BR	Maria Juan Gomez
	6	995	1BR	Robin Cynthia Cane
	7	1295	2BR	Sylvester Mack
	8		1BR	Vacant
	9	1375	2BR	Girace Gerald Jackson
	10	995	Single	Katheryn Davis
	11	995	1BR	Martha Banilla
	12		2BR	Vacant
	13		1BR	Vacant
	14	975	Single	Geoffrey Lucas
	15	995	Single	Carlos Santino
	16	975	Single	Leon Spinz and Raymond Marshall
	17	950	Single	Lorna Givens
	18	995	1BR	Luis Carrillo Vienna
	19	995	1BR	Joshua Bonner
	20	990	1BR	Cynthia Milton
	21	1050	1BR	Cynthia Gillespie

18125 Total Rental Income

1400 Laundry Income

19525 Total Income

		3.3	
In re:			CHAPTER: 11
Bear Figue	eroa LLC	Debtor(s).	CASE NUMBER: <b>2:17-bk-14249</b>
A true and correct of Collateral on an Inserved or was served below:  I. TO BE SERVED the foregoing docur his bankruptcy casteceive NEF transmucher Served on Mark S Krause on bankruptcy@zbslaKelly L Morrison of Collateral on on Collateral on the	f 18 and not a party to this bankrup  e.  copy of the foregoing document ent  terim Basis Pending a Final Hea  ed (a) on the judge in chambers in  D BY THE COURT VIA NOTICE OF  ment will be served by the court via  e or adversary proceeding and det  hission at the email addresses state  behalf of Debtor Bear Figueroa I  behalf of Creditor The Evergree  aw.com, mkrause@ecf.courtdrive	ring and to Provide Adequate Prote the form and manner required by LBR FELECTRONIC FILING (NEF): Pursual NEF and hyperlink to the document. ermined that the following persons are ded below:  LC notices@lglawoffice.com, tangen Advantage, LLC, a California limit e.com States Trustee (LA) kelly.l.morrison	n for Order Authorizing Use of Cash ection to Secured Lender will be to 5005-2(d); and (b) in the manner stated want to controlling General Orders and LBR On, I checked the CM/ECF docket for e on the Electronic Mail Notice List to kevin911@gmail.com ed liability company
		☐ Service informa	tion continued on attached page
On 5/1/17, I se proceeding by placi addressed as follow after the document	ng a true and correct copy thereof /s. Listing the judge here constitute is filed.	entities at the last known addresses in in a sealed envelope in the United States a declaration that mailing to the jud	. •
Honorable Vincent	t Zurzolo, 255 E. Temple St., Suit	te 1360, Los Angeles, CA 90012	
		✓ Service informa	tion continued on attached page
person or entity ser personal delivery, o and/or email as follo	<u>ved)</u> : Pursuant to F.R.Civ.P. 5 and vernight mail service, or (for those	or controlling LBR, on, I served who consented in writing to such servutes a declaration that personal delive	the following persons and/or entities by vice method), by facsimile transmission by on, or overnight mail to, the judge will be
		Service informa	tion continued on attached page
•		e United States of America that the for	regoing is true and correct.
May 1, 2017	Alma Perez	/s/ Alma Per	ez
Date	Printed Name	Signature	

**CREDITOR** 

Denise Johnson 10736 Jefferson Blvd., Ste 926 Culver City, CA 90230

FCI Lender Services PO BOX 27370 Anaheim, CA 92809-0112

Franchise Tax Board Bankruptcy Section, MS: A-340 PO BOX 2952 Sacramento, CA 95812-2952

Internal Revenue Service PO BOX 7346 Philadelphia, PA 19101

Los Angeles County Treasurer and Tax Collector PO BOX 54110 Los Angeles, CA 90054

Los Angeles DWP 111 N Hope St., Los Angeles, CA 90012

Sylvester Mack 10520 Figueroa Blvd., Atp 7 Los Angeles, CA 90003