

## Build NYC Resource Corporation Finance Committee Discussion

The Finance Committee convened on September 19, 2019 to discuss the following projects:

- International House
- The Gillen Brewer School

Finance Committee Members: Barry Dinerstein and Jacques-Philippe Piverger.

Build NYC Staff Members: Krishna Omolade, Emily Marcus, and Noah Schumer

Start: 4:08 PM

End: 4:36 PM

### **International House**

International House, (“International House”), a New York not-for-profit corporation exempt from federal taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, (the “Code”), as borrower, is seeking approximately \$65,500,000 in tax-exempt revenue bonds (the “Bonds”).

International House will use proceeds of the Bonds to: (i) finance or refinance the demolition of an existing parking garage, and the construction, furnishing, and equipping of an eight-story, 70,000 square foot facility located at 167 Claremont Avenue, New York, New York, that will serve as the new main entrance to International House’s facility at that location, as well as provide 124 beds for student residential housing; (ii) finance or refinance the construction, renovation, furnishing, and equipping of International House’s two existing adjacent buildings (consisting of 303,530 square feet) located at 500 and 524 Riverside Drive, New York, New York, including new interior passageways connecting the two existing buildings and the new building (together with i, the “Project”); and (iii) pay for certain costs associated with the issuance of the Bonds. International House intends to operate all of the buildings as a dormitory residence and community for graduate students, scholars, interns and trainees in New York City. International House anticipates closing on the financing of the Project in Spring 2020 and completing the Project within approximately two years from closing. Once completed, the Project will allow International House to enlarge its resident community and enhance its program offerings.

*Mr. Dinerstein asked how International House finances its operations.*

*Mr. Schumer responded that the majority of revenues come from rental income.*

*Mr. Dinerstein asked if that income would cover repayment of the new bonds.*

*Mr. Schumer responded yes, and that the bond was being structured as a general obligation of the organization.*

*Mr. Omolade stated that in FY18, the organization also raised around \$4.7 million in contributions, in addition to revenue from operations.*

*Mr. Schumer stated that around 60 percent of income is generated by rent, and 25 percent comes from special events and donations.*

*Mr. Dinerstein asked if International House has an endowment.*

*Mr. Schumer responded that their endowment is about \$55 million.*

*Mr. Dinerstein asked if International House is doing the project as-of-right, without the need to secure additional development rights.*

*Mr. Schumer responded that that is the case.*

*Mr. Dinerstein asked how large the lot is.*

*Mr. Omolade replied that we could provide the lot size at a later date, but that the organization did not need any BSA approvals for the project, as it was eligible as-of-right.*

*Mr. Piverger and Ms. Marcus noted that the existing facility would benefit from the upgrades the organization had planned.*

*Mr. Dinerstein asked in what ways this would be the case.*

*Mr. Omolade stated that the project would create a new interior passageway between the two existing buildings, whereas it was now necessary to walk outside to go from one to the other.*

*Ms. Marcus added that the organization was lacking certain modern amenities for student housing, as current facilities included a small poolroom in the basement with no windows, a small gym, and a small laundry room.*

*The committee recommended the Project to seek authorization at the September 24<sup>th</sup> Board meeting.*

### **The Gillen Brewer School**

The Gillen Brewer School (“GBS”), a New York not-for-profit corporation exempt from federal taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, is seeking approximately \$40,000,000 in tax-exempt revenue bonds (the “Bonds”). Proceeds from the Bonds, together with other funds contributed by GBS, will be used to: (1) finance the acquisition, renovation, furnishing and equipping of an approximately 53,977 square foot commercial condominium comprising the entire third and fourth floors of a 4-story building located on an approximately 24,619 square foot parcel of land located at 520 West 49<sup>th</sup> Street, New York, New York 10019 (the “Facility”); and (2) pay for certain costs related to the issuance of the Bonds. The Facility will be owned and operated by GBS to provide educational services for special needs students in grades pre-kindergarten through Grade 8.

*Mr. Piverger asked if the school planned to relocate all operations to the new building.*

*Ms. Marcus confirmed that this would be the case.*

*Mr. Piverger asked what the current cost per student was.*

*Ms. Marcus noted that the cost per student depended on the age and need of the student, but that it ranged from approximately \$86,000 to \$114,000 per year. She added that the school offers a 12-month program, so there is an additional three months of services factored into that cost.*

*Mr. Omolade added that the school employs a large number of staff, and Ms. Marcus confirmed that the school has around three teachers and three therapists per classroom of eight students.*

*Mr. Piverger asked what percentage of the students pay in full and what percentage is subsidized.*

*Ms. Marcus replied that the school used to be a DOE-approved school and tuition would be reimbursed up to \$50,000 to \$60,000 per student. For the past decade, the school has had a large development team fundraising the gap between DOE funds and actual tuition. Around two years ago, Gillen Brewer changed their model so that they are no longer DOE-certified, and they advise parents to go through the process of suing, at the federal level, to be reimbursed after the tuition has already been fronted.*

*Mr. Piverger asked if this has been successful.*

*Ms. Marcus stated that around 97 percent of parents have been successful in their lawsuits, and that the school budgets that around 30 percent of families will not be able to front tuition and will only be able to pay upon receiving their reimbursement.*

*Mr. Dinerstein asked if it was the federal courts ordering the City to pay the reimbursement.*

*Mr. Omolade responded that yes, it's a federal law, and because of that law the City has to pay for the reimbursement.*

*Mr. Dinerstein asked whether Build NYC was comfortable supporting a school where the tuition model is contingent on families going to court and suing the City to pay tuition.*

*Mr. Omolade stated that Build NYC has issued bonds for other schools where the City has had to cover students' tuition costs, including Mary McDowell Friends School and The Cooke School, where the City is responsible for paying tuition once the parent has determined that that school is the only one capable of providing a certain level of education for their child.*

*Mr. Dinerstein asked what would happen if there was a determination at some point that the City would not have to pay.*

*Ms. Marcus stated that it's not impossible that eventually a parent will be unsuccessful in seeking reimbursement, but the school budgets at least 30 percent of the tuition payments being late, so they have the capability to offer financial aid on a case-by-case basis.*

*Mr. Dinerstein asked what the cost to sue per family was?*

*Ms. Marcus noted that it depends on which lawyer the family hired, and the length of the process.*

*Mr. Piverger asked if legal costs were also reimbursed by the City.*

*Ms. Marcus responded that she was not sure if this was the case.*

*Mr. Piverger asked how long this model has gone on for.*

*Mr. Omolade stated that the overall structure of the City paying families' tuition has gone on for many years, but this particular structure of families suing the City has occurred for two years.*

*Mr. Piverger noted that he wasn't personally opposed to this model, but he asked whether it could be seen as a conflict that the City would be supporting a school that has, as its financial model, a practice of encouraging families to sue it.*

*Ms. Marcus stated that this is a valid point, but that from the Corporation's perspective, the school is unique in the depth and quality of services it provides to special needs students.*

*Mr. Dinerstein said he appreciates the motivation of parents to send their children to the school but agreed that the model of suing the City was problematic.*

*Mr. Omolade stated that the way the Corporation view this model, the City has an obligation to provide an adequate education for all students. The parents at Gillen Brewer choose to go this route because they have determined that the public schools in their area cannot provide a high enough level of special needs education, which is why they are successful in court.*

*Mr. Dinerstein asked if the school was only through second grade.*

*Ms. Marcus stated that this project would allow the school to expand from pre-school through middle school.*

*Mr. Piverger asked if the performance of kids who go to Gillen Brewer is better than kids who go to less expensive schools.*

*Ms. Marcus responded that it would be a difficult question to answer, given the severity of the disabilities faced by some students. She noted it would be interesting to see how the school measures success, given that certain metrics, such as standardized test scores, might not apply, while others, like basic social skills, were more qualitative in nature.*

*Mr. Dinerstein asked whether the school offered a bus service. He also asked about the current tenants at the building in which the school was relocating.*

*Ms. Marcus stated that the school does not offer a bus service. She stated that The Red Cross was on the bottom two floors, and she could provide additional information later about the other tenants in the building.*

*Mr. Piverger stated that the school has a high debt service coverage ratio, and that the school's financials showed a positive trajectory in revenues.*

*Mr. Omolade stated that in addition to the tuition revenue, the school was also engaged in general fundraising. He asked if the committee supported the project, or if they preferred to wait for additional information.*

*The committee recommended the Project to seek authorization at the September 24<sup>th</sup> Board meeting.*