Build NYC Resource Corporation
Finance Committee Discussion

The Finance Committee convened on March 4, 2021 to discuss the following projects:

- The Berkeley Carroll School
- The ICS Foundation, Inc. (Integration Charter Schools)
- Macombs 1504, LLC, Jerome 2720, LLC & Gerard 501, LLC (KIPP New York, Inc.)
- Saint Ann's School
- Friends of New World Prep, Inc.

Finance Committee Members: Barry Dinerstein, Andrea Feirstein, and Anthony Del Vecchio
Build NYC Staff Members: Krishna Omolade, Emily Marcus, Mac Thayer, and Noah Schumer

Start: 4:00 PM
End: 5:00 PM

<u>The Berkeley Carroll School</u>
The Berkeley Carroll School (the "School"), a New York not-for-profit education 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 and taxable revenue notes (collectively, the "Notes"). Proceeds from the Notes, together with other funds contributed by the School, will be used, as part of a plan of financing, to: (1) refinance all or a portion of the Build NYC Resource Corporation Series 2014 Bonds (the "2014 Bonds", more details about which can be read in Annex I), as well as additional taxable debt, the proceeds of which were, in part, used to acquire a 2,750 square foot parcel of land and a 9,000 square foot building located at 703 Carroll Street, Brooklyn, New York (the "703 Carroll Street Facility"; collectively with the School's facilities at 181 Lincoln Place, 712-716 Carroll Street, 152-156 Sterling Place, and 699 and 701 Carroll Street, the "Facilities"); (2) finance renovations to the 703 Carroll Street Facility, which will include upgrading the existing fire safety system, improving accessibility at the 703 Carroll Street Facility and increasing the size of the 703 Carroll Street Facility to 11,225 square feet, creating: (x) larger classrooms for the study of science, technology, engineering, art and math; (y) a cafeteria; and (z) a multipurpose gathering space for exhibitions, presentations, and meetings; (3) pay three interest rate swaps, outstanding in the aggregate principal amount of approximately $2,000,000 incurred in connection with the issuance of the 2014 Bonds; (4) fund capitalized interest and one or more debt service reserve funds; and (5) pay for certain costs related to the issuance of the Notes.

Mr. Del Vecchio asked about the change in the school's cash position from 2019 to 2020, and whether the downward trend would continue.

Mr. Schumer replied that the school transferred some of its cash into short-term liquid investments, owing to the fact that the school didn't undertake a capital improvement project during the summer of 2020. The drop in cash wasn't reflective of a major deterioration of the school's financial position.

The committee recommended the Project to seek authorization at the March 9th Board meeting.

<u>ICS Foundation, Inc.</u>
The ICS Foundation, Inc., a New York corporation exempt from federal taxation pursuant to section 501(c)(3) of the Internal Revenue Code of 1986, as amended, as borrower (the "Foundation"), is seeking approximately $33,615,000 in tax-exempt and taxable revenue bonds (the "Bonds"). The Foundation supports Integration Charter Schools ("ICS"), a corporation exempt from federal taxation pursuant to section 501(c)(3) of the Internal Revenue

Code of 1986, as amended, that operates a network of charter schools which provides education services to students (including those with special needs). The Foundation procures, constructs, and leases education facilities to ICS. Proceeds from the Bonds will be used to (a)(i) finance the acquisition, renovation, furnishing, and equipping of a 28,500 square foot building located on a 60,700 square foot parcel of land located at 2245 Richmond Avenue, Staten Island, New York, which is expected to serve as the site of a new school (the "Owned Facility"), to be known as the Richmond Preparatory Charter School which will provide educational services to students in Grades 6 through 12 including those with special needs ("Richmond"), and (ii) finance the construction, furnishing and equipping of an expansion to the Owned Facility consisting of 25,000 square feet; (b) refinance a taxable loan in the outstanding amount of $725,000, which loan financed leasehold improvements in 37,589 square feet of leased space located in one building (the "Leased Facility 1") and 8,361 square feet of leased space in a second building (the "Leased Facility 2"), both located at 1 Teleport Drive, Staten Island New York, which currently serves as a site for the following schools: John W. Lavelle Preparatory Charter School (providing educational services to students in Kindergarten through Grade 12) ("Lavelle"), New Ventures Charter School (providing educational services to students from ages 16 through 21) ("New Ventures") and The Lois and Richard Nicotra Early College Charter School (providing educational services to students in Grades 8 through 12) ("Nicotra"), (c) refinance a taxable loan in the outstanding amount of $890,000, which loan financed leasehold improvements in 154,578 square feet of leased space located in a third building (the "Leased Facility 3" and together with the Leased Facility 1 and the Leased Facility 2, the "Leased Facilities"), located at 3 Teleport Drive, Staten Island, New York, which currently serves as a site for the following schools: Lavelle, New Ventures, Nicotra, and until the Owned Facility is completed, Richmond, (d) fund a capitalized interest and debt service reserve fund; and (e) pay for certain costs and expenses associated with the issuance of the Bonds. The Owned Facility will be owned by the Foundation and leased to and operated by ICS as the Richmond school. The Leased Facilities are to be leased to the Foundation and subleased and operated by ICS as the Lavelle, New Ventures, Nicotra, and Richmond (temporarily) schools.

Ms. Feirstein asked whether the obligation to repay the bonds would rest with the foundation, and not the individual finances of the newly created school that didn't yet have full enrollment.

Mr. Schumer clarified that that was the case, and stated that the enrollment projections were strong for the new venture in terms of number of applications received from prospective students.

Mr. Omolade added that the structure is similar to other charter school financings where a foundation associated with the charter school acts as the nominal borrower and owner of the facility, which leases the building to the operating school.

The committee recommended the Project to seek authorization at the March 9th Board meeting.

Macombs 1504, LLC, Jerome 2720, LLC & Gerard 501, LLC (KIPP New York, Inc.)

Borrowers Macombs 1504, LLC ("Macombs LLC"), Jerome 2720, LLC ("Jerome LLC") and Gerard 501, LLC ("Gerard LLC"), each of which is a Delaware limited liability company with the sole member of KIPP NYC Properties, LLC, a Delaware limited liability company ("KIPP NYC Properties") and are affiliated with KIPP New York, Inc. ("KIPP"), a Delaware corporation and a charter school support corporation, exempt from federal taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code") and KIPP NYC Public Charter Schools, a New York not-for-profit education corporation and also a tax-exempt entity under Section 501(c)(3) ("KIPP NYC"), operating a network of charter schools in New York City, are seeking approximately $260,000,000 in tax-exempt revenue bonds and $20,000,000 in taxable revenue bonds (collectively, the "Bonds").

Proceeds from the Bonds, the tax-exempt portion of which are to be issued as qualified 501(c)(3) bonds under Section 145 of the Code, will be used, as part of a plan of financing, to finance and refinance the costs of: (1) the acquisition by Macombs LLC of two parcels of land and the demolition of the existing structures thereon and the construction, furnishing and equipping of a new approximately 96,000 square foot facility on an approximately 24,656 square foot parcel of land, located at 1504 and 1518 Macombs Road, Bronx, New York (the "Macombs

Facility"), utilizing approximately $132,000,000 of tax-exempt bond proceeds, which Macombs Facility will be leased to KIPP NYC for use as a charter school serving approximately 950 students in Kindergarten through Grade 8 (the "Macombs Facility Bonds"); (2) the acquisition by Jerome LLC of a parcel of land and the demolition of the existing structures thereon and the construction, furnishing and equipping of a new approximately 96,000 square foot facility on an approximately 22,000 square foot parcel of land, located at 2720 Jerome Avenue, Bronx, New York (the "Jerome Facility"), utilizing approximately $128,000,000 of tax-exempt bond proceeds, which Jerome Facility will be leased to KIPP NYC for use as a charter school serving approximately 950 students in Kindergarten through Grade 8 (the "Jerome Facility Bonds"); (3) the renovation, furnishing and equipping of an approximately 67,000 square foot 6-story facility on an approximately 13,546 square foot parcel of land, located at 501 Gerard Avenue and 110 East 149th Street, Bronx, New York (the "Gerard Facility"), utilizing approximately $15,500,000 of taxable bond proceeds, which Gerard Facility will be leased by a third party landlord to Gerard LLC, will be subleased by Gerard LLC to KIPP NYC for use as a charter school serving approximately 1,000 students in varying grades from Kindergarten through Grade 12 (the "Gerard Facility Bonds"); (4) funding capitalized interest, other capitalizable costs and one or more debt service reserve funds; and (5) paying for certain costs related to the issuance of the Bonds (the "Project"). The Macombs Facility, Jerome Facility, and Gerard Facility will be operated by KIPP under a management agreement with KIPP NYC. PCS Properties Foundation, Inc. ("PCS"), a Delaware not-for-profit corporation, has applied to the Internal Revenue Service (the "IRS") for recognition of its status as an organization described in Section 501(c)(3) of the Code, and is expected to replace KIPP NYC Properties as the sole member of each of Macombs LLC, Jerome LLC and Gerard LLC in the event that it is recognized by the IRS as an organization described in Section 501(c)(3) of the Code.

Ms. Feirstein asked for clarity that all three schools would be individually responsible for their payments even though the project was being packaged into a single issuance, and asked what the division of the issuance between the three school would be. She further asked whether the DSCR was calculated across the whole issuance, or individually, and who was ultimately responsible for the repayment.

Ms. Marcus responded that the DSCR was calculated across the entire issuance. She noted that the scale of the issuance, which was unique in involving two ground up construction projects, was driven by two factors. First was the demand for enrollment, which is shooting above what the current locations can accommodate. In addition, it was more economical to go through with one public offering and bond rating process. She added that this could be the largest public offering charter school in the United States, and that the fact that it would receive a bond rating (from S&P) gave Corporation staff confidence. She added that for a breakdown of the amount of bonds for each site, it would be $130 million to McCombs, $130 million to the Jerome site, and the balance to the Gerard site. The first two sites are ground-up sites. Ms. Marcus added that the economics of scale—the schools will be same size, though modified based on layout of the parcels—meant that it'd be easier to design the schools in parallel. Finally, she added that the third facility is already built. The two new facilities would be owned outright, while the third will be leased. The borrowers (the schools) would be the individual ownership entities since those are the entities that will be receiving the rent and tuition reimbursements from the DOE. Kipp NYC won't be directly guaranteeing the bonds, but as a parent network with sizable assets they could help cover repayments in a worst case scenario, though that seems unlikely given the school's track record.

Ms. Feirstein discussed the potential exposure for investors in one project across the three projects.

Ms. Marcus noted that investors could choose which of the three properties to invest in. Morgan Stanley would market and sell the bonds all together, but they would ultimately be three separate issuances and projects that are not cross-collateralized.

Mr. Del Vecchio noted that it's a large project and the DSCR is fairly low. He also noted that cash flows were down 1700% from 2019 to 2020. He asked whether that was from putting money down for these properties.

Ms. Marcus stated that it was because they put money down, having invested $50 million to date. She added that normally Kipp has a robust fundraising, but that they had had to cancel their 2020 in-person gala. In addition, in-school revenue generating services were lost during the pandemic.

Mr. Del Vecchio asked whether the was DSCR based on 2024.

Ms. Marcus stated that the DSCR was based on 2024, when they begin receiving payment for all the schools.

Mr. Del Vecchio asked about what the bond rating was expected to be.

Ms. Marcus said told it'll likely be BBB+, but that was subject to S&P's analysis.

Mr. Del Vecchio and Ms. Feirstein asked what could happen if the rating came in lower and impacted the schools' ability to pay.

Ms. Marcus stated that the interest rate projections were between 3 and 5%, which was a conservative projection

Mr. Dinerstein asked whether at some point the project could become unfinanceable. Mr. Del Vecchio added a question about other projects that Kipp had carried out around the country, and whether they had similar DSCR's and ratings as this project.

In response to Mr. Dinerstein, Ms. Marcus stated that it was possible, but that Kipp is a nationally renowned charter school network with a strong history.

Mr. Omolade added a Kipp school in Washington DC carried out a $70 million issuance a couple of years prior that was rated at BBB+. He noted that it was a smaller issuance, but it provided some indication of where Morgan Stanley's confidence in the rating came from.

Ms. Feirstein and Mr. Del Vecchio asked for clarity about how the debt service coverage ratio would break down among the three projects, and for clarity during the Board presentation about the structure of the three separate issuances, for the benefit of the other Board members. Ms. Feirstein noted that she would be inclined to support the project, but would prefer to see the three issuances broken out separated.

Mr. Dinerstein stated he would support the project with a note of caution, given the sizes of the issuances and the uncertainty of the bond rating and interest rates.

Ms. Marcus stated that she would seek to provide the requested information to the Committee in advance of the Board meeting.

The committee recommended the Project to seek authorization at the March 9th Board meeting.

<u>Saint Ann's School</u>

The Saint Ann's School (the "School" or "Saint Ann's"), a New York not-for-profit education corporation exempt from federal taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, is seeking a postclosing amendment of its Series 2015 note issuance currently outstanding in the amount of $28,260,622 (“Series 2015 Notes”), and an additional Series 2021 note issuance in the amount of $12,000,000 (“Series 2021 Notes”). The proceeds of the Series 2015 Notes were used by the School to: (1) finance the renovation, expansion, furnishing and equipping of three of the school’s buildings located at 129, 124 and 122 Pierrepont Street in Brooklyn Heights (the tax lots for 122 Pierrepont and 124 Pierrepont were subsequently merged and are now both known as 124 Pierrepont), and (2) pay for certain costs associated with the issuance of the Series 2015 Notes. The School is seeking a post-closing amendment to lower the interest rate and extend the maturity of the Series 2015 Notes. The Series 2021 Notes will be tax-exempt notes to be issued as qualified 501(c)(3) revenue bonds. Proceeds of the Series 2021 Notes, together with other funds available to School, will be used to (i) finance the acquisition of a 5,000 square foot five-level building located on a 2,500 square foot parcel of land located at 116 Pierrepont Street, Brooklyn 11201; (ii) finance necessary renovations, repairs and upgrades to three of the school’s existing buildings located at 129, 124 and 153 Pierrepont Street in Brooklyn Heights; and (iii) pay for certain costs related to the issuance of the Series 2021 Notes (i, ii, iii collectively, the “Series 2021 Project”). All of the facilities are owned and operated by the School as part of a co-educational private school for students from pre-kindergarten through grade 12.

The committee recommended the Project to seek authorization at the March 9th Board meeting.

Friends of New World Prep, Inc.

Friends of New World Prep, Inc. (“Friends”), is a New York not-for-profit corporation, and its affiliate, New World Preparatory Charter School (the “School”), is a New York not-for-profit education corporation exempt from federal taxation pursuant to section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and operates as a public charter school. On February 18, 2020, Build NYC Resource Corporation’s (the “Corporation”) Board of Directors adopted a resolution authorizing the issuance and sale of approximately $42,000,000 in tax-exempt and taxable revenue bonds to finance the costs of (i) the demolition of three existing buildings located at 15 Treadwell Avenue, Staten Island, New York and comprised of the church building consisting of approximately 5,700 square feet, the office building consisting of approximately 8,400 square feet, and the gymnasium/cafeteria building consisting of approximately 8,200 square feet, as well as one existing building located at 2230 Richmond Terrace, Staten Island, New York consisting of approximately 9,600 square feet; (ii) the acquisition, construction, renovation, equipping and furnishing of new and existing buildings located at 26 Sharpe Avenue, Staten Island, New York totaling approximately 47,900 square feet consisting of a new addition and approximately 17,300 square feet and renovations and improvements, all for general classroom and administrative use, together with related site improvements of approximately 42,000 square feet (the “Original Facility”), the Original Facility to be owned by the Friends and leased to the School and operated by the School as a public charter school providing educational services to students in grades K-8; (iii) the acquisition, demolition and site improvements of the adjoining structures and parcels located at 40 Sharpe Avenue, Staten Island, New York with a residential structure consisting of approximately 1,536 square feet and 25 Treadwell Avenue, Staten Island, New York with a residential structure consisting of approximately 1,232 square feet (collectively, the “Ancillary Facilities”), all to be used for temporary modular units during construction of the Original Facility for general administrative use and future educational programming expansion, and which Ancillary Facilities may be leased by Friends to the School; (iv) the funding of debt service reserve funds and capitalized interest; and (6) certain costs related to the issuance of the bonds. Friends and the School are now seeking approximately $58,000,000 in tax-exempt and taxable revenue bonds, the proceeds of which will be used, as part of a plan of financing, to finance and refinance the costs of (1) the acquisition of parcels of land totaling approximately 1.26 acres located at 26 Sharpe Avenue, Staten Island, New York (also known as 15 Treadwell Avenue, 19 Treadwell Avenue and 2230 Richmond Terrace) and the five buildings and improvements thereon; (2) the demolition of four of such buildings thereon with the following gross square footage (“GSF”): a church building consisting of approximately 5,700 GSF, an office building consisting of approximately 8,400 GSF, a gymnasium/cafeteria building consisting of approximately 8,200 GSF, and an office building consisting of approximately 9,600 GSF; (3) the design, construction, renovation, equipping and furnishing of an approximately 91,300 GSF three-story (plus basement level) building consisting of the existing building at 26 Sharpe Avenue, Staten Island, New York and a new approximately 17,300 GSF addition of renovations and improvements thereto, all for general classroom and administrative use, together with approximately 37,700 GSF of related site improvements (collectively, the “Facility”); (4) funding debt service reserve funds and capitalized interest; and (5) paying for certain costs related to the issuance of the Bonds. Friends will lease the Facility to the School to be operated by the School as a public charter school providing educational services to students in Kindergarten through Grade 8.

Mr. Dinerstein asked why there was a taxable note involved.

Ms. Marcus stated that there was a taxable note because the closing costs exceeded the maximum amount under IRS regulations.

The committee recommended the Project to seek authorization at the March 9th Board meeting.

Noah Schumer (Apr 21, 2021 10:23 EDT)

Noah Schumer
Assistant Secretary