Build NYC Resource Corporation
Finance Committee Discussion

The Finance Committee convened on November 18, 2022, to discuss the following projects:

- Canal West 75, LLC
- Friends of Ascend Charter Schools, Inc.
- Highbridge Facilities, LLC
- QSAC, Inc.
- Highbridge Facilities, LLC

Finance Committee Members: Barry Dinerstein and Jacques-Philippe Piverger

Build NYC Staff Members: Emily Marcus, Noah Schumer, Christine Robinson, Joseph Taecker-Wyss, Weston Rich, and Leyla Arcasoy

Start: 11:00 AM
End: 11:50 AM

Canal West 75, LLC

Canal West 75, LLC ("Canal"), a Delaware limited liability company and a disregarded entity for federal income tax purposes whose sole member is PCS Properties Foundation, Inc. ("PCSPF"), a Delaware non-profit, non-stock corporation exempt from federal taxation pursuant to section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), is seeking approximately $250,500,000 in tax-exempt bonds (the "Bonds"). The Bonds will be issued as qualified 501(c)(3) bonds issued to finance educational facilities under Section 145 of the Code. Proceeds from the Bonds will be used as part of a plan of finance to reimburse, finance or refinance (1) the acquisition of 33,565 square foot parcel of land (the "Land") located at 75 Canal Street West, Bronx, New York, the demolition of an existing 12,194 square foot building on the Land, and the construction, furnishing and equipping of an approximately 150,000 square foot 11-story facility (the "Facility") on the Land, and (2) certain costs related to the issuance of the Bonds, including capitalized interest and the funding of a debt service reserve fund (the "Project"). The Facility will be owned by Canal, and Canal expects the Facility to be used as an educational facility, initially as a public charter school, and other ancillary related and charitable uses to the extent consistent with PCSPF's status as a section 501(c)(3) organization. The Facility will be initially leased to KIPP NYC Public Charter Schools ("KIPP"), a New York not-for-profit education corporation exempt from federal taxation pursuant to section 501(c)(3) of the Code, that operates public charter schools. KIPP expects to operate the Facility as a public charter school (initially anticipated to serve as a high school), and other ancillary related and charitable uses to the extent consistent with KIPP's status as a section 501(c)(3) organization.

Mr. Dinerstein asked to clarify the number of students who applied to the school.

Mr. Schumer replied that there were 1,200 students who applied specifically for the high school this past year, showing appropriate demand for the space.

Mr. Piverger asked about the school's capacity for high school students.

Mr. Schumer replied that this project will have 1,400 students and KIPP's other Bronx high school can house 1,400 students.

Mr. Piverger asked how applicants are selected to be students.

Ms. Marcus replied that it is through a lottery, and the schools usually build from lower grades and build out as students age through schools so many of the high school students will come from KIPP's eighth grade.

Mr. Dinerstein asked what their sources of revenue are.

Mr. Schumer replied that it is primarily the per pupil reimbursement from DOE and rental assistance from DOE. As a national charter, they do have fundraising as well.

Ms. Marcus added that KIPP is a federal charter network, but each state is a separate entity, so we don't know their federal fundraising. However, the state entity fundraised approximately $1 million of private donor moneys in 2022 in addition to the reimbursements from the state.

Mr. Dinerstein asked if Build has seen the Moody's report.

Mr. Schumer replied that it is an initial comment from S&P, which looked at early versions of the bond documents and said they would rate it BBB-. S&P will take another look at the final bond documents and reaffirm. This is in line with the rating we saw from the previous issuance for KIPP we presented to the board.

Ms. Marcus replied we can ask what can push them to a higher S&P rating. Charter school revenue is secure so long as the political support exists, which may contribute to the rating. We will look into the cause for the rating.

Mr. Piverger asked what Build's thoughts were around the low, 1.15 debt coverage service ratio.

Mr. Schumer replied that it's the way they have sized the bond issuance to take on as much as they can, and with high demand for spots in the school, so long as the reimbursement continues, they should be fine.

Mr. Dinerstein asked what's their largest expense is.

Mr. Schumer replied that It's just a very significant construction project, with over $100 million in hard costs in a school that is 150,000 square feet, one of the largest schools financed through Build.

Ms. Marcus added that KIPP's other primary costs is operating the school.

Mr. Piverger commented that the pricing tends to be very high for these projects, about $1,500 to $2,000 per square foot, and these are schools, not highly finished projects.

Mr. Schumer replied that we sent the budget to our Capital department, which noted it was on the high end, but plausible, since they are an established charter school.

Mr. Schumer confirmed that Build would follow up with KIPP regarding the cause for the S&P rating.

The Committee recommended the Project to seek authorization at the November 22nd Board meeting.

Friends of Ascend Charter Schools, Inc.

Friends of Ascend Charter Schools Inc., as borrower (the "Borrower"), a New York not-for-profit corporation and support organization formed to further the mission of Ascend Charter Schools ("School"), a New York not-for-profit education corporation, both of which are exempt from federal taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, is seeking $22,900,000 in tax-exempt bonds (the "Bonds"). Proceeds of the Bonds will be used to: (i) refinance $10,698,808 outstanding balance of a taxable loan that was funded in the original amount of $12,500,000, proceeds of which were used to finance the cost of renovations, improvements and equipment in the amounts of (a) $3,709,573, with respect to a Canarsie Middle School facility aggregating 38,146 square foot located in two adjacent buildings located at 744 East 87th Street and 751 East 86th Street, Brooklyn, New York, and serving students from Grades 5 through 8, (b) $4,466,332 with respect to a 33,242 square foot Cypress Hills Elementary School building located at 396 Grant Avenue, Brooklyn, New York, serving students from kindergarten through Grade 4 and (c) $4,324,095 with respect to a 30,816 square foot Central Brooklyn Middle School building located at 1886 Nostrand Avenue, Brooklyn, New York, serving students from Grades 5 through 8, (ii) refinance $10,080,081 outstanding balance of a taxable loan that was funded in the original amount of $10,177,406, proceeds of which were used to finance the cost of renovations, improvements and equipment in the amounts of (x) $4,152,643 with respect to a 23,765 square foot East Flatbush Elementary School located at 870 Albany Avenue, Brooklyn, New York, serving students from kindergarten through Grade 4 and (y) $6,024,763 with respect to a 37,075 square foot East Brooklyn Elementary School, located at 260 Shepard Avenue, Brooklyn, New York, serving students from kindergarten through Grade 3, (refinancings described in (i) and (ii), collectively, the “Project), and (iii) pay for certain costs of issuance of the Bonds. All of the facilities are leased to the Borrower and subleased from the Borrower to Ascend Charter Schools. Ascend Charter Schools operates all five facilities as public charter schools, serving students from kindergarten through Grade 8.

Mr. Dinerstein asked if the 1.77 debt service coverage ratio includes the $11 million from MacKenzie Scott.

Ms. Robinson replied that the $11 million is specifically for the development of new schools.

Mr. Piverger asked if the debt service coverage ratios consider all the assets or just the annual income.

Ms. Robinson replied that Build calculates the debt service ratios from the revenue, not their assets.

Ms. Marcus added that we have the financial statements from borrower itself, the Friends of Ascend entity. We also have the finances of the charter school network, which has tremendous financial strength and has generated roughly $128 million in the past year, which is where they receive the financing from. Build can share that statement.

Mr. Piverger asked what the student performance is.

Mr. Dinerstein asked what the demand for the school is as well.

Ms. Marcus noted that we know their enrollment is increasing because they $98 million in reimbursement on a per pupil basis in 2020, compared to $107 million in 2021. Build will provide the graduation rate of high school students.

Mr. Piverger asked in the interest rate is fixed.

Mr. Dinerstein asked who the underwriter is.

Ms. Robinson confirmed it is a fixed interest rate and there is not currently an underwriter.

Mr. Schumer noted the New York State education website showed an 88% graduation rate from Ascend charter schools.

Mr. Piverger asked why the school is refinancing.

Ms. Marcus replied that there are multiple payments upcoming, and the school wants to extend the maturity for.

Mr. Piverger asked how long the ago the previous bond was.

Ms. Marcus estimated it was only a few years old. We will get back to you regarding when the debt was originally issued, as well as the college rate.

Ms. Robinson added that the loans were originally issued in 2018.

The Committee recommended the Project to seek authorization at the November 22nd Board meeting.

<u>Highbridge Facilities, LLC</u>

Highbridge Facilities, LLC ("Highbridge"), a Delaware limited liability company and a disregarded entity for federal income tax purposes whose sole member is HB Foundation, Inc., a New York not-for-profit corporation ("HB Foundation") exempt from federal taxation pursuant to section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), is seeking approximately $15,000,000 in tax-exempt and/or taxable bonds (the "Series 2022 Bonds"). Highbridge will use the proceeds of the Series 2022 Bonds to finance the final phase of construction or renovation of a facility for the benefit of Family Life Academy Charter Schools Corporation ("FLACS"), a New York not-for-profit education corporation exempt from federal taxation pursuant to section 501(c)(3) of the Code, that operates public charter schools. In December 2020, Build NYC Resource Corporation issued $125,105,000 in tax-exempt and taxable revenue bonds of which $71,885,000 was allocated to financing and re-financing costs of acquisition of a vacant 18,000 square foot parcel of land and construction, renovation and equipping of a new 68,000 square foot, five-floor (plus basement), facility (the "Facility") located at 1400 Cromwell Avenue, Bronx, New York. Proceeds from the Series 2022 Bonds will be used to finance additional costs of completing that Facility. The Series 2022 Bonds will also be used to pay for certain costs related to the issuance of the Series 2022 Bonds, including capitalized interest and any debt service reserve funds. The Facility is owned by Highbridge and will be leased to its affiliate, FLACS. FLACS will operate the Facility as a public charter high school serving students in Grades 9 through 12.

Mr. Piverger asked if this is Highbridge's first high school and what prompted them to do so.

Mr. Schumer replied that this is their first high school and it happened because Highbridge did an analysis of the student body surrounding the school and found there was higher demand for a high school than another elementary or middle school.

Mr. Dinerstein asked if they have already received applications for the high school.

Mr. Schumer replied that started a grade nine this year, which is currently located at a different location until the facility is built, and all spots for students were filled.

Ms. Marcus noted that there was a decrease in families with young students in New York City because of COVID, which contributed to the decision to create a high school.

Mr. Piverger asked if the debt service coverage ratio includes the existing debt and why, particularly when their interest rate is low.

Ms. Marcus replied that we can take another look at the debt service coverage ratio and get back. In 2021, they had slightly higher net assets because they had a windfall receivable on $3 million in net cash, which we should probably not include.

Mr. Dinerstein confirmed that he would like the re-run debt service coverage ratio.

The Committee determined not to recommend the project until receiving the updated debt service coverage ratio.

QSAC, Inc.

The borrower is QSAC, Inc. ("QSAC" or the "Borrower"), 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"). QSAC provides educational and social services for individuals with autism and related developmental disabilities and their families. QSAC is seeking approximately $7,665,000 in tax-exempt qualified 501(c)(3) bonds to be issued pursuant to section 145 of the Code and taxable bonds (collectively, the "Bonds"). Proceeds of the Bonds will be used as part of a plan of financing to: (i) finance the acquisition by the Borrower of an approximately 12,300 square foot building located on an approximately 59,677 square foot parcel of land located at 245-37 60th Avenue in the Douglaston neighborhood of Queens (the "Facility"); (ii) fund a debt service reserve fund; and (iii) pay for certain costs related to the issuance of the Bonds (collectively, the "Project"). The Facility is currently leased by the Borrower and, after acquisition, will continue to be operated as a pre-school for children with autism and related developmental disabilities.

Mr. Dinerstein asked if they include students who are severely autistic or milder developmental issues.

Ms. Marcus replied that she thought it was a mix across the spectrum for the organization.

Mr. Taecker-Wyss add that QSAC's methodology focuses on individualized attention and will follow up regarding where on the autism spectrum most of the preschool's students are.

Mr. Piverger asked if they have other loans outstand, and if it is included in the debt service coverage ratio.

Ms. Marcus replied they have almost $10 million outstanding in net loans payable, which is included in the debt service coverage ratio. The reason the Project is determining to move forward now with a high interest rate is that they have leased the space for a long time, and this is a unique opportunity to purchase it, and are willing to take a high interest rate now and likely refinance later.

Mr. Schumer added that with the renovations, they will be able to have an additional classroom with more students and revenue.

Mr. Piverger commented that the pricing is better at $500 per square foot.

Mr. Schumer noted that this is a small older building.

The Committee recommended the Project to seek authorization at the November 22nd Board meeting.

Yeshiva Har Torah

Yeshiva Har Torah, a New York education corporation which is exempt from federal taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), as borrower (the "Borrower" or the"School") is seeking approximately $17,850,000 in tax-exempt and/or taxable bonds (the "Bonds"). Proceeds of the Bonds will be used, along with other funds of the Borrower, to: (i) finance the construction, furnishing, and equipping of a new 42,000 square foot building, to be located on an approximately 75,000 square foot parcel of land owned by the Borrower at 54-27 Little Neck Parkway in the Little Neck neighborhood of Queens ("Facility 1"); (ii) repay the outstanding Build NYC Resource Corporation Revenue Refunding Bonds, Series 2012 (Yeshiva Har

Torah Project) ("2012 Bonds"), outstanding in the aggregate principal amount of $1,400,000, which 2012 Bonds current refunded, along with other funds of the Borrower, the New York City Industrial Development Agency Adjustable Fixed Rate Civic Facility Revenue Bonds, Series 2006A (Yeshiva Har Torah Project) (the "2006 Bonds"), which 2006 Bonds financed the acquisition, construction, furnishing and equipping of a 66,200 square foot building, located on a 42,450 square foot parcel of land located at 250-10 Grand Central Parkway in the Glen Oaks neighborhood of Queens ("Facility 2" and together with Facility 1, the "Facilities"), and (iii) pay for certain costs related to the issuance of the Bonds. The Facilities both will be owned and operated by the Borrower as a co-educational Jewish day school for students from pre-kindergarten through Grade 8, with Facility 1, upon its completion, anticipated to serve students from pre-kindergarten through Grade 2, and Facility 2, upon its completion, anticipated to serve students in Grade 3 through Grade 8.

Mr. Dinerstein asked what colleges students attend.

Mr. Schumer replied this is a high school where most students go to high performing yeshivas, and some go to non-religious schools.

Mr. Piverger asked if this is a private school and what their approach is around diversity and sourcing students.

Ms. Marcus replied that this is a private school. It will be applicable for the Build private school policy, which did exist during its prior Build financing. Yeshiva Har Torah is a high performing school that sources students from around the city, so it is geographically diverse. It appeals to Jewish families, who want a high performing school.

Mr. Piverger asked if they have religious studies courses.

Ms. Marcus replied that they do have a religious studies course, alongside other coursework, such as English, math, and science.

Mr. Dinerstein asked if they have religious services at the school.

Ms. Marcus responded that Build will ask Yeshiva Har Torah.

Mr. Piverger asked what the tuition is for the school.

Mr. Schumer replied that is above the threshold for a private school and it is lower relative to non-religious private schools but get back with more specific information.

Mr. Dinerstein asked regarding financial aid.

Mr. Schumer replied that he will provide that information as well.

Ms. Marcus added that as part of the private school policy they have to meet financial aid minimums.

Mr. Piverger commented that we should have more best practices shared between school that use Build.

Mr. Schumer added that on their website it shows it ranges from $9,125 for pre-k to $13,120 for grades 7 to 8.

The Committee recommended the Project to seek authorization at the November 22nd Board meeting.

Emily Marcus Falda

Emily Marcus Falda
Executive Director, Build NYC