Build NYC Resource Corporation
Finance Committee Discussion

The Finance Committee convened on September 15, 2022, to discuss the following projects:

- East Harmel Scholars HS LLC and East Harlem Center, LLC
- FOCCS 757 Concourse Village, LLC
- Voice of Community Activists & Leaders, Inc.

Finance Committee Members: Anthony Del Vecchio, Barry Dinerstein, and Jacques-Philippe Piverger
Build NYC Staff Members: Emily Marcus, Noah Schumer, and Christine Robinson

Start: 9:00 AM
End: 9:35 AM

East Harmel Scholars HS LLC and East Harlem Center, LLC
East Harlem Center, LLC ("EHC") and East Harlem Scholars HS LLC ("EHS") are each a Delaware single purpose limited liability company and are collectively the "Borrowers" and direct or indirect subsidiaries of East Harlem Tutorial Program, Inc. ("EHTP"), a New York not-for-profit corporation exempt from federal income taxation pursuant to section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). Each Borrower is a disregarded entity of EHTP for federal income tax purposes. EHTP is under common control with East Harlem Scholars Academy Charter School (the "School"), a New York not-for-profit education corporation exempt from federal income taxation pursuant to section 501(c)(3) of the Code. The Borrowers are seeking approximately $85,000,000 in tax-exempt revenue bonds (the "Bonds"). Proceeds of the Bonds will be used to: (i) refinance an approximate $12,654,631 taxable loan, the proceeds of which were used to fund a portion of the cost of acquiring and constructing an approximately 70,000 square foot building located on an approximately 17,655 square foot parcel of land at 2017 1st Avenue, New York, NY owned by EHS ("1st Avenue Building"); (ii) finance additional construction, renovation, equipping and furnishing costs with respect to completion of the 1st Avenue Building ("1st Avenue Project") in the approximate amount of $33,913,218; (iii) refinance an approximate $11,760,000 taxable loan, the proceeds of which were used to fund the construction and furnishing of an approximately 51,286 square foot building located on an approximately 10,092 square foot parcel of land at 2050 2nd Avenue, New York, NY owned by EHC ("2nd Avenue Building" and "2nd Avenue Project"); (iv) fund a debt service reserve fund, (v) fund capitalized interest; and (vi) pay for certain costs related to the issuance of the Bonds (collectively, the "Project"). Both the 1st Avenue Building and the 2nd Avenue Building are being leased to the School. The 1st Avenue Building, upon completion, will be used as a public charter high school serving students in Grades 9 through 12. The 2nd Avenue Building is currently in use as a public charter elementary and middle school serving students in pre-kindergarten through Grade 8. EHTP is using the 2nd Avenue Building, and will use the 1st Avenue Building after completion, for after-school tutoring, college preparation, summer programs and similar programs for public school students.

Mr. Piverger noted that the project is attractive given the debt coverage ratio and asked if the school previously refinanced when interest rates were lower. Mr. Piverger also asked for a more detailed breakdown of the school's revenue model.

Mr. Schumer replied that the school approached the Corporation several years ago to take advantage of the lower interest rate environment, but the project was delayed due to real estate factors and other discretionary approvals.

Ms. Marcus added that the school did not want to complete a refinancing transaction separate from the larger real estate issuance.

Mr. Piverger asked for clarification regarding how the school generates revenue.

Mr. Dinerstein added that he shared Mr. Piverger's question.

Ms. Robinson replied that the school receives revenue from leases and proceeded to pull up the school's financial statements with Ms. Marcus.

Mr. Dinerstein asked if the school has city contracts and who pays for the services that the school provides.

Ms. Marcus replied that most of the school's revenue comes from contributions, of which the majority are from foundations and individuals. Ms. Marcus proceeded to provide a detailed breakdown of the school's revenue by source and dollar amount.

Mr. Schumer added that the school recently carried out a significant capital campaign, part of which the proceeds went towards construction work at the 2017 1st Avenue location.

Mr. Dinerstein asked if the school receives these contributions on a regular and annual basis.

Ms. Marcus confirmed and noted that the school saw revenue growth between 2020 and 2021 which aligned with the school's capital campaign efforts and overall pandemic fundraising messaging.

Mr. Dinerstein asked if the school's contributions are primarily from one foundation.

Ms. Marcus replied that Corporation staff only have the high-level financial statements available but will ask the school for a more detailed breakdown of contributions and will share this information with the Committee once available.

Mr. Piverger asked how much the school receives in rental income.

Mr. Schumer replied that the amount is just under $1,500,000 in 2021.

Mr. Piverger asked how much the annual debt service is.

Ms. Marcus replied that the estimated annual debt service is approximately $2,300,000 and reconfirmed Corporation staff intends to provide the Committee with a more detailed breakdown of the school's contributions once made available.

The Committee recommended the Project to seek authorization at the September 20th Board meeting.

FOCCS 757 Concourse Village, LLC

The applicant is FOCCS 757 Concourse Village, LLC, a New York limited liability company, the sole member of which is Friends of Classical Charter Schools, Inc ("FCCS"), 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 (the "Borrower"). FCCS is an affiliate of Classical Charter Schools ("CCS"), a New York not-for-profit education corporation that is exempt from federal taxation pursuant to Section 501(c)(3) of the Code and that maintains a multi-site network of public, open-enrollment charter schools located in the South Bronx serving students in kindergarten through grade 8. The Borrower is seeking approximately $30,200,000 in tax-exempt and/or taxable bonds (the "Bonds"). Proceeds of the Bonds will be used to (i) finance the acquisition by the Borrower of a ground lease of an approximately 22,112 square foot parcel of land (the "Land") located at 757 Concourse Village West, Bronx, New York and a leasehold improvement thereon consisting of an existing 51,895 square foot building (the "Facility") that houses CCS' South Bronx Classical Charter Schools II and IV pursuant to a lease with CCS and (ii) fund a debt service reserve fund and (iii) pay for certain costs related to the issuance of the Bonds (i, ii and iii, collectively, the "Project"). The Facility will be owned by the Borrower and leased to CCS, which will operate the Facility as a public charter school serving students from kindergarten through Grade 8.

The Committee recommended the Project to seek authorization at the September 20th Board meeting.

<u>Voice of Community Activists & Leaders, Inc.</u>

The applicant is Voices of Community Activists & Leaders (VOCAL-NY), Inc. (the "Organization"), 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"). The Organization is a grassroots membership organization that provides supportive services to people affected by HIV/AIDS, drug use, homelessness, and mass incarceration. The Organization is seeking approximately $8,750,000 in tax-exempt bonds qualified 501(c)(3) bonds and/or taxable bonds (collectively, the "Bonds"). Proceeds of the Bonds will be used as a part of a plan to: (i) finance the acquisition of an approximately 6,000 square foot, two-story building located on an approximately 3,000 square foot parcel of land located at 300 Douglass Street, Brooklyn, New York (the "Facility"); (ii) refinance debt for the renovation, furnishing, and equipping of the Organization's new headquarters located at the Facility; and (iii) pay certain costs related to the issuance of the Bonds ((i),(ii), and (iii), collectively, the "Project").

Mr. Piverger asked how much the Organization pays for monthly rent.

Ms. Marcus replied that the Organization pays approximately $222,000 annually.

Mr. Piverger asked for clarification regarding if the Organization will be saving money in monthly rent as part of the transaction.

Ms. Marcus replied that there will not be additional savings and the Organization will be paying more per year, but that the Organization will be placing equity into the ownership of the building rather than paying rent, which is the benefit.

Mr. Dinerstein asked if the Organization has community board support for the project.

Ms. Marcus confirmed that the Organization told Corporation staff there is support for the project and that Corporation staff will ask the Organization if they can produce a letter of support.

Mr. Piverger asked what the Organization's main funding sources are.

Ms. Marcus replied that the Organization's main funding sources are primarily grants and contributions, most of which are unrestricted. Ms. Marcus proceeded to outline in detail the Organization's sources of funding for 2020.

Mr. Piverger asked if the Organization's funding has been historically consistent.

Ms. Marcus confirmed that the Organization's funding has been relatively consistent for the three years of financial statements Corporation staff reviewed. Ms. Marcus noted that contributions grew significantly in 2020 and that the Organization expects to collect a similar sum of contributions in the future in part due to the renovated Facility which will serve as the Organization's headquarters and programmatic space.

Mr. Dinerstein asked for clarity regarding the connection between Principal Street Partners and the Organization and if they have worked together before.

Ms. Marcus replied that Principal Street Partners and the Organization have not worked together before. Ms. Marcus added that if interest rates were to decrease that she believes the Organization will seek to refinance the debt.

Mr. Piverger asked how HIV/AIDS levels have been trending in New York State.

Ms. Marcus replied that they have been decreasing but added that the Organization's mission is broader than HIV/AIDS and includes the war on drugs, drug abuse, drug addiction, mass incarceration, and homelessness. While

HIV/AIDS levels may be trending down, other core aspects of the Organization's mission have been trending upwards, including homelessness.

Mr. Piverger asked what the security is should the Organization be unable to cover their debt.

Ms. Marcus replied that Principal Street Partner's security for the Bonds is a mortgage interest on the Facility. As it relates to the Corporation, it would constitute as a default and termination of the transaction resulting in a recapture event for which the Corporation will reclaim the mortgage recording tax exemption. The value of the mortgage recording tax exemption for this transaction is approximately $250,000.

Mr. Dinerstein asked if the city or the investor holds the bonds and would experience hardship if the Organization defaulted on their repayments to the bondholder.

Ms. Marcus replied that the Corporation has no obligation for repayment or financial risk associated with the transaction, but it is undesirable from a reputational and programmatic standpoint should the Organization default on their repayments to the bondholder.

Mr. Dinerstein noted that in a situation where the Organization was having trouble meeting their financial obligation that they would likely negotiate with the bondholder to prevent a default.

Ms. Marcus concurred and replied that during COVID the Corporation saw several projects that sought to extend interest only period, allowing organizations to lower monthly payments to bondholders and lengthen the maturity periods of bonds, so long as the organization can demonstrate the hardships are more externally oriented and surmountable as opposed to mismanagement.

The Committee recommended the Project to seek authorization at the September 20th Board meeting.

Emily Marcus Falda

Emily Marcus Falda
Executive Director, Build NYC