



PUBLIC CHARTER SCHOOL CREDIT ENHANCEMENT COMMITTEE

Please find below the notes from the Public Charter School Credit Enhancement Committee (“Committee”) Meeting held on Thursday, **Oct. 20, 2022**.

PUBLIC MEETING NOTES:

Call To Order:

1. By Mark Medema at 12:00 p.m.
2. Mark Medema reminded the Committee members of the conflict of interest policy and asked if everyone had completed the form and if there were any recusals.
3. Sara Batterton indicated that she had done some consulting work for Level Field Partners approximately three (3) years ago and is currently not consulting work for Level Field Partners. As such, there was no perceived, apparent and/or actual conflict of interest. There were no recusals.

Committee Members Present: (appearing via GoToMeeting):

1. Sara Batterton
2. Mark Medema
3. Stefan Huh

*Michael Musante was not present

*Yair Inspektor was not present

Note: Quorum was present.

Staff Members Present: (appearing via GoToMeeting):

1. Darryl Brantley, Financial Program Specialist, Office of Public Charter School Financing and Support (OPCSFS)
2. Brianna Griffin, Manager, OPCSFS
3. Nagesh V. Tammara, Senior Assistant General Counsel, Office of the General Counsel

Guests (Public Meeting Attendees all via GoToMeeting):

1. Chris Pencikowski, Executive Director, Lee Montessori Public Charter School (PCS)
2. David Endom, Consultant, Level Field Partners

Approval to Move into Executive Session:

1. Mark Medema requested a motion to go into the Executive Session.
 - a. Pursuant to 2-575 (b)(4)(A), and (b)(11) the Committee will enter into executive session to consult with its attorney to obtain legal advice and to review and discuss sensitive and confidential financial information before returning to the public session for the remainder of the meeting agenda.
2. Stefan Huh made a motion to go into Executive Session.
3. Sara Batterton seconded the motion.
4. All said aye.

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EXECUTIVE SESSION NOTES

Above-noted OPCSFS/Office of State Superintendent of Education (OSSE) staff were in attendance via GoToMeeting.

A. LEE MONTESSORI PCS – REQUEST FOR AN EXTENSION AND INCREASE OF AN EXISTING DIRECT LOAN IN THE AMOUNT OF \$1.7MILLION TO \$2 MILLION AND RENEWAL OF AN EXISTING CREDIT ENHANCEMENT IN THE AMOUNT OF \$1 MILLION.

1. Darryl Brantley introduced the request as follows:

- a. Lee Montessori PCS has requested an increase of \$300K to an existing \$1.7 million direct loan and renewal of an existing \$1 million credit enhancement.
- b. The purpose of the new OPCSFS Direct Loan is to support the further renovation of the school's existing building located at 4325 R Street SE, Washington, DC 20017.
- c. The total project costs are \$24.2 million and is expected to be completed by the Summer of 2023. After completion, the school will be expanded by 13,000 square feet and 400 students.
- d. The loan will be for a five-year term and be priced at 1.0 percent per annum and have eight (8) quarterly interest-only payments followed by three (3) years of principal and interest based on a 25-year amortization period. There will be a one percent (1%) origination fee of \$3,000.
- e. The OPCSFS direct loan will be subordinate to Schola Fund, the senior lender in the transaction.
- f. The direct loan will be collateralized by a second position lien deed of trust on the school property located at 2345 R St SE, Washington, DC 20020. The direct loan will be repaid with cashflow from operations of the school.
- g. Level Field Facilities Fund will also serve as a subordinate lender in the transaction and will be *pari passu* with the OPCSFS loan.
- h. The risks identified include the enrollment risks and the normal construction risks that go along with a construction project of this size and nature.
- i. The strengths include the strong school leadership and board of directors along with having the project management team of Level Field Partners, which has a good track record of helping school's complete renovation projects on time and within budget.

2. Discussion:

- a. Stefan Huh mentioned that he would like to see some labels on the lines below the cashflow adjustments total so that he can see how we are calculating the debt service.
- b. Mark Medema asked what is the reason for the credit enhancement.
- c. Darryl Brantley mentioned that Level Field Facilities Fund is asking for the credit enhancement of \$1 million as a subordinate lender due to the fact that they will be contributing up to \$2.5 million to the project.
- d. Sara Batterton clarified whether the senior lender was asking for the credit enhancement or not.
- e. Darryl Brantley indicated that the senior lender was not asking for the credit enhancement and that the senior lender – Schola - was lending up to a 90% LTV of the appraisal value.
- f. Stefan Huh indicated that he was not sure why the subordinate lender (Level Field) would need a credit enhancement and with the \$1 million credit enhancement their exposure would

- only be \$1.1 million.
- g. Sara Batterton indicated that she was aware that Level Field was trying to raise funds but wondered if this was their first investment/loan.
 - h. Darryl Brantley indicated that this was the first time that he was aware of Level Field Facilities Fund being utilized in a transaction.
 - i. Stefan Huh and Sara Batterton both mentioned that with the credit enhancement that technically OSSE and Level Field will not be *pari passu* regarding the 2nd position on the collateral.
 - j. Sara Batterton asked was the credit enhancement for the full 5 years and if there was any expectation that it would be paid sooner.
 - k. Darryl Brantley indicated that it would be an unfunded credit enhancement.
 - l. Sara Batterton asked Mark Medema if he had any insight on the Level Field Facilities Fund.
 - m. Nagesh Tammara mentioned that he did not know that Level Field had a fund until yesterday.
 - n. Mark Medema indicated that he was aware that Level Field had a fund and thought that this transaction is probably their first one.
 - o. Mark Medema asked what the interest rate was on the Schola Fund loan.
 - p. Darryl Brantley indicated that the Schola will be setting the interest at the time of each draw. The school will not draw down the entire loan at once but rather in draws to avoid getting charged with the interest cost all at once. For the purpose of debt service calculation Darryl Brantley indicated that he used a six percent (6%) interest rate as an assumption to account for the varying interest rate calculations at the time of each draw.
 - q. Nagesh Tammara reminded the Committee that this is an unfunded credit enhancement and no money is leaving. He also indicated that we could structure the documents so that if the \$1 million ever was needed to be funded that OSSE would be in position right behind the senior lender. Nagesh Tammara also indicated that any concerns that the Committee members regarding the transaction should be asked of the school and the project manager in the public meeting.
 - r. Sara Batterton mentioned that she did some consulting work for Level Field within the past 3 years.
 - s. Nagesh Tammara asked if she was currently doing any work for Level Field Fund or Level Field in any capacity. Nagesh Tammara indicated that since there is no active work with Level Field that there does not appear to be a conflict of interest.
 - t. Stefan Huh mentioned that it gives an appearance of conflict with Level Field Partners serving as project manager and utilizing their funds in the transaction.

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PUBLIC SESSION NOTES

The Public Meeting was reopened and called back to order at 12:30 p.m.

Approval of Oct. 20, 2022 Committee Meeting Agenda:

1. Mark Medema requested a motion to approve the meeting agenda.
2. Stefan Huh made a motion to approve the meeting agenda.
3. Sara Batterton seconded the motion to approve the meeting agenda.
4. All said, aye.
5. Agenda approved by unanimous vote.

Approval of Sep. 15, 2022 Committee Meeting Minutes

1. Mark Medema inquired as to whether there were any changes to the public meeting minutes from Sep. 15, 2022, and hearing none, requested a motion to approve said meeting minutes.
2. Sara Batterton made a motion to approve the Sep. 15, 2022 meeting minutes.
3. Stefan Huh seconded the motion.
4. All said, aye.
5. The Sep. 15, 2022 meeting minutes were approved by unanimous vote.

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Transactions Disclosure Checklist (Conflict of Interest Policy)

*As set forth in Attachment C (Transaction Disclosure Checklist) of the Office of Public Charter School Financing and Support - Conflict of Interest Policy (Policy), Michael Musante, Chair inquired of the Committee membership the following as it relates to the transactions presented (i.e., **Lee Montessori Public Charter School**) to the Committee for approval:*

Do you or a person closely affiliated (as defined by the Policy) to you have any of the following relationships with any of the financially interested entities involved in this transaction? The respective questions and responses are captured in the table below with the noted exceptions.

N = No Y = Yes	Financially Interested Entities (FIEs)			
	The public charter school(s) seeking financing from the Committee		Any other financially interested entity involved in the transaction	
	Current	Prior (past 5 years)	Current	Prior (past 5 years)
Serve as a board member, officer, or employee?	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N
Receive compensation for serving as a board member?	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N
Receive compensation for a position (officer or employee)?	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N
Any contractual relationship (individual or through an employment or subcontractual relationship)?	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N
Perform consulting or other services?	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – Y Huh – N
Own shares of stock, stock options, partnership interest, or other ownership interest?	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N
Employed by an organization on whose board of directors an individual involved in the transaction sits?	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N

Registered as a lobbyist on behalf of the interests?	Medema – N Batterton – N Huh – – N	Medema – N Batterton – N Huh – – N	Medema – N Batterton – N Huh – – N	Medema – N Batterton – N Huh – – N
	Financially Interested Entities (FIEs)			
	The public charter school(s) seeking financing from the Committee		Any other financially interested entity involved in the transaction	
	Current	Prior (past 5 years)	Current	Prior (past 5 years)
Parent of a child attending?	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N
Volunteer(ed) at or with?	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N
Any other information to disclose?	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N	Medema – N Batterton – N Huh – N

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A. LEE MONTESSORI PCS' REQUEST TO RENEW AND INCREASE AN EXISTING DIRECT LOAN IN THE AMOUNT OF \$1.7MILLION TO \$2MILLION AND TO RE-EXTEND AN EXISTING CREDIT ENHANCEMENT OF \$1MILLION.

1. Darryl Brantley introduced the request as follows:

- a. Lee Montessori PCS has requested an increase to an existing \$1.7million direct loan to \$2 million and extend an existing credit enhancement in the amount of \$1 million. The purpose of the new direct loan is to further renovate real property located at 4325 R Street SE Washington, DC 20020.
- b. This renovation will cost \$24.2 million and will allow the school to expand its program and expand by 13,000sf.
- c. The direct loan would be for a five-year term carrying an interest rate of one percent (1%) per annum and have eight quarterly interest-only payments followed by 3 years of principal and interest payments based on a 25-year amortization period. There will be a one percent (1%) origination fee of \$3,000.
- d. The direct loan would be repaid out of the school's cashflow from operations and secured by either a second position lien deed of trust on the school property located at 2345 R Street SE in Washington, DC 20020.
- e. The primary risks identified are the enrollment risks along with the general construction risks associated with a project of this size and nature.
- f. The strengths identified include experienced school leadership team and a strong board of directors along with its successful track record of operating a charter school in the city.
- g. The risk is also mitigated by the school's use of Level Field Partners as project manager.

2. Discussion

- a. Sara Batterton asked for information regarding the Level Field facilities fund and indicated that she was unfamiliar with the fund.
- b. David Endom indicated that the fund is a \$15 million fund and in order to make the deal viable due to a financing gap, Schola allowed OSSE to stay in the deal and Level field to close the financing gap by becoming a subordinate lender in the transaction.
- c. He indicated that Schola typically does not allow subordinate lenders due to the fact that they are a 90 percent LTV lender.
- d. Mark Medema indicated that he wanted to ensure that there is no conflict of interest occurring as Level Field is serving as both the project manager and a lender in this transaction. He also asked if Level Field looked for the best financing for the school.
- e. David Endom indicated that Level Field wrestled with doing the transaction and have included very robust language in the documents and put in a firewall to ensure that no conflict interest exists. He indicated that given the timing that no other lender could commit to 6 percent financing and get an approval as quickly as is needed.
- f. Chris Pencikowski also indicated that the school conducted due diligence with their attorneys regarding this transaction and did not include Level Field Partners in those discussions to ensure that there was not any conflict of interest and that this was the right loan/transaction

for the school. The school felt comfortable with Level Field Partners as consultant and as a subordinate lender.

3. Transaction APPROVAL

- a. Mark Medema asked for a motion to approve the request of an increase of \$300,000 to an existing \$1.7 million direct loan and renew an existing \$1 million credit enhancement for Lee Montessori PCS.
- b. Stefan Huh made a motion to approve the transaction.
- c. Sara Batterton seconded the motion.
- d. All said, aye.
- e. The motion carried and the transaction was unanimously approved.

B. Other Business

- a. Darryl Brantley asked to present the Committee with the FY22 Direct Loan and Credit Enhancement Program Year In-Review. The Committee members present asked to delay until next meeting due to the absence of 2 Committee members.
- b. Darryl Brantley agreed to delay the presentation and indicated that he would send the slide deck out to each Committee member for their review.
- c. Nagesh Tammara asked the Committee to think about what is the best time for the Committee to meet and be ready to discuss at the next meeting.

C. Adjournment:

- a. Mark Medema asked for a motion to adjourn the meeting
- b. Stefan Huh made a motion to adjourn the meeting.
- c. Sara Batterton seconded the motion.
- d. All said, aye.
- e. The meeting adjourned at 12:52p.m.