

The Nat and Flora Bosa Campus of Monarch School

1625 Newton Avenue, San Diego, California



Sponsor: Monarch School Project
a California 501(c)3 Nonprofit Public Benefit Corporation

Mark D. McLaren
Board of Directors, Monarch School Project

About the Monarch School

- Monarch School is dedicated to helping San Diego's homeless children break the cycle of poverty through helping students catch up to their age-appropriate grade level in a welcoming, supportive environment.
- Monarch is a K-12 public managed through a public-private partnership between the San Diego County Office of Education and the nonprofit Monarch School Project.
- Our students live in shelters, motels, single room occupancy housing, double- or tripled-up with other families in small apartments, in cars, or on the streets. Currently there are more than 20,000 homeless students in San Diego County.

About the Project

- Monarch School began in 1988 as a downtown drop-in center for homeless youth, funded by SDCOE and staffed by a single teacher. In 2001 the school relocated to a small facility on Cedar Street and soon reached its enrollment capacity of 150 students.
- The need to expand led to the acquisition and redevelopment of existing Warehouse/Office property located at 1625 Newton Avenue, San Diego, next door to MTS yard. Preceding uses by owner Centre City Development Corporation included rental to San Diego Housing Commission, and various other temporary uses.
- Utilized New Markets Tax Credits as a source of financing

Parties to the Transaction

Sponsor: Monarch School Project, a California nonprofit public benefit corporation

QALICB: Monarch School 1625, LLC a Special Purpose Entity subsidiary of Sponsor

CDE / NMTC Tax Credit Allocatee: National Community Fund I (United Fund Advisors, Portland, Chris Hasle)

NMTC Consultant: United Fund Advisors, Portland (Chris Hasle)

Equity Investor: Opus Bank (Terrin Enssle)

Senior Leverage Lender/QLICI Loan Disbursement Agent: Clearinghouse Community Development Financial Institution (Doug Bystry, Jay Harrison)

Junior Leverage Lender: Monarch School Project

Sponsor's Counsel: Bocarsly Emden Cowan & Arndt, Los Angeles (Eugene Cowan and Patrick Sukeforth)

NMTC Accountant: Novogradac & Company LLP, Long Beach (Bryan Hung)

NMTC CAPITAL BUDGET AND NET BENEFIT TO SPONSOR (In 000's)

| | | | |
|---------------------------------------|----------|----------|-----------|
| NMTC Allocation from UFA | | | \$ 15,500 |
| OPUS Bank total investment | \$ 4,382 | | |
| Fees Paid or Reserved at Closing: | | | |
| Sponsor/NMTC Allocation Fee | | | |
| Senior Loan Fee | | | |
| 1-Day Equity Loan Fee | | | |
| Placement / Services Fee | | | |
| Asset Management Fee | | | |
| Exit Fee | | | |
| NMTC Legal Fees | | | |
| Yrly Accounting /Audit | | | |
| FTB Fee | | | |
| | \$ 1,805 | | |
| Net Benefit to Monarch School Project | | \$ 2,577 | |
| Percent of NMTC Allocation | | 16.6% | |

PROJECT BUDGETED SOURCES AND USES OF FUNDS (In 000's)

| | | |
|----------------------|-----------|--|
| SOURCES: | | |
| Senior Leverage Loan | \$ 3,800 | Clearinghouse 50%; Monarch School 50% |
| Junior Leverage Loan | 7,830 | Monarch School Capital Campaign & other |
| NMTC Net Benefit | 2,577 | Benefit Net of NMTC Costs |
| Other Sources | 898 | Monarch School; portion sale of Cedar Street |
| TOTAL SOURCES: | \$ 15,105 | |
| | | |
| USES: | | |
| Property Purchase | \$ 2,074 | |
| Construction | 10,445 | |
| Indirect Costs | 1,993 | Includes A/E, consultants, permits, fees etc |
| FF&E | 298 | For MSP offices; balance paid by SDCOE |
| Misc | 295 | Overhead, predevelopment testing etc |
| TOTAL USES: | \$ 15,105 | |

Timing of the Transaction / Special Considerations

- Due to many outside factors and events, our purchase and financing process took almost two years, followed by a 1-year construction period. Factors that delayed our financing included:
 - Delays due to Seller of the property, CCDC being prohibited by the Governor of California from selling this asset for many months. This put our financing on “the back burner” during that time.
 - The property was transferred from CCDC to the City of San Diego late in our escrow, and both entities had to approve all financing documents. Therefore, two government agencies and their attorneys had to understand and approve of all NMTC documents, etc.

Timing of the Transaction / Special Considerations

- Factors that delayed our financing (cont.):
 - Well into design and engineering of the conversion of the warehouse into a school building, we were made aware of the requirement to follow structural, construction, inspection and specification standards of DSA, the California Division of State Architect. Their stringent design standards required significant structural re-engineering and an amplified architectural specification requirement.
 - Our original CDE, Clearinghouse CDFI, did not receive an expected IRS NMTC tax credit allocation, a mere several weeks before our scheduled closing date. This was their first non-allocation in over 17 years in the business. We therefore secured a second Tax Credit Allocatee in very short order, a process facilitated by Clearinghouse.

Timing of the Transaction / Special Considerations

- Factors that delayed our financing (cont.):
 - United Fund Advisors, the substitute CDE/Allocatee, needed time to perform their own due diligence following their joining the team, prior to completion of the transaction.
 - The Newton acquisition and NMTC transaction were required to close escrow concurrently with the sale of our 808 W. Cedar Street campus to City / CCDC, which added requirements for additional documentation and coordination.

About the New Campus

- Comparison of new campus with then-existing Monarch School campus located at 808 West Cedar Street:
 - 808 Cedar: 10,000 sf building on a 15,000 sf lot; Outdoor tented eating area. Storage containers utilized for after school program and other functions. No onsite parking available.
 - 1625 Newton: 51,000 sf building including 15,000 sf upstairs with added expansion potential area of an additional 14,000 sf; on a 2.2 acre lot. Includes regulation indoor HS basketball court in 2-story multi-use open gymnasium, cafeteria, and auditorium. Full commercial kitchen, building fully wired for internet access for learning, smartboards in each classroom, separate rooms for health services, art therapy, counseling, volunteer coordination, donations/Butterfly Enterprises, Band, After School Program, etc. Separate outdoor playground areas for primary and upper grades, secured parking for 50 cars, delivery staging; student garden, tricycle track. Building fully alarmed and secured.

Population Comparison

| Population | 808 Cedar | 1625 Newton |
|-------------|-----------|---------------------|
| Students | 150 | 300 (potential 600) |
| Faculty | 7 | 19 |
| Other Staff | 23 | 33 |
| TOTAL | 180 | 352 |

Community Benefits of the Project

- Without intervention, homeless youth run the risk of becoming chronically homeless adults and will likely repeat the cycle of homelessness for another generation of children. Education and support services can change the course of their lives and put them on the path to success.



Community Benefits of the Project

- Monarch School is the largest and most comprehensive K-12 program of its kind for homeless students in the U.S., and is a model for how a community can successfully educate homeless children to become productive citizens.



General Business Considerations of Choosing NMTC Financing

- Overall structure resembles standard RE financing – basic documentation, due diligence requirements, borrower qualification, etc
- Dealing not only with Lender, but also Tax Credit Investor and Leverage Lender
- Much more documentation, sub-entities are created, associated legal and accounting costs
- Significant financial expenditures and commitment by Borrower BEFORE final Lender commitment is made
- “Beauty Contest” for loan qualification, some years have insufficient NMTC Tax Credit Allocations available

General Business Considerations of Choosing NMTC Financing

- Strict adherence to accounting and reporting requirements during the 7 year term
- Indemnification to Tax Credit Investor
- All \$ funded at COE, raises interest costs, BUT very low interest rate
- High LTV
- Collateral or no collateral
- 1:1 DSCR
- Loan “forgiveness” in 7th year for investor loan; net benefit to Borrower 15-20% of capital stack

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