LADF

LOS ANGELES DEVELOPMENT FUND

Meeting *of the*
Governing Board of Directors *of*

<u>The Los Angeles Development Fund</u>
and
<u>LADF Management, Inc.</u>

March 11, 2021

MEETING *of the*
GOVERNING BOARD OF DIRECTORS *of*

THE LOS ANGELES DEVELOPMENT FUND *and* LADF MANAGEMENT, INC.

MARCH 11, 2021

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- October 29, 2020 – Governing Board Meeting Minutes

3 Materials regarding Action Item A:

- BOARD MEMO regarding Request for Approval of $5,283,334 Sub-Allocation of New Markets Tax Credits for the SEED LA Charter School Project
- SEED LA Charter School NMTC Diagram dated February 21, 2021
- SEED LA Charter School Consultant Report dated January 5, 2021 by High Impact Financial Analysis, LLC

Tab 1

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AGENDA

MEETING *of the*
GOVERNING BOARD OF DIRECTORS
THE LOS ANGELES DEVELOPMENT FUND *and* LADF MANAGEMENT, INC.

MEETING BY TELECONFERENCE (*AUTHORIZED EXCEPTION TO THE BROWN ACT*):
To join via telephone, dial this number: (669) 900-6833 US
***Meeting ID*: 899 1216 5180**

Thursday, March 11, 2021 | 2:30pm – 3:30pm

	AGENDA ITEM	PRESENTER	TAB
	Welcome and Call to Order	Carolyn Hull	
	Roll Call	Sandra Rahimi	
1	**Approval of Minutes for Board Meeting(s) on:**	Carolyn Hull	
	a. October 29, 2020 – Joint Board Meeting		Tab 2
2	**Discussion Items**		
	a. LADF Pipeline Update	Sandra Rahimi	
3	**Action Items**	Sandra Rahimi	
	a. Request for Authorization for LADF President, or his delegate, to execute documents to effectuate a $5,283,334 Sub-Allocation of New Markets Tax Credits for the **SEED LA Charter School Project**.		Tab 3
	b. Request for Authorization to renew NMTC Coalition membership at a cost of $750		
	Request for Future Agenda Items	Carolyn Hull	
	a. LADF Investment Strategy Discussion		
	b. Expanding LADF Services Offered Discussion		
	c. 2021 LADF Budget		
	Next Meeting Date and Time of Governing Board	Carolyn Hull	
	• Thursday, April 8, 2021, 2:30pm – 4:00pm (*via Zoom*)		
	Public Comment	Carolyn Hull	
	NOTE: When it is time for public comment:		
	1. If you joined by phone only. Please press *9 on your phone keypad to raise your hand to be acknowledged for Public Comment		
	2. If you joined by clicking on the meeting link and have joined us online, please click the participant icon at the bottom of your screen. This will launch a participant panel, where you will see the "raise hand" icon on the far right side. Please click "raise hand" to be acknowledged for Public Comment.		
	Adjournment	Carolyn Hull	

The LADF's Board Meetings are open to the public. Accommodations such as sign language interpretation and translation services can be provided upon 72 hours notice. Contact LADF @ (213) 808-8959.

PUBLIC COMMENT AT LADF BOARD MEETINGS – An opportunity for the public to address the Board will be provided at the conclusion of the agenda. Members of the public who wish to speak on any item are requested to identify themselves and indicate on which agenda item they wish to speak. The Board will provide an opportunity for the public to speak for a maximum of three (3) minutes, unless granted additional time at the discretion of the Board. Testimony shall be limited in content to matters which are listed on this Agenda and within the subject matter jurisdiction of the LADF. The Board may not take any action on matters discussed during the public testimony period that are not listed on the agenda.

Tab 2

LOS ANGELES DEVELOPMENT FUND
MINUTES OF THE MEETING OF THE GOVERNING BOARD OF LADF AND LADF MANAGEMENT, INC.
MONDAY, OCTOBER 29, 2020

MEETING BY TELECONFERENCE (*AUTHORIZED EXCEPTION TO THE BROWN ACT*)

LADF STAFF PRESENT:

- Sandra Rahimi

WELCOME AND CALL TO ORDER – Los Angeles Development Fund (LADF) Director Hull called the meeting to order at **4:03pm**.

ROLL CALL

The following Governing Board directors were present at the meeting:

- Director Hull (*Chairperson*)
- Director Chavez
- Director Esparza
- Director Kalfayan
- Director Sewill

A QUORUM WAS PRESENT

Approval of Minutes for Board Meeting(s) on:

a. October 8, 2020 – Joint Board Meeting
Moved by Director Chavez. Seconded by Director Esparza.
Roll Call: AYES: 5; NOS: 0; ABSENT: 0; ABSTAIN: 0; APPROVED.

1. DISCUSSION ITEMS

➢ **DISCUSSION ITEM (A) – LADF PIPELINE REPORT**

- Sandra Rahimi presented an update and summary of pipeline projects.

2. ACTION ITEMS

➢ **ACTION ITEM (A) – REQUEST FOR APPROVAL OF 2020 - 2021 LADF BUDGET. –AMENDED TO APPROVE ONLY 2020 BUDGET**

- Moved **as Amended** by Director Esparza. Seconded by Director Chavez.
- Roll Call: AYES: 5; NOS: 0; ABSENT: 0; ABSTAIN: 0; APPROVED.

➢ **ACTION ITEM (B) – REQUEST FOR AUTHORIZATION TO EXECUTE PURCHASE ORDER CONTRACT WITH HIGH IMPACT FINANCIAL ANALYSIS TO UNDERWRITE THE SEED LA CHARTER SCHOOL OPERATIONS AND THE SPONSOR CHARTER SCHOOLS FINANCIAL VIABILITY. MAXIMUM DISBURSED UNDER THIS CONTRACT WILL BE $8,500.**

- Moved by Director Sewill. Seconded by Director Kalfayan.
- Roll Call: AYES: 5; NOS: 0; ABSENT: 0; ABSTAIN: 0; APPROVED.

REQUEST FOR FUTURE AGENDA ITEMS

- Presentation of 2021 budget

- Discuss how the Governing Board engages with the Advisory Board
- Strategy of deploying future allocation
- Expansion of services offered by LADF
- RFP for website maintenance

NEXT MEETING DATE AND TIME

- **TBD**

PUBLIC COMMENT

- None

ADJOURNMENT

- Meeting was adjourned at **4:25 pm**.

Tab 3

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NEW MARKETS TAX CREDITS INVESTMENT REPORT

TO:	LADF Board of Directors
FROM:	Sandra Rahimi, Secretary
DATE:	March 11, 2021
SUBJECT:	Request to Approve a **$5,283,334** New Markets Tax Credits Allocation to SEED LA Facilities, LLC ("**QALICB**") for the SEED LA Charter School ("**Project**")

SUMMARY

Project Name:	SEED LA Charter School ("**Project**")
Location:	South Los Angeles – Vermont/Manchester (CD 8 – Councilmember Harris-Dawson)
Project Description:	147,497 SF / New Construction / Educational Facility
Sponsor / Developer:	The SEED School of Los Angeles County ("**Sponsor**", or "**SEED LA**")
Ownership:	• County of Los Angeles owns *Land, Building, and Improvements* • Property will be ground leased to QALICB
NMTC Investor:	Chase Community Equity ("**Investor**")
Total Project Cost:	$ 97,449,379
Total Allocation / QEI:	$ 70,183,334
LADF Allocation / QEI:	$ 5,283,334 (*2018 Allocation*) • LADF XXIV, LLC *(Certified Sub-Allocatee)*
Job Creation (*Direct*):	**92** Permanent Jobs, **150** Construction Jobs
Site Eligibility Criteria:	2011-2015 ACS Census Tract No. 06037238320 • NMTC Eligible and Targeted Distressed Community (*per 2018 Allocation Agmt*)**:** • 47.2% Poverty Rate (*greater than 20% and 30%*) – Section 3.2(h)(ii) • 43.2% AMI Households (*less than 80% and 60%*) – Section 3.2(h)(ii)
Community Benefits:	• Provide education for **400 students per year (100% *Low-Income* or *Minority*)** • **170 dormitory housing units** – capacity for all 400 students • Provide **healthcare services** to 400 students • Sponsor and QALICB are ***Minority-Controlled*** • Community space will be accessible to surrounding *Low-Income Community*

Key Compliance Criteria under the 2018 Allocation Agreement:

☑ Sect. 3.2(a):	Investments in, or loans to, QALICBs	☑ Sect. 3.2(b):	Located within Service Area
☑ Sect. 3.2(c):	Approved/Certified Sub-Allocatee	☑ Sect. 3.2(d):	QLICI made to Unrelated Entity
☑ Sect. 3.2(f):	Flexible Product	☑ Sect. 3.2(h):	Targeted Distressed Community
☑ Sect. 3.2(j):	100% QEI Investment Usage	☑ Sect. 3.3(j):	Monetize Only Eligible Existing Assets

Projected Residual Value of LADF QLICI that may be obtained by the QALICB: $ 1,545,375

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SITE ANALYSIS

The project site is approximately 1.3 acres and located in the Vermont Manchester neighborhood of South Los Angeles. The site is under the jurisdiction of 8th District of the City of Los Angeles, represented by Councilmember Marqueece Harris-Dawson. The site is located at the following address location:

- 8400 S. Vermont Ave., Los Angeles, CA 90044

The project is part of a larger community development site that will include the new construction of a mixed-use affordable housing and retail development on 2.9 acres adjacent to the project site.

Site Control

The County of Los Angeles acquired the site via eminent domain in April 2019. Through an RFP process, the County of Los Angeles selected the SEED Foundation, in collaboration with Abode Communities, to develop the site for purposes of a college-preparatory public charter boarding school with a STEM (Science, Technology, Engineering, and Mathematics), transportation and infrastructure focus for 400 students with enrollment preferences for resilient youth throughout Los Angeles County. The County of Los Angeles and SEED Foundation entered into a Development Agreement dated December 20, 2019.

SEED Foundation established The SEED School of Los Angeles County ("**Sponsor**", or "**SEED LA**") to operate the school and SEED LA Facilities, LLC, the Qualified Active Low-Income Community Business ("**QALICB**") for purposes of the NMTC Transaction, to develop and own the real estate interests in the project. Subject to the terms of the Development Agreement, upon closing of all financing (*in this instance occurring at the NMTC closing*), the County of Los Angeles will ground lease the property to the QALICB, which will in turn master sub-lease the newly constructed improvements to the Sponsor to operate a public charter boarding school. Pursuant to the pre-negotiated Ground Lease (*attached as an exhibit to the Development Agreement*), the lease term shall be for 45 years with two 10-year extension options at lessee's option.

PROJECT DESCRIPTION

SEED LA will use the NMTC financing to fund the new construction of the SEED LA Charter School ("**Project**"). With the NMTC closing in April 2021, the Project will be full funded and is expected to be completed in January 2023.

The SEED LA Charter School project will be a 147,479 SF educational facility, comprising the following uses:

- 54,913 SF for classrooms, offices, and common areas
- 21,185 SF for apartment units housing 20 staff members
- 71,399 SF for 170 dormitory units housing 400 students

The Project will add a public college-prep boarding high school in South Los Angeles providing curriculum in STEM and the humanities and will provide at-risk youth a safe nurturing environment to achieve academic success, attain economic independence and break the cycle of intergenerational poverty.

In this neighborhood of South Los Angeles, only 7% of the local high school students are performing at grade level in math, and between 25-30% are at grade level in language arts. Additionally, only 58% of youth in foster care graduate from high school and only 3% graduate from college, and half of all young adults who age out of foster care end up homeless or incarcerated. To address these issues, the Sponsor's parent, SEED Foundation, has implemented an innovative model that integrates a rigorous academic program with a nurturing boarding program which currently serves 1,000 students in its three existing schools. Utilizing this model, more than 90% of SEED 9th graders graduate from high school and 94% of SEED graduates enroll in college.

In partnership with LA County's safety-net service providers, the SEED LA Charter School will have a weighted admission lottery for foster youth, or youth who are homeless or housing insecure or have an immediate family member who is incarcerated.

SEED LA Charter School will be WASC[1]-accredited, and all students will take the A-G coursework to attend a University of California or California State College. The project will serve 400 students, of which 50% will come from the Vermont Manchester neighborhood, where the school will be located, and 50% from throughout Los Angeles County.

Additionally, the Project is part of a 4.3-acre community development project, which includes a mixed-use development owned by Bridge Housing (adjacent to the SEED LA project). The Bridge Housing project will include 180 affordable housing units (*62 one-bedroom units for persons 62 years of age or older and incomes at or below 30% of the area median income* *and* *118 one-, two-, and three-bedroom units for individuals and families with incomes between 30% and 80% of the area median income*), 50,000 SF grocery store-anchored retail, and 15,000 SF Metro transit center (*including Metro's new job training and innovation center*). Per Metro's Project Labor Agreement, SEED LA must use union labor and commit to hiring locally. The Project is located on a blighted property left vacant since the 1992 Rodney King civil unrest.

For further analysis of the charter school operations, LADF engaged High Impact Financial Analysis to prepare a school underwriting report. For the full report, please refer to Exhibit B.

For details about the proposed community benefits provided at the Project, please refer to the section entitled "COMMUNITY AND ECONOMIC BENEFITS".

[1] "Accrediting Commission for Schools, Western Association of Schools and Colleges (ACS WASC), a world-renowned accrediting association and one of the six regional accrediting agencies in the United States, works closely with the Office of Overseas Schools under the U.S. Department of State. ACS WASC provides assistance to schools worldwide, especially in California, Hawaii, Guam, Asia, the Pacific Region, the Middle East, Africa, and Europe." (https://www.acswasc.org/)

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COMMUNITY AND ECONOMIC BENEFITS

The primary community benefits created by the NMTC transaction are the following:

Job Creation/Retention:	• Creating: **92** Permanent Jobs and **150** Construction Jobs • Retaining: **N/A**
Quality Jobs:	• **100%** of the permanent jobs will be provided living wages per the MIT Living Wage Calculator for the City of Los Angeles • **100%** of the permanent jobs that are either full-time or part-time working >17.5 hours per week will be provided with benefits, including healthcare and paid vacation • **100%** of the construction jobs to meet Metro's local hiring requirements per its Project Labor Agreement
Accessible Jobs:	• Sponsor anticipates hiring Low-Income Community Residents ("**LICR**") or Low-Income Persons ("**LIP**") for **50%** of the permanent jobs created
Healthy Food Financing:	• Project will add rooftop vegetable garden as well as healthy foods programming in the school's curriculum • Project will provide meals to 400 students per year
Community Goods/Services to Low-Inc. Communities:	• Project will provide education for **400 students per year** • **100%** of students will be *Low-Income Persons* of which 50% will be drawn from the surrounding community that is composed predominately of people of color • Project will provide healthcare services to students • Community space, including the gym and dining hall facilities, will be made accessible to the surrounding *Low-Income Community*
Financing Minority Businesses	• Sponsor is 71% *Minority-Controlled* by board membership • Sponsor anticipates that the QALICB board will be *Minority-Controlled*
Housing Units:	• Project will add **170 dormitory units** with a total capacity for **400 students** at no rent charged • Project will add **20 apartment units** with a total capacity for **20 staff members** at no rent charged

The community benefits discussed in this section will be required of the QALICB and Sponsor by way of a Community Benefits Agreement ("**CBA**"). The CBA will require the QALICB to use commercially reasonable efforts to achieve the impacts. The CBA will include an annual reporting requirement for tracking the quantifiable community impacts. As of the time of this report, the CBA is still under negotiation. If there are any material or significant changes to the CBA, as presented in this memo, during the course of the negotiation, LADF staff will inform the LADF Governing Board of such changes and seek reaffirmation of approval.

DEVELOPMENT TEAM

Real Estate QALICB: SEED LA Facilities, LLC

SEED LA Facilities, LLC was formed on January 2, 2019 and is a California limited liability company that was organized for charitable purposes. This entity will serve as the *Qualified Active Low Income Community Business* ("**QALICB**") for the NMTC transaction purposes. The entity was established for the purposes of owning and managing the real estate interests in the project, including land, building, and improvements. The QALICB will enter into a lease agreement with the Sponsor to operate the SEED LA Charter School.

The QALICB will be considered a "real estate" QALICB for NMTC purposes. It is controlled by an eleven-member Board of Directors – some of whom will be directors, officers, or employees of the Sponsor. The QALICB will have no employees and maintain at least 85% of its tangible property within the low-income community where the project is located during the seven-year NMTC compliance period. The joint Sponsor and QALICB management team will carry out the development of the project and be responsible for management and maintenance of the subject property.

An Agreed-Upon Procedures report[1] will not be required by LADF for the QALICB because it is a mission-driven, real estate entity. However, Civic Builders, Inc. – one of the CDEs investing NMTC Allocation in the Transaction – may require such a report.

Since this is a recently formed company, there are no financial statements to review. The company will be the beneficiary of the NMTC and direct project financing sources, which the Sponsor originally solicited.

Developer/Sponsor: The SEED School of Los Angeles County ("**Sponsor**", or "**SEED LA**")

The SEED School of Los Angeles County is a 501(c)(3) nonprofit corporation established in January 2019 by SEED Foundation for purposes of operating the SEED LA Charter School. SEED Foundation is a separate 501(c)(3) nonprofit corporation founded in 1997 in Washington D.C. with a mission "to help underserved students realize their potential and fulfill their dreams of college graduation through a unique, college-prep public boarding school model". SEED Foundation has established two other schools: SEED School of Maryland (*opened in 2008*) and SEED School of Miami (*opened in 2014*). The SEED Foundation serves as the SEED network's central office for educational support staff, provides professional development, houses the network's College Transition and Success team, furthers the strategic vision of the network, and serves as a comprehensive support system to each SEED school.

SEED has achieved tremendous success with its core program model. The high school graduation rate of SEED students is 96%, of which 94% enroll immediately in college. SEED graduates complete college at three times the rate of low-income, first-generation students who enroll nationally. SEED's approach to college completion is based on three research pillars that SEED has identified as being closely connected with facilitating student and graduate success:

College Prep Academics centers on rigorous curriculum, high quality instruction, and literacy for all.

College Knowledge and Advising synthesizes an individualized college exposure, fit, and match process for each student and teaches financial education through this programming. In conjunction with a rigorous

[1] Agreed-Upon Procedures engagements are carried out by auditors to report factual findings, which in an NMTC transaction relates to the nature of the business of the QALICB and its compliance with NMTC regulation. Compliance is determined for the QALICB as of the closing date, and expectations for compliance during the seven-year NMTC compliance period.

academic and social/emotional program, SEED has learned that intentional college programming focused on college exposure, the college process, college financing, and college transition and completion increases the students' ability to graduate from college. Moreover, as a result of internal and external research, SEED has learned that college matching matters and application to and enrollment in "right fit" colleges / universities increases the likelihood students – especially those from underrepresented communities – will graduate from college within a 6-year time period. Consequently, the SEED network has committed to implementing standards of practice which align with SEED's College Matching Tier System.

Student Life Program is demonstrated primarily through the boarding school model in which student programming following the academic day focuses on character development through social and emotional skill instruction and makes a nurturing and safe environment. The core component of the program is The SEED Foundation's HALLS (*Habits for Achieving Life-Long Success*) curriculum, which provides 21st century "soft skills" that foster personal growth and positive youth development. The HALLS curriculum creates a student life environment that goes beyond the traditional caretaker setting and focuses on the development of the whole student.

Under this SEED Foundation model, SEED LA was established and will be operated in the same vision that is implemented at the other SEED schools. Since SEED LA is an independent entity, it will memorialize its affiliation with SEED Foundation through a license agreement (*for the "SEED" naming rights*) and an academic support agreement.

With regards to this NMTC transaction, SEED LA will be providing certain guaranties and indemnities. The assets of the company will be available to support any guaranties or indemnities. For further discussion see the section entitled "COLLATERAL AND GUARANTEES".

Additionally, LADF has engaged High Impact Financial Analysis for underwriting and analysis of the school's projected operations. The full report may be found in Exhibit B of this memo.

FINANCIAL STATEMENT ANALYSIS

Although, the SEED Foundation established and will have a contractual relationship with SEED LA, the Sponsor entity is a newly-formed company intended to operate independently of SEED Foundation. Thus, there are no financial statements to review. SEED LA will enter into a management agreement with SEED Foundation, whereby SEED Foundation will provide operational support to the affiliated entity.

The Sponsor, with support from SEED Foundation, has raised $25.3 million for this Project through a capital campaign, and collectively they have the capacity to raise additional funding if there are cost overruns.

General Contractor: Bernards Bros, Inc.

Bernards Bros, Inc. ("**GC**") was established in 1974 by brothers Doug, Greg, and Jeff Bernards, and is headquartered in Los Angeles. They are ranked by Engineering News Record as No. 161 nationally on the 2019 list of "Top 400 Contractors Nationwide" and by LA Business Journal as No. 9 on the 2020 list of "Top General Contractors". The firm has worked on large-scale projects such as the Rose Bowl renovation; theme parks such as Legoland, Disneyland and Universal Studios; and facilities on the campuses of USC, Claremont McKenna College and Crafton Hills College in Yucaipa.

Bernards is hired as the general contractor for the Project and is insured through a contract surety bond provided by Liberty Mutual Insurance Company, with single project bonding capacity in the $300 million and $1 billion aggregate ranges. Furthermore, Bernards' audited financial statements as of December 31, 2019 show that the firm is well-capitalized with shareholder equity of $30.3 million relative to assets of $215.9 million, and has $65.5 million in cash and cash equivalents. Additionally, the firm's current ratio (Current Assets / Current Liabilities) is 1.12, which represents a satisfactory level of liquidity.

The QALICB and GC entered into a final GMP contract on December 31, 2020 for $66,171,152.

Architect: Abode Communities

Abode Communities ("**Architect**", or "**Abode**") is the architect of record for the SEED LA Charter School project and will complete all of the design work for the Project. Abode was originally established in 1968 as an all-volunteer organization of architects dedicated to socially beneficial work. Today, their professional architectural studio provides design services for a multitude of community-based organizations for the production and preservation of small and mid-size affordable housing developments, as well as Federally Qualified Health Centers, early education centers, childcare centers, and health and wellness recreational facilities. The company's current team has completed 19 projects in the County of Los Angeles, including affordable housing, early education, healthcare, and recreation projects.

PROJECT FEASIBILITY

Property Valuation

An appraised valuation as of December 29, 2020 has been provided by CBRE to determine the as-built market value of the QALICB's leasehold interest in the property after project completion. The appraisal indicates a valuation of the leasehold interest in the as-built project of $65.4 million. With a total QLICI loan amount of $67.7 million, $5 million CDFI direct loan, and $14.3 million Chase senior loan, this results in a Loan-to-Value ratio for the total debt to the Project of 133%.

It is common for NMTC projects, located in Low-Income Communities, to have a significant shortfall between project cost and project valuation. This is typical in NMTC transactions because NMTCs are invested in low-income communities, which suffer from lack of capital investment arising from valuations too low to justify the construction costs. NMTCs and other public financing programs were established to address this gap and help projects in low-income communities obtain the financing they need. Additionally, this is one of the more common criteria under which a project meets the "but for" test required under NMTC regulations.

Environmental Inspections

A Phase I environmental report of the subject property was produced by Pacific Environmental Company dated November 18, 2020. The report concluded that the assessment revealed no evidence of recognized environmental conditions (RECs), historical recognized environmental conditions (HRECs), or controlled recognized environmental conditions (CRECs) in connection with the subject property.

Prior to closing, a reliance letter will be provided naming LADF XXIV, LLC (*LADF's Sub-CDE*) as a party that may rely on the Phase I report.

Construction Feasibility

The QALICB will be responsible for developing the project and will elect officers and directors that are all either senior officers, board members, or staff of the Sponsor. The QALICB will enter into the GMP contract with the GC.

A costing analysis of the project (*dated February 5, 2021*) was completed by Professional Associates Construction Services ("**PACS**"). PACS concluded that the construction budget and timeline were reasonable with the exception of the construction contingency line item. PACS advises that $3.5 million additional contingency be added to the budget increasing it to 10% of hard and soft costs, with particular consideration given to the complex nature of the project and potential delays due to litigation. However, Chase Bank has expressed that based on its experience with lending to projects in Los Angeles, it is comfortable with the 5% contingency carried by the Project (*outside of the GMP contract, which includes an addition 2.7%*). Additionally, ExEd is pledging its $1.5 million loan loss reserve to the Project for use as a contingency for cost overruns due to potential delays in construction as a result of the litigation outcomes. The ExEd reserve will revert back to its original intended use as a loan loss reserve after the litigation matter are resolved. PACS will also inspect progress and work done during the construction period and provide monthly reports to Chase Bank and the Sub-CDE lenders.

The project's disbursement process will be coordinated by Chase Bank in its role as the disbursement servicer. Chase Bank's role will include obtaining a full draw package from the QALICB, monthly inspection report, and subsequent approvals from the Sub-CDE lenders and Chase Bank as NMTC Investor. The Sub-CDE lenders will have full approval rights over each draw. The full draw package submitted by the QALICB will require also that the Sub-CDE lenders receive date down endorsements from the title company and lien waivers from the GC and all subcontractors.

Probable Maximum Loss Report

A Probable Maximum Loss (PML) will not be required because the project is new construction. The design will reflect the most current seismic design standards which could be reasonably expected to result in a PML of 20% or less.

Financial Feasibility

The Project's entire financing is expected to close in April 2021, however, the financing will be funded in three phases – Tranche 1 will be funded in April 2021 at closing; Tranche 2 is expected to fund in January 2022 after Tranche 1 funds are completely expended (*except for funds to cover at least one month of construction draws*), and Tranche 3 is expected to fund in July 2022 after Tranche 2 funds are completely expended. For purposes of presenting the sources and uses, please see below the sources and uses for Tranche 1, combined Tranches 2 & 3, and consolidated Tranches 1 through 3 for the entire Project financing. For more information about the tranched funding structure, please refer to section entitled "FINANCING STRUCTURE".

TRANCHE 1 SOURCES & USES

SOURCES		**USES**	
Investment Fund Level (NMTC)		**Pre-Incurred Costs**	
- Sponsor LL (*Cash on Hand*):	25,266,709	- Reimbursed Costs (*<24 mos*):	2,940,827
- LA County Dev. Authority Lev. Loan:	5,000,000	- Other Pre-Incurred Costs:	11,660,845
Leverage Loan Sources	$30,266,709	***Sub-Total***	$14,601,672
- NMTC Equity (**LADF QEI**):	1,545,375	**Construction Uses**	
- NMTC Equity (ExEd QEIs):	6,458,888	- Hard Costs:	23,881,123
- NMTC Equity (Civic Builders QEI):	2,925,000	- Soft Costs:	1,048,849
- NMTC Equity (Chase QEI):	1,433,250	- Owner Contingency:	1,380,766
NMTC Investor Equity	$12,362,513	***Sub-Total***	$26,310,738
Project Level (Direct Sources)		**Financing-Related Uses**	
At Tranche 1 Closing		- Interest Expense:	627,570
- Sponsor Contrib. (*pre-incurred costs*):	6,394,045	*NMTC Closing Costs*	
Direct Sources	$6,394,045	- Legal/Acctg./Consulting Fees:	800,000
		- **LADF CDE** Placement Fee:	105,667
		- Other CDE Upfront Fees:	941,633
		- Leverage Lender Fees:	50,000
		NMTC Reserves	
		- **LADF** Asset Mgmt. Fee Reserve:	309,185
		- **LADF** Expense Reserve:	104,000
		- Other CDE Fee/Exp/LLR Reserves:	451,072
		- Project Litigation Reserve (*ExEd*):	662,450
		- Investment Fund Reserves:	14,222
		Sub-Total	$4,065,799
		Disb. Acct. Bal. @ Tranche 2 Funding:	4,045,058
Total Project Sources	**$ 49,023,267**	**Total Project Uses**	**$ 49,023,267**

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TRANCHE 2/3 SOURCES & USES

SOURCES		USES	
Investment Fund Level (NMTC)		**Construction Uses**	
- CDFIs Leverage Loan:	20,000,000	- Hard Costs:	44,612,928
Leverage Loan Sources	$20,000,000	- Soft Costs:	1,962,256
		- Owner Contingency:	2,548,281
- NMTC Equity (ExEd QEIs):	8,166,113	***Sub-Total***	$49,123,465
NMTC Investor Equity	$8,166,113		
		Financing-Related Uses	
Project Level (Direct Sources)		- Interest Expense:	1,701,789
After expending QLICI proceeds:		*NMTC Closing Costs*	
- CDFIs Direct Loan:	5,000,000	- ExEd CDE Upfront Fees:	558,367
- Senior Direct Loan (*Chase Bank*):	14,260,000	- Leverage Lender Fees:	250,000
- Sponsor Contrib. (*Cash on Hand*):	1,000,000	*NMTC Reserves*	
Direct Sources	$20,260,000	- Project Litigation Reserve (*ExEd*)	837,550
		Sub-Total	$7,924,034
Disb. Acct. Bal. @ Tranche 2 Funding:	4,045,058		
Total Project Sources	**$ 52,471,171**	**Total Project Uses**	**$ 52,471,171**

CONSOLIDATED SOURCES & USES

SOURCES		USES	
Investment Fund Level (NMTC)		**Pre-Incurred Costs**	
- Sponsor LL (*Cash on Hand*):	25,266,709	- Reimbursed Costs (*<24 mos*):	2,940,827
- CDFIs Leverage Loan:	5,000,000	- Other Pre-Incurred Costs:	11,660,845
- LA County Dev. Authority Lev. Loan:	20,000,000	***Sub-Total***	$14,601,672
Leverage Loan Sources	$50,266,709		
		Construction Uses	
- NMTC Equity (**LADF QEI**):	1,545,375	- Hard Costs:	68,494,051
- NMTC Equity (ExEd QEIs):	14,625,000	- Soft Costs:	3,011,105
- NMTC Equity (Civic Builders QEI):	2,925,000	- Owner Contingency:	3,929,047
- NMTC Equity (Chase QEI):	1,433,250	***Sub-Total***	$75,434,203
NMTC Investor Equity	$20,528,625		
		Financing-Related Uses	
Project Level (Direct Sources)		- Interest Expense:	2,329,359
At Tranche 1 Closing		*NMTC Closing Costs*	
- Sponsor Contrib. (*pre-incurred costs*):	6,394,045	- Legal/Acctg./Consulting Fees:	800,000
After expending QLICI proceeds:		- **LADF CDE** Placement Fee:	105,667
- CDFIs Direct Loan:	5,000,000	- Other CDE Upfront Fees:	1,500,000
- Senior Direct Loan (*Chase Bank*):	14,260,000	- Leverage Lender Fees:	300,000
- Sponsor Contrib. (*Cash on Hand*):	1,000,000	*NMTC Reserves*	
Direct Sources	$26,654,045	- **LADF** Asset Mgmt. Fee Reserve:	309,185
		- **LADF** Expense Reserve:	104,000
		- Other CDE Fee/Exp/LLR Reserves:	451,072
		- Project Litigation Reserve (*ExEd*)	1,500,000
		- Investment Fund Reserves:	14,222
		Sub-Total	$7,413,505
Total Project Sources	**$ 97,449,379**	**Total Project Uses**	**$ 97,449,379**

DEVELOPMENT PRO FORMA

The total project cost is estimated to be $97.4 million, $70.2 million of which will be leveraged through the NMTC structure to make $67.5 million in Qualified Low-Income Community Investment ("**QLICI**") loans to the Project (*across all three tranches described above*).

All of the $67.5 million QLICI proceeds will be disbursed through Tranche 1 and 2 as follows:

- $2.9 million – Reimbursement of pre-closing development costs incurred within the last 24 months
- $5.3 million – Payment of outstanding Project expenses
- $0.9 million – Pay NMTC and Other Closing Costs
- $0.9 million – Fund the CDE-Controlled Fee and Expense Reserve Accounts
- $57.5 million – Fund the CDE-Controlled Construction Disbursement Account

NMTC-related reserves held by the QALICB will total $0.9 million and be held for the payments of asset management fees and expense reimbursements to the Sub-CDEs. The Sub-CDEs will require that their ongoing fees and expense reimbursements for the entire NMTC Compliance Period be held in separate reserve accounts, including $413,185 held in an account pledged to LADF for LADF's fees and expense reimbursements.

Additionally, the QALICB will enter into an infrastructure agreement with Bridge Housing, which is sponsoring the neighboring mixed-use development discussed earlier. This agreement will stipulate the cost sharing arrangement for offsite improvements and the parking garage sharing arrangement between the two projects.

OPERATING PRO FORMA

The project's operating revenues will consist of rental payments made to the QALICB by the Sponsor as under its master lease of the building. The monthly rental rates to be paid by the Sponsor are projected at $1.48 per SF, or $2.6 million annually, starting in February 2023 after construction completion, and escalating in 2029 after the seven-year NMTC Compliance Period. After accounting for operating expenses, the QALICB's debt service coverage for the Project is estimated at 1.50x (*per the current financial projections dated February 21, 2020*). Since the project will be 100% Sponsor-leased and the NMTC transaction is funded with a leverage loan that is 50% Sponsor equity, there is minimal risk of the QALICB not making its debt service payments.

Litigation Matters

After L.A. County acquired the site totaling 183,000 square feet (*of which the SEED LA Project will occupy 62,000 square feet*) via eminent domain action, the previous owner proceeded to file a legal motion against L.A. County, specifically regarding (1) the valuation price paid to the previous owner for the taking by L.A. County, (2) validity of the CEQA exemption received by the Project, and (3) validity of the street vacation approved by the City of L.A. to accommodate the Project.

LADF staff has spoken extensively with attorneys at Nixon Peabody (*representing LADF in this transaction*) who have expertise in all of these litigation matters, to gauge and manage the litigation risk. They have advised that the latter two actions regarding CEQA and the street vacation are likely tactics to apply pressure on settling the first matter. Should L.A. County reach any settlement on the first matter, it will more than likely include requiring the litigant to drop the litigation related to item 2 and 3.

Regarding item 1, the dispute over the condemnation valuation of the property, the L.A. County paid $18 million to the previous owner based on an as-is appraisal that was completed at the time. The previous owner accepted this payment, yet still filed a suit against the County over the price claiming that their experts value the property at $42 million. It is difficult to determine at what amount the County will decide to settle the lawsuit, but the L.A. County is an AA rated municipal entity that has the financial capability to cover the loss.

Regarding items 2 and 3, LADF counsel has advised that the litigant's cases is not strong based on CEQA law. However, the cases still do pose some risk that a judge may grant relief to the litigant, for a variety of reasons, by placing an injunction on the development of the property. In gauging the risk of this outcome, LADF counsel has expressed that an injunction order would come with reasonable methods to remedy the issues related to CEQA or the street vacation. These remedies would likely involve stopping construction until the County and Sponsor can redo the filing processes for a CEQA exemption and/or street vacation. To mitigate this risk, ExEd has agreed to pledge its loan loss reserve in the amount of $1.5 million towards covering any cost overruns, particularly construction period interest expense, that may arise from construction being stopped for up to one year. Although, one year is likely much more time than is needed to complete these processes. Considering the phased funding of ExEd Sub-CDE's QLICIs (see "FINANCING STRUCTURE"), the ExEd loan loss reserve that is being pledge until the litigations are resolved will be only partially funded ($662,450) at NMTC closing in April 2021, with the remaining reserve added when Tranche 2 is funded in January 2022.

Project Timeline

The following list represents the milestone items and the project's completion and expected completion dates (*as of February 2021*):

- November 2020: Ready-to-Issue Building Permit received from L.A. County
- December 2020: GC Contract executed
- April 2021: **NMTC Transaction Close / Tranche 1 Funding**
- April 2021: Construction Commencement
- January 2022: **Tranche 2 Funding**
- July 2022: **Tranche 3 Funding**
- January 2023: Construction Completion (*approx. 22-month construction schedule*)

FINANCING PARTNERS

The project-level costs of the QALICB will be funded in whole by the QLICI loans, Sponsor direct contribution of pre-incurred project expenses, CDFI direct loan (*separate from the CDFI pool loan made to Sponsor as a leverage source*), a Chase Bank senior direct loan, and additional capital campaign dollars contributed to the QALICB. The financing parties to the NMTC structure will include one NMTC Investor at the upper tier, as well as four NMTC allocatees, or Community Development Entities ("**CDEs**"), making the QLICI loans to the project through their Subsidiary CDEs ("**Sub-CDEs**") at the lower tier. Additionally, the leverage loans at the upper tier will be sourced 100% from the Sponsor (*Sponsor will use capital campaign funds raised, LA County Development Authority loan, and CDFI pool loan*).

NMTC Investor

Chase Community Equity ("**Investor**"), a subsidiary of Chase Bank, is the NMTC Investor that will provide the equity contribution to the Investment Fund. Chase Bank provided $2.6 billion to low- and moderate-income communities through community development lending and equity investments. Chase Bank offers leverage loans and tax credit equity investments for eligible projects, with a focus on small business, not-for-profit and for-profit real estate projects, community development financial institutions, NMTC loan funds, and more.

LADF has closed nine previous transactions with Chase as Investor. The transactions were for the YWCA Urban Campus Development, Food4Less, Anderson Munger YMCA, Dream Center, Orthopaedic Institute for Children, Thai Town Marketplace, Jordan Downs Retail Center, Vallarta Van Nuys Supermarket, and Debbie Allen Dance Academy projects, which closed in December 2009, December 2010, August 2012, August 2012, April 2017, January 2018, June 2018, January 2020, and June 2020, respectively.

Chase will also invest NMTC allocation in the Project through its CDE, Chase New Markets Corporation, as indicated in the sub-section entitled "CDE Lenders". Chase will also provide a senior direct loan to the QALICB.

CDE Lenders

The Transaction will include four CDE allocatees providing NMTC allocation and making QLICI loans to the project through their Sub-CDE special purpose entities. The following table lists the CDE allocatees, along with their Sub-CDEs, and the Qualified Equity Investment ("**QEI**") associated with their NMTC allocations:

CDE Allocatee	Sub-CDE	Sub-Allocation Amount
Los Angeles Development Fund	*LADF XXI, LLC*	$5,283,334
L.A. Charter School New Markets CDE, LLC	*ExEd Facilities XXI, LLC*	$50,000,000
Civic Builders, Inc.	*Civic Builders Sub-CDE 16, LLC*	$10,000,000
Chase New Markets Corporation	*CNMC Sub-CDE 175, LLC*	$4,900,000
	Total NMTC Allocation	$70,183,334

L.A. Charter School New Markets CDE, LLC

L.A. Charter School New Markets CDE, LLC ("**ExEd**") is a certified CDE located in Los Angeles, California, and has received seven NMTC allocations totaling $279 million: 2002-$36mm, 2007-$35mm, 2009-$50mm, 2011-$25mm, 2013-$28mm, 2015-2016-$55mm, and 2018-$50mm. ExEd was established in 2002 by its controlling entity, Excellent Education Development. ExEd pioneered the use of the federal New Markets Tax Credit program to finance charter school facilities in qualified census tracts. To date, ExEd has used New Markets Tax Credits to finance 34 school sites, serving 17,000 students. ExEd has $50.0 million in NMTC allocation remaining from its 2018 allocation, with a statewide service area covering the State of California. This will be the first transaction that LADF has closed with ExEd as a partner CDE.

For purposes of the SEED LA Project, in addition to being a CDE providing allocation to the transaction, ExEd is also providing consulting services to SEED LA for the transaction and operational back-office support.

Civic Builders, Inc.

Civic Builders, Inc. ("**Civic Builders**") is a certified CDE located in Los Angeles, California, and has received five NMTC allocations totaling $173 million: 2012-$15mm, 2013-$23mm, 2016-$40mm, 2017-$40mm, and 2019-$55mm. Civic Builders was established in 2002 to address the immediate need for charter school facilities support. By assuming development and lending needs such as financing, design, and construction, Civic Builders helps new charter schools open and growing charter schools reach more students. Since completing the first school building opening in 2004, Civic Builders has partnered with the best educators to build or finance inspiring schools in under-resourced neighborhoods such as Harlem, South Bronx, Newark, and more. Civic Builders has worked with small, independent charter schools, as well as large charter networks. Civic Builders has $55.0 million in NMTC allocation remaining from its 2019 allocation, with a national service area and predominant markets served in California, Illinois, New York, and Texas. This will be the first transaction that LADF has closed with Civic Builders as a partner CDE.

Leverage Lenders

The NMTC Transaction will be self-leveraged by the Sponsor, which has sourced $25.3 million from capital campaign contributions received. For discussion about the Sponsor, refer to the section entitled "DEVELOPMENT TEAM". Leverage sources will also include a $20.0 million pool loan from four Community Development Financial Institutions ("**CDFIs**") and a $5.0 million loan from the LA County Development Authority.

Sponsor Self-Leverage Loan Sources	Amount
CDFIs: ➢ Capital Impact Partners ➢ Low Income Investment Fund ➢ Nonprofit Finance Fund ➢ Local Initiatives Support Corporation	$20,000,000
LA County Development Authority	$5,000,000
Sponsor Leverage Loan (*cash-on-hand*)	$25,266,709
	$70,183,334

Capital Impact Partners

Capital Impact Partners ("**CIP**") is a certified CDFI located in is located in Arlington, VA founded in 1983. CIP provides financial and development services and supports community development by financing health centers, grocery stores, schools, affordable housing, and long-term senior care. CIP has received the following awards as a CDFI and CDE:

- Capital Magnet Fund Awards (total $4.8 million): 2016-$4.8mm
- Financial Assistance Awards (total $10.3 million): 2011-$1.5mm, 2012-$1.5mm, 2013-$1.3mm, 2014-$2mm, 2016-$2mm, 2018-$0.7mm, 2019-$0.7mm, and 2020-$0.6mm
- Financial Assistance Awards for Healthy Food Financing Initiative (total $19.2 million): 2011-$3mm, 2012-$1mm, 2013-$3mm, 2014-$2mm, 2016-$2.4mm, 2018-$3.0mm, 2019-$2mm, and 2020-$2.8mm
- Financial Assistance Awards for Disability Funds (total $0.5 million): 2019-$0.2mm and 2020-$0.3mm
- NMTC Allocations (total $627 million): 2003-$75mm, 2006-$54mm, 2007-$100m, 2008-$90mm, 2009-$90mm, 2012-$40mm, 2013-$43mm, 2015/2016-$70mm, and 2017-$65mm

CIP is providing financing to the Project along with LIIF, NFF, and LISC (*see sub-sections below*) to provide a source loan to the Sponsor making the Leverage Loan. This pool loan by the four CDFIs will be for a 7-year term with interest-only payments, and it is anticipated that this loan will be refinanced by the Sponsor at maturity. This will be the third transaction that LADF has closed with CIP. CIP provided a leverage loan in the LA Prep / Kitchen transaction, into which LADF invested $10 million NMTC allocation in 2014. CIP also provided a leverage loan and NMTC allocation in the Joshua House Health Center transaction, into which LADF invested $3.9 million NMTC allocation in 2017.

Low Income Investment Fund

Low Income Investment Fund ("**LIIF**") is a certified CDFI located in San Francisco, California. LIIF uses its allocation of NTMCs to support community facilities that address its mission of poverty alleviation. LIIF has received the following awards as a CDFI and CDE:

- Capital Magnet Fund Awards (total $13.5 million): 2010-$6mm, 2016-$3.7mm, and 2018-$3.8mm
- Financial Assistance Awards (total $34.9 million): 1996-$2.5mm, 1997-$0.2mm, 1998-$2mm, 2000-$1mm, 2001-$2mm, 2003-$1.3mm, 2006-$0.6mm, 2007-$0.9mm, 2008-$1mm, 2009-$2mm, 2010-$0.8mm, 2011-$1.5mm & $3mm, 2013-$1.3mm & $3mm, 2014-$2mm & $3mm, 2015-$1.7mm, 2016-$1.3mm, 2017-$1.1mm, 2018-$1.1mm, 2019-$0.8mm, and 2020-$0.8mm
- Financial Assistance Awards for Healthy Food Financing Initiative (total $10 million): 2016-$3mm, 2017-$3mm, 2018-$3mm, and 2019-$1mm
- Financial Assistance Awards for Disability Funds (total $0.7 million): 2018-$0.4mm, 2019-$0.2mm, and 2020-$0.1mm
- NMTC Allocations (total $518 million): 2007-$44mm, 2008-$50mm, 2009-$45mm, 2010-$21mm, 2011-$50mm, 2012-$55mm, 2013-$48mm, 2014-$60mm, 2015-2016-$85mm, and 2017-$60mm

LIIF is providing financing to the Project along with CIP, NFF, and LISC to provide a source loan to the Sponsor making the Leverage Loan. This will be the second transaction that LADF has closed with LIIF. LIIF provided NMTC allocation in the Anita May Rosenstein Campus transaction, into which LADF invested $10 million NMTC allocation in 2017.

NONPROFIT FINANCE FUND

Nonprofit Finance Fund ("**NFF**"), founded in 1980, is a certified CDFI located in Philadelphia, PA. NFF is dedicated to unlocking the potential of mission-driven organizations through tailored investments, strategic advice, and accessible insights. The organization uses its CDFI funding to contribute to the creation of vibrant, healthy communities by financing organizations that work in fields such as health, youth, aging, child care, and education, and require flexible capital to achieve their goals. NFF has received the following awards as a CDFI and CDE:

- Financial Assistance Awards (total $20.3 million): 1996-$1mm, 1998-$1mm, 1999-$1.9mm, 2001-$1mm, 2006-$0.6mm, 2009-$1.9mm, 2010-$0.8mm, 2011-$1.5mm, 2012-$1.5mm & $0.8mm, 2013-$1.3mm, 2014-$2mm, 2015-$1.7mm, 2016-$1mm, 2018-$0.7mm, 2019-$0.8mm, and 2020-$0.8mm
- Financial Assistance Awards for Disability Funds (total $0.6 million): 2018-$0.2mm, 2019-$0.1mm, and 2020-$0.3mm
- NMTC Allocations (total $401 million): 2006-$20mm, 2008-$50mm, 2009-$60mm, 2010-$21mm, 2011-$40mm, 2012-$40m, 2015/2016-$50mm, 2017-$65mm, 2018-$55mm

NFF is providing financing to the Project along with CIP, LIIF, and LISC (*see sub-sections above*) to provide a source loan to the Sponsor making the Leverage Loan. This will be the second transaction that LADF has closed with NFF. NFF provided a leverage loan and NMTC allocation in the Joshua House Health Center transaction, into which LADF invested $3.9 million NMTC allocation in 2017.

LOCAL INITIATIVES SUPPORT CORPORATION

Local Initiatives Support Corporation ("**LISC**"), founded in 1979, is a certified CDFI located in New York, NY. LISC assists community development organizations throughout the United States in their efforts to transform distressed neighborhoods into healthy communities by marshaling private and public sector resources and extending financial assistance in the form of loans, lines of credit, grants, and loan guarantees and providing technical support. LISC has received the following awards as a CDFI and CDE:

- Capital Magnet Fund Awards (total $17.3 million): 2010-$5mm, 2016-$4.8mm, and 2017-7.5mm

- Financial Assistance Awards (total $26.3 million): 1996-$1mm, 1997-$1mm, 1998-$1mm, 1999-$1mm, 2000-$1mm, 2004-$2mm, 2005-$1mm, 2006-$0.6mm, 2007-$0.5mm, 2010-$0.8mm, 2012-$0.5mm & $3mm, 2013-$3mm & $1.3mm, 2014-$3mm & $2mm, 2015-$1mm, 2016-$1mm, 2017-$0.9mm, and 2018-$0.7mm
- Financial Assistance Awards for Healthy Food Financing Initiative (total $7.5 million): 2015-$3mm, 2016-$3mm, and 2017-$1.5mm
- NMTC Allocations (total $1.1 billion): 2002-$65mm, 2005-$90mm, 2006-$140mm, 2007-$133mm, 2008-$80mm, 2009-$115mm, 2010-$70mm, 2011-$85mm, 2013-$60mm, 2014-$70mm, 2015/2016-$85mm, 2018-$60mm, and 2019-$50mm

LISC is providing financing to the Project along with CIP, LIIF, and NFF (*see sub-sections above*) to provide a source loan to the Sponsor making the Leverage Loan. This will be the second transaction that LADF has closed with LISC. LISC provided NMTC allocation in the YWCA Job Corps Urban Campus transaction, into which LADF invested $20 million NMTC allocation in 2009.

FINANCING STRUCTURE

The project's total development cost will be funded by the $70.2 million QEI generated through the NMTC leverage structure, and the following project sources outside the NMTC structure: (1) $6.4 million Sponsor net contribution of land and pre-closing development costs to the QALICB, (2) $5.0 million loan proceeds from the four CDFIs discussed above and (3) $14.3 million Chase Bank senior direct loan. For a full diagram showing the flow of funds at closing, please refer to <u>Exhibit A</u>.

<u>NMTC Financing</u>

There will be one investment fund established for the NMTC transaction. Chase Bank will be the NMTC Investor Member and own 100% of the investment fund. The equity contribution at the upper tier by Chase Bank will total $20.5 million. In exchange, Chase Bank will receive $27.4 million in tax credits that will be generated through the Fund (39% of the total $70.2 million QEI). This exchange of equity for tax credits reflects a pricing of $0.75 per tax credit dollar for QEIs associated with SubCDE's allocations.

The $50.3 million leverage loan provided to the investment fund by the Sponsor as the Leverage Lender will be interest-only for seven years during the NMTC compliance period and bear an interest rate of 2.4114%. After the end of the interest-only period, a portion of the self-leverage loan (*$25 million associated with the CDFI loans and LA County loan*) will mature and a portion (*$25.3 million associated with the capital campaign dollars*) will amortize over the following 23 years.

Chase Bank's tax credit equity contributions combined with the leveraged loan will be used to capitalize the investment fund with $70.8 million in total. Upon closing of the NMTC transaction and funding of both Tranche 1 and 2, the investment fund will use its capital to make a combined $50 million QEIs to the ExEd Sub-CDE, $10 million QEI to the Civic Builders Sub-CDE, $5.3 million QEI to the LADF Sub-CDE, and $4.9 million QEI to the Chase Sub-CDE.

In exchange for its contributions, the investment fund will receive a 99.99% membership share in each Sub-CDE. The four Sub-CDEs will use the contributed capital to make combined QLICIs to the QALICB in Tranche 1 and 2 totaling $67.5 million after $1.2 million in upfront fees charged by ExEd and Civic Builders and $1.5 million loan loss reserve established by ExEd (*used initially as a contingency for Litigation Matters*) at the Sub-CDE tier.

With regards to LADF's Sub-CDE, LADF Management, Inc. (*LADF's subsidiary entity*) will contribute $528 to capitalize the LADF Sub-CDE and own 0.01% share in the LADF Sub-CDE. LADF will earn $39,625 in annual income related to management services it provides on behalf of the Sub-CDE.

ExEd Sub-CDE will provide four QLICI notes – matching one with the CDFIs pool loan ("**A note**"), one with the L.A. County loan ("**B note**"), one with the Sponsor capital campaign funds ("**B note**"), and one with the NMTC equity component ("**D note**"). Since all of the CDFIs pool loan will trace through ExEd Sub-CDE, the other three Sub-CDEs (*including LADF Sub-CDE*) will only provide B, C, and D notes. All notes will bear interest rates of 2.1065% and interest-only payments for the first seven years during NMTC compliance period. The A and B notes will have 7 year terms and the C and D notes will have 34 year terms.

If there should be a return of capital during the seven-year NMTC compliance period, the order of capital redeployment will be as follows after Tranche 1 funding:

1. Civic Builders Sub-CDE – first $9.8 million of capital redeployment
2. ExEd Sub-CDE – next $20.9 million of capital redeployment
3. Chase Sub-CDE – next $4.9 million of capital redeployment
4. LADF Sub-CDE – next $5.3 million of capital redeployment

After Tranche 2 funding, the order of capital redeployment will change as follows:

1. ExEd Sub-CDE – first $47.5 million of capital redeployment
2. Chase Sub-CDE – next $4.9 million of capital redeployment
3. Civic Builders Sub-CDE – next $9.8 million of capital redeployment
4. LADF Sub-CDE – next $5.3 million of capital redeployment

Upon a return of capital during the seven-year NMTC compliance period, a CDE has 12-months to redeploy the capital in a qualifying NMTC project or it becomes a "Recapture Event" and triggers a loss of the tax credits as well as penalties for the Investor. As in its other NMTC investments, LADF will have nine months to work with Chase Bank to identify for reinvestment a project within the City of Los Angeles that is acceptable to both entities; thereafter Chase Bank can remove LADF Management, Inc. as managing member of LADF XXIV, LLC and choose an investment without LADF's input. However, it must still be within Los Angeles County per LADF's 2018 Allocation Agreement. With Chase Bank's strong presence in the City of Los Angeles, and LADF's close relations with City partners, it is expected that nine months should be sufficient time to identify an alternative investment acceptable to both.

TRANCHE FUNDING STRUCTURE

The proposed funding structure, which has been deemed acceptable to all parties, is to phase the funding in three tranches. All parties have agreed to close with signed documents on all of the funding at the closing for Tranche 1 in April 2021, with certain debt and equity not being funded until Tranche 2 in January 2022 or Tranche 3 in July 2022.

Tranche 1 includes the funding of all of LADF Sub-CDE's $5.3 million QLICI, Civic Builder Sub-CDE's $9.8 million QLICI, and Chase Sub-CDE's $4.9 million QLICI. ExEd Sub-CDE will do a partial funding of its QLICI in Tranche 1 with $20.9 million of its $47.5 million. The QEIs related to all of the QLICIs made in Tranche 1 will be funded with two self-leverage loans from the Sponsor, one of which will be sourced from $25.3 million of capital campaign dollars and the other sourced from a $5 million loan from L.A. County. Additionally, Tranche 1 will also include $6.4 million of capitalization by the QALICB, which represents costs spent-to-date that have not been reimbursed to the Sponsor with the financing and are directly contributed as equity in the Project.

Funding of Tranche 2 and 3 will be conditioned upon the status of the litigation matters discussed under "PROJECT DESCRIPTION". The QALICB may request the funding of these tranches if it can demonstrate the following:

1. The disbursement account has a balance lower than $4 million.
2. The construction contingency balance is sufficient to complete the Project.
3. The QALICB is not in default under the QLICI loan documents.
4. Litigation related to the eminent domain valuation is either (a) pending and not abandoned by the County or (b) resolved by judgment or settlement.
5. Litigation related to CEQA is either (a) pending but there has been no order, injunction or revocation of permits for the Project or (b) resolved by judgment or settlement.
6. Construction can be substantially completed no later than December 31, 2023.

Tranche 2 funding is anticipated in January 2022 and includes the remainder $26.5 million of ExEd Sub-CDE's QLICI, which will make its $47.5 million total QLICI fully funded. The QEI related to this QLICI will be funded with a $20 million leverage loan pooled together from the loans made by the CDFIs (see "FINANCING PARTNERS"). Since ExEd's loan loss reserve will be utilized instead as a litigation risk reserve until the CEQA litigation is resolved (discussed earlier in section entitled "PROJECT FEASIBILITY"), the reserve will not be fully funded until ExEd's QLICI is fully funded after the Tranche 2 funding. At the funding of Tranche 1, $662,450 of the $1.5 million reserve will be funded and the balance funded in Tranche 2.

Tranche 3 funding is anticipated in July 2022 and includes an additional $5 million direct loan made by the CDFIs as well as a $14.3 million senior loan from Chase Bank, both made directly to the QALICB and taking priority lien position on the collateral over the QLICI loans made by the CDEs. Additionally, the QALICB will contribute an additional $1 million from capital campaign dollars raised in Tranche 3. This will increase the QALICB's equity position (i.e. capitalization) in the Project to $7.4 million.

As a result of this phased funding structure, LADF Sub-CDE has agreed to keep its QLICI invested in the project beyond the typical seven-year NMTC Compliance Period, so that the unwind of the transaction may occur after seven years from the Tranche 2 funding (*after all QLICIs are funded*). With this approach, there will be one unwind of the transaction thereby reducing costs to the Project at exit.

LADF
LOS ANGELES DEVELOPMENT FUND

PROJECT READINESS

The project is expected to be ready for NMTC closing on or before the end of March 2020. Pursuant to LADF's policies and procedures, the readiness of the project is determined as follows:

- *Control of Site*: >Sponsor entered into Development Agreement with LA County in 2019, pursuant to which QALICB will ground lease property
- *Entitlement Process*: Completed
- *Design/Pre-Development*: Completed
- *Working Drawings*: Completed
- *Value Engineering*: Completed
- *Permits*: >Ready-to-Issue Permits received on November 30, 2020
- *Tenant Leases*: >Leaseback to Sponsor to-be-executed concurrent with closing
- *GMP Construction Contract*: >GC contract executed on December 31, 2020
- *Financing Commitments*: >LOIs issued by Sub-CDEs for NMTC Allocation
  >LOI issued by Chase Bank as NMTC Investor and Senior Lender
  >Term sheet has been issued by CDFIs for Leverage Loans
  >Sponsor has committed capital campaign funds and cash reserves for the Leverage Loan and direct project contributions
  >LA County Development Authority loan documents near final form
- *Outstanding 3rd Party Issues*: >Litigation relating to eminent domain, CEQA, and street vacation
  >County is targeting its April 6 Board meeting to approve the final form of the Ground Lease

NMTC ELIGIBILITY AND COMPLIANCE

The subject site is located in the 2010 Census Tract 06037238320. The population within the Census tract is 3,916 individuals per the 2011-2015 American Community Survey. Based on the CDFI Fund's GeoCode Report for the site, LADF has determined that the site is located in a Qualified Census Tract based on the following qualifying criteria:

- Poverty Rate of **47.2%** of the greater Metro area (*greater than 20%*)
- Median Family Income of **43.3%** of the greater Metro area (*less than 80%*)

Further, the site also qualifies under Section 3.2(h) of LADF's 2018 Allocation Agreement as a Targeted Distressed Community based on the following qualifying criteria:

- Poverty Rate of **47.2%** of the greater Metro area (*greater than 30%*)
- Median Family Income of **43.3%** of the greater Metro area (*less than 60%*)

Pursuant to LADF's 2018 Allocation Agreement, Section 3.2(k) will be applicable to the Project since it will construct new housing units onsite. This section stipulates the following:

> "Allocatee shall ensure that at least 20 percent of the housing units developed or rehabilitated as a result of its QLICIs shall be affordable to Low-Income Persons."

Since all of the housing units for the students and staff in the Project will not charge rent, the Project will be in compliance with this Section 3.2(k) of LADF's 2018 Allocation Agreement.

QALICB Analysis

The SEED LA Facilities, LLC special purpose entity will satisfy the requirements for QALICBs and will be considered a business engaged in "Real Estate Activities", as defined by LADF's 2018 Allocation Agreement[1], because its sole business activities are the development of the project and leasing of the completed improvements to the Sponsor.

The QALICB will meet the Non-Qualified Financial Property ("NQFP") Test since 100% of the QLICI proceeds will be expended for development of the project within 18 months of closing. The NQFP test requires that less than 5% of the average of the annual aggregate unadjusted basis of the property held by the QALICB is attributable to NQFP which includes debt, stock, etc.

Since 100% of the tangible property of the QALICB will be within a qualifying Low-Income Community ("**LIC**") census tract, the Tangible Property, Services Performed, and Gross Income Tests are all satisfied. In addition, less than 50% of the QALICB will be controlled by any entity having an interest in any Sub-CDEs, so there is no Related Party entity issue.

LADF 2018 Allocation Agreements Compliance

This transaction will use $5,283,334 in allocation from LADF's 2018 Allocation award from the CDFI Fund. With the closing of this transaction, the 2018 Allocation award will be 69.8% invested (*100% invested upon closing of the Brine and Hollywood Arts Collective & Career Center transactions, anticipated to close in late 2021*).

The LADF has determined that the transaction complies with the authorized uses of its NMTC allocation under Section 3.2 of its 2018 Allocation Agreement, evident through the following characteristics of the transaction:

- §3.2(a) –LADF's allocation will be used to make a loan to a QALICB
- §3.2(b) – Project is located in the County of Los Angeles
- §3.2(c) – LADF XXIV, LLC is a listed Subsidiary Allocatee in Schedule I of the Allocation Agreement
- §3.2(d) – QALICB is controlled 100% by persons unrelated to LADF
- §3.2(e) – LADF will have invested greater than 60% threshold in QEIs by Dec. 31, 2021
- §3.2(f) – LADF's QLICI provides flexible terms (*discussed below*)
- §3.2(h) – The subject site is located in a Targeted Distressed Community (*discussed above*)
- §3.2(j) – 100% of QEI will be passed down as a QLICI

Section 3.2(g) (*Non-Metropolitan Counties*), 3.2(i) (*Loan Purchases Reinvestment*), and Section 3.2(l) (*Innovative Investments*) are marked "Not Applicable" in LADF's 2018 Allocation Agreement.

Section 3.2(k) (*Affordable Housing*) is marked "Applicable" in LADF's 2018 Allocation Agreement. As this related to the SEED LA Charter School project, all of the housing provided in the Project will be affordable to Low-Income Persons (*greater than 20%*).

As the transaction relates to Section 3.2(f) (*Flexible Products*) of the 2018 Allocation Agreement, LADF must comply with the following:

[1] "Real Estate Activities" is the development (including construction of new facilities or rehabilitation/enhancement of existing facilities), acquisition, management or leasing of real estate by a business.

"All of the Allocatee's QLICIs must (a) be equity or equity-equivalent financing, (b) have interest rates that are 50 percent lower than either the prevailing market rates for the particular product or lower than the Allocatee's current offerings for the particular product, or (c) satisfy at least 5 of the indicia of flexible or non-traditional rates and terms, as listed in Section 3.2(f)[1]."

LADF's QLICI notes bear interest rates of 2.1065% and satisfy part (b) of this paragraph. To support the compliance with this provision, LADF will reference a better rates and terms letter provided by the Sponsor. This letter will be provided one week before closing, and it is expected that the market interest rate for the transaction is at least two-times greater than LADF's QLICI interest rate.

Although LADF does not have a track record of financing charter schools and LADF's application does not identify charter schools as a targeted investment type, the 2018 Allocation Agreement allows LADF to invest up to 25% of its award in project types not included in the 2018 NMTC Application. The $5,283,334 investment of Allocation in the Project represents 15.1% of LADF's $35 million 2018 NMTC Allocation, well within the allowable 25% threshold for exceptions.

Reimbursement of Costs

As part of guidance published by the CDFI Fund in December 2015 a new provision, Section 3.3(j), was incorporated into all allocation agreements after that time pertaining to monetizing existing assets in NMTC transactions. Section 3.3(j) reads as follows:

The Allocatee shall not use the proceeds of a QEI to make a QLICI in a QALICB where such QLICI proceeds are used, in whole or in part, to repay or refinance a debt or equity provider whose capital was used to fund the QEI, or are used to repay or refinance any Affiliate of such a debt or equity provider, except where:

(i) the QLICI proceeds are used to repay or refinance documented reasonable expenditures that are directly attributable to the qualified business of the QALICB, and such expenditures were incurred no more than **24 months** prior to the QLICI closing date; or

(ii) no more than **5%** of the total QLICI proceeds from the QEI are used to repay or refinance documented reasonable expenditures that are directly attributable to the qualified business of the QALICB.

LADF's QLICI will comply with Section 3.3(j)(i) since all of the QLICI proceeds used to reimburse any prior-incurred costs by the QALICB or Sponsor will have been incurred within the 24-month period ending on the NMTC closing. Additionally, (1) Novogradac will perform a reconciliation of all prior incurred expenses reimbursed through the NMTC financing and (2) the QALICB and Sponsor will execute a cost reimbursement certification agreement, for the benefit of the CDE lenders, certifying that these costs were incurred within the 24-month period ending on the NMTC closing.

DEMONSTRATED NEED FOR NMTC FINANCING ("BUT FOR" TEST)

The equity generated through the NMTC structure will provide an estimated $15.4 million in subsidy (*net of NMTC closing costs, placement/origination fees, management fees, and on-going expenses*) to the project, approximately 22.0% of the $70.2 million QEI in the transaction and 15.9% of the $97.4 million of total project costs. The LADF Sub-CDE's portion of the total net subsidy is approximately $1.0 million.

[1] Flexible or non-traditional rates and terms listed in Section 3.2(f) include: (i) Below market interest rates; (ii) Lower than standard origination fees; (iii) A longer than standard period of interest only loan payments; (iv) Higher than standard loan to value ratio; (v) A longer than standard amortization period; (vi) More flexible borrower credit standards; (vii) Nontraditional forms of collateral; (viii) Lower than standard debt service coverage ratio; or (ix) Subordination.

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Given the nonprofit Sponsor and social service nature of the proposed facility, the Project could not move forward without the NMTC equity injection. Community facilities projects such as SEED LA Charter School historically have relied on public funding sources and capital campaigns to provide funds for development costs. The Sponsor already has expended and reserved a significant amount of equity for the project, and its ability to raise an additional $15.4 million for this project is highly unlikely and would take a substantial amount of time. The Project could not move forward without the NMTC equity injection.

COLLATERAL AND GUARANTEES

The LADF's QLICI loans will be secured by the following security instruments:

- Junior Deed of Trust on the QALICB's leasehold interest in the subject property – subordinate in lien position to Chase Bank (*senior lender in 1st position*) and CDFIs (*junior direct lenders in 2nd position*);
- Security interest in the construction disbursement and reserve accounts (*totaling $36.7 million at NMTC Closing*); and
- Additional security for the QLICI loans will consist of guaranties from the Sponsor.

The QALICB and Sponsor will provide an indemnity to the CDE lenders, including LADF XXIV, LLC (*LADF Sub-CDE*), for environmental losses. The QALICB and Sponsor will also provide an indemnity to the Investor for reimbursement of lost tax credits and losses related to loss of tax credits. The QALICB and Sponsor will also provide the CDE lenders: (1) a guaranty of payment for all construction work, interest on the QLICI loan, and fees and expenses due to the CDE and the Fund during the seven-year Compliance Period and (2) a guaranty of completion of all construction work for the Project.

LOAN REPAYMENT ANALYSIS/EXIT STRATEGY

At the end of the seven-year NMTC compliance period, the LADF's Sub-CDE will distribute the QLICI notes to the investment fund. Additionally, the QLICI B Note, which is tied to the NMTC Investor's equity amount, may be forgiven at the end of the compliance period by way of an option agreement described below.

A Put-Call Option Agreement will be entered into by the Sponsor and Chase Bank (*as the Investor*). Chase Bank may exercise its put option and sell its respective interest in the Fund to the Sponsor for $1,000. If Chase Bank chooses not to exercise its put option, the Sponsor may exercise its call option. Upon exercising of either put or call option by the respective parties, the Sponsor would own all of the debt associated with the proposed transaction.

RISKS AND MITIGANTS

There will be limited credit and recapture risk. All significant NMTC compliance issues have been or will be addressed. The QALICB is an eligible entity, the project is located in an eligible highly distressed census tract, LADF's Sub-CDE is certified, there are no related party issues, and the transaction has been structured to meet the Substantially-All Test.

RISK: UNDERWRITING OF CHARTER SCHOOL

SEED LA Charter School will be the first school development project that LADF has financed. Given the inexperience of LADF staff with underwriting charter schools, LADF has engaged a firm (*High Impact Financial Analysis*) to produce an underwriting report of the SEED school and its projected operations. High Impact has underwritten over $150 million of charter school transactions, including those involving NMTC, qualified school construction bonds, and conventional debt. Their experience includes many transactions in California, including an acquisition loan that closed in August 2020 in Los Angeles. To view High Impact's full report on the SEED LA Charter School, please refer to Exhibit B.

RISK: OUTCOME OF PENDING LITIGATION

The litigation risk related to the Project is that a court may order an injunction or revocation of permits related to the CEQA and street vacation actions. Per LADF counsel, however, these cases are likely to be dropped once a settlement is reached in the eminent domain action relating to the property valuation.

In the unlikely scenario that the CEQA and/or street vacation actions are carried out and not dropped, the risk of a judge ordering a revocation of permits is seen as improbable by LADF counsel. The more likely outcome would be that a judge orders an injunction that forces construction to stop until the CEQA exemption and/or the street vacation are reapplied for and obtained once more. The former owner of the site is claiming that the supporting justification for original approval of the CEQA and the street vacation lacks sufficient detail. To mitigate this potential delay in construction, ExEd is pledging its loan loss reserve to the Project as a contingency to cover any cost overruns related to litigation matters (e.g. construction period interest expense, repricing of materials, etc.).

Regarding the litigation over valuation in the eminent domain action, a possible outcome is that the County has to pay the previous owner more money for the property, pursuant to a resulting judgment or settlement. If the County is unable to pay the judgment or settlement amount, then the County's title to the property would be at risk and so would be its ability to ground lease the property to the QALICB. Considering the strong credit and financial capability of the County, this risk is minimal.

RISK: GENERAL

The QALICB, Sponsor, and LADF have taken and will take measures to prevent a Recapture Event. Such measures include:

- LADF has engaged Ariel Ventures for compliance services and obtained a license for its specially-designed compliance software to assure that all required reporting to the CDFI Fund is completed in a timely manner.
- No principal amortization or prepayment will be allowed during the seven-year NMTC compliance period. This will prevent putting the project in violation of the Substantially All Test, which states that 85% of the QEI must be continuously invested in QLICIs during the 7-year NMTC compliance period.
- The transaction will be structured to ensure that up-streamed distributions of cash flow cannot be interpreted as redemption of capital (i.e. a return of equity). While return of equity to the NMTC Investor Member is not permitted, return on equity is permitted. Therefore, all cash flow up-streamed to the NMTC Investor would be structured as return on equity and would be recognized as income. If there is a return of capital, LADF is fourth in the waterfall (*after ExEd Sub-CDE, Civic Builders Sub-CDE, and Chase Sub-CDE*) and would receive a return of capital only after **$62.2 million** was returned.
- To mitigate the possibility that a portion of the QEI is returned via bankruptcy and/or foreclosure on the subject site, through the seven-year NMTC compliance period, the QALICB will be required to commit to maintaining operations at the subject location or providing for an acceptable alternative entity to do so in order to maintain the NMTC structure. Transaction documentation will include legal opinions that all aspects of the transaction comply with the NMTC regulations.

The economic and real estate risks of the project will be borne by the QALICB and Sponsor in their capacities as guarantors and indemnitors, and the Sponsor in its capacity as leverage lender. However, the project-related risks are largely mitigated by the experienced development team assembled for the project as well as the feasibility of the project. The Sponsor has the organizational and financial capacity to access sufficient liquidity to cover reasonable cost overruns and move the project to completion.

LADF FEE LOAD AND RESERVES

The LADF will receive the following fees from the transaction:

- Placement Fee – 2% of QEI (equates to $105,667). LADF will receive this fee in lump sum at closing.
- CDE Servicing & Compliance Fee – 0.75% of QEI per year for $5,283,334 of 2018 Allocation
    - This equates to $309,185 (quarterly installments of $9,906.25 paid out of QLICI interest received for 7 years and 9 months)
- CDE Expense Reimbursements – estimated at $13,000 annually per CDE for 8 years (equates to $104,000). QALICB will be responsible for paying all ongoing costs incurred by the Sub-CDE related to the transaction, which will consist primarily of audit and tax expenses.

All of LADF's CDE Servicing and Compliance Fees and CDE Expense Reimbursements for the entire Compliance Period, which total approximately $413,185, will be placed in a separate, controlled reserve account at close of the transaction.

POLICY EXCEPTIONS

None.

RECOMMENDATION

Approval of this funding request is recommended based on the project's feasibility, readiness and community benefits.

ATTACHMENTS

EXHIBIT A: SEED LA Charter School Flow of Funds (*as of February 21, 2021*, Final Projections Pending)
EXHIBIT B: Underwriting Report of SEED LA Charter School by High Impact Financial Analysis

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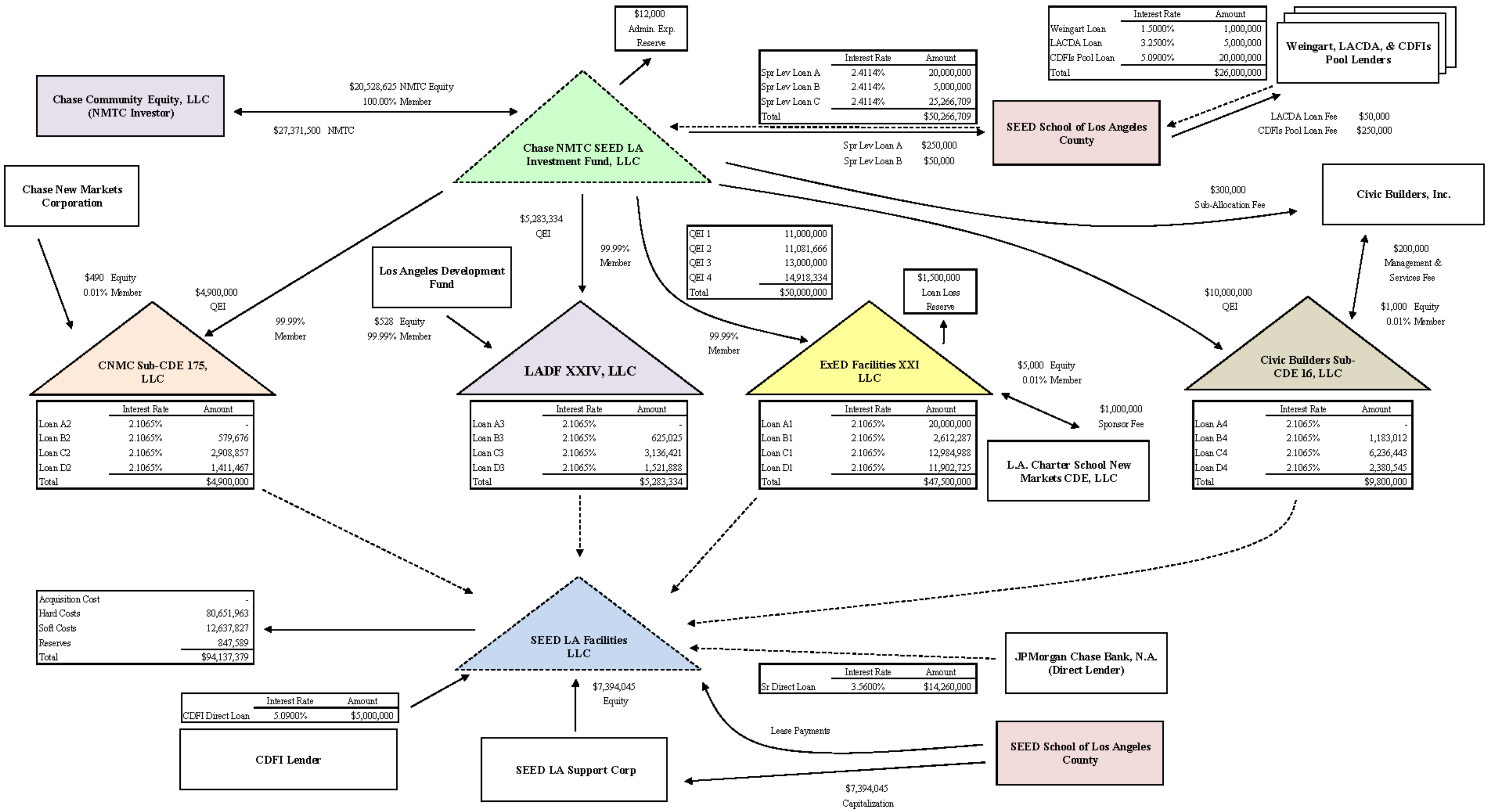
EXHIBIT A: SEED LA Charter School Flow of Funds (*as of February 21, 2021*, Final Projections Pending)



LOS ANGELES DEVELOPMENT FUND

EXHIBIT B:

Underwriting Report of
SEED LA Charter School
by High Impact Financial Analysis

Underwriting Report

High Impact Financial Analysis, LLC (the "Underwriter") is pleased to provide The Los Angeles Development Fund ("LADF") this summary of our review of the financial condition, management capacity, and overall suitability of the SEED Foundation (the "Foundation") and SEED School of Los Angeles County (the "School") as counterparties in a new markets tax credit ("NMTC") transaction. Information on the transaction structure is based on a draft financial model provided to the Underwriter and dated October 21, 2020.

Transaction Overview:

The School will be a new charter school in Los Angeles that will offer a boarding-school model for at-risk students. The School is the result of years of collaborative work between the Foundation and several key local partners. These partners include ExED, which is an over 20-year-old Los Angeles-based service provider to charter schools and developer of charter school facilities, and the County of Los Angeles and the Los Angeles County Metropolitan Transportation Authority ("Metro"), which together have pledged \$142 million over 15 years to support the School's boarding operations. The School is intended to provide a much needed educational resource in the community that will prepare students for college and careers, particularly within the transportation sector.

The \$90.02MM NMTC transaction will result in the construction of a new school facility and dormitory (the "Property") for the School. LADF will provide \$5.28 million of NMTC allocation to the transaction. The Property will be owned by a single-purpose entity formed for the purposes of the project (the "QALICB") and will be leased to the School through a triple-net lease. The School is the sole member of the QALICB[1]. Sources of funds for the project include 16 QLICI loans[2] totaling \$67.48MM from four community development entities (including a LADF sub-CDE), and two direct loans: a \$12.39MM senior loan and a \$5.00MM loan from Los Angeles County Development Authority ("LACDA").

During construction, interest-only debt service on the QALICB's debt will be paid from interest reserves included in loan amounts. After construction completion and during the NMTC compliance period, debt service of the QLICI loans and direct loans will be made from lease payments made by the School to the QALICB. The QALICB will refinance the direct loans and the QLICI A and B notes at the end of the NMTC compliance period. The performance of the NMTC transaction depends upon (a) the ability of the School to deliver the completed property successfully and (b) the ability of the School to make the lease payments needed for the QALICB to service its debt. This memorandum will focus on component (b), providing an assessment of the School's ability to operate successfully.

Overview of the Foundation and the School:

The School will be a standalone entity that will not be legally related to the Foundation. However, the Foundation will participate in the successful management and operations of the School through a Management and Licensing Agreement. Fees due under the agreement will be subordinate to lease

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[1] The final transaction structure may include an additional nonprofit entity in between the School and the QALICB. This entity would be consistent with the structure used in similar charter school transactions in which a 'friends of' nonprofit entity owns the School's leases the school facility to the school. While this would change the technical flow of funds, it would have no impact on the credit risk in the transaction or the financial projections that are the basis for the assessment of financial risk in the transaction.

[2] QLICI loans will include an A, B, C, and D note from each CDE. A and B notes are planned to be refinanced at maturity and C and D notes are planned to be put to the Borrower and ultimately forgiven.

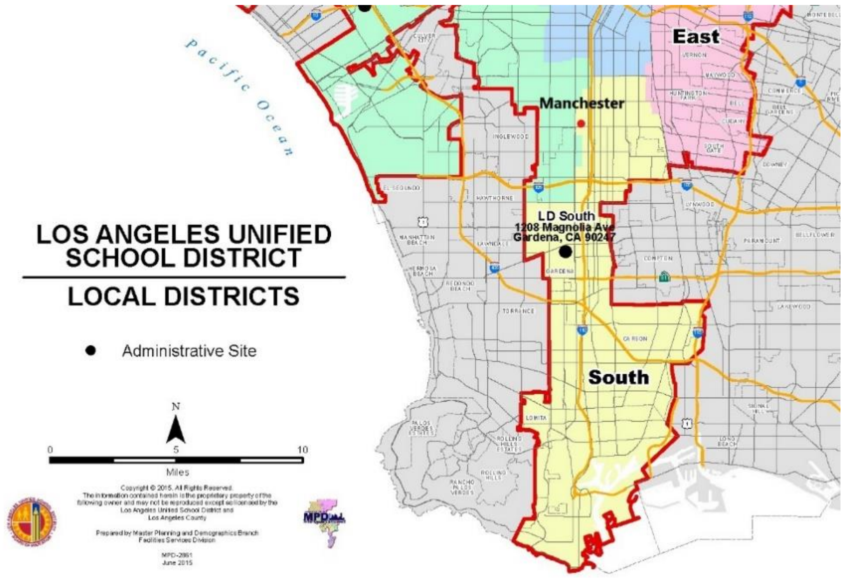
payments, indirectly providing the benefit of the Foundation's financial security to the transaction. The Foundation will not guaranty the lease or any debt in the transaction and will have no other financial obligation in the transaction. A summary of the background of the Foundation, the School's planned organizational structure and approach, and the Underwriter's evaluation of their management capacity follows.

The SEED Foundation
The Foundation is the nation's first and only network of public, college preparatory boarding schools designed for students who need a 24-hour learning environment to achieve their full potential. Founded in 1997, SEED has implemented an innovative model that integrates a rigorous academic program with a nurturing boarding program which currently serves approximately 900 students in three schools in Washington, DC, Maryland and Miami. The Foundation will provide advisory services for academic and business operations of the School through the management agreement.

The Foundation is led by Chief Executive Officer Lesley Poole. Other key members of the 23-person staff include Co-Founders Eric Adler and Rajiv Vinnakota, Chief Schools Officer Keniq Coney, Director of Strategic Growth & Public Affairs Woodrow Scott, and Director of School Improvement Jubria Lewis. As CEO, Ms. Poole is responsible for the overall health and vitality of SEED's network of public, college preparatory boarding schools and SEED's mission-critical college success programming. Ms. Poole was one of the founding faculty at the Foundation's first school and held a number of positions there before becoming the CEO of the Foundation in 2015. Ms. Poole was instrumental in securing the public-private partnerships necessary in Annapolis, MD, and Tallahassee, FL, to make The SEED School of Maryland and The SEED School of Miami possible. Ms. Poole began her career in education as a mathematics instructor and later served as the service area director for the school division of San Francisco Educational Services, where she oversaw five programs for children with special needs. She holds two bachelor's degrees – one from San Francisco State University in chemistry and one from Patten College in organizational management. She is a qualified leader for the Foundation.

Charter Authorizer:

The School's charter has been approved and will be overseen by the Los Angeles County Office of Education ("LACOE") as authorizer. In California, charter schools are most typically authorized by a city school district, but state policy allows a county board of education to approve a charter request (either directly or on appeal if the school has applied elsewhere for a charter first) if it finds that the school will serve a pupil population that could not be served as well by a charter school that only operates in one district. Receiving the charter from LACOE rather than the Los Angeles Unified School District ("LAUSD") enables the School to offer services to a greater number of housing-insecure youth. While LAUSD covers large areas of LA County, it does not provide services to several areas of South LA that are in relatively close proximity to the School (see below). With a charter from LACOE, the School will be able to serve the entire area.



South LA Unified School District service area, with proposed charter location marked in red.

The role of the authorizer is critical to credit risk in the subject transaction because the School has been awarded a five-year charter and will need to secure a renewal of the charter at its expiration. The decision to renew or shut down the School is the authorizer's decision to make. Of the four schools LACOE has directly authorized since 1997, one has had its charter revoked after beginning operations. That school was shut down upon its second renewal application. LACOE currently is the authorizer for 26 charter schools in total, which includes both the small number of schools it directly authorized and a larger number of schools for which it provided authorization after denial by another entity (primarily LAUSD). LACOE is selective in authorizing schools, as illustrated by the very small number of direct authorizations since 1997 and the approval rate of appeals from other districts, which stood at 42% through 2015.

To facilitate its oversight of operations, the School will provide LACOE regular reports upon request, including updates on recruitment activities, procedures, evidence of student residence, student health documents, notices to parents/guardians, educational records, criminal record summaries, and operational data through the California Department of Education. LACOE will also receive annual filings and performance reports the School is required to provide the state. LACOE will conduct a site visit prior to the opening of the facility, followed by annual facility inspection to ensure a quality learning environment.

While LACOE has a limited track record of authorizing and renewing schools directly, the Underwriter assesses the risk of closure during the NMTC transaction term to be low. First, only one renewal is needed for the School to continue operations throughout the NMTC term[3]. In general, charter authorizers rarely revoke charters upon an initial renewal, as schools have often not reached or only recently reached stabilized enrollment and a stable staff, making it difficult to make final determinations on the success of operations. With the experience of the Foundation and ExED to guide it, the School is deemed unlikely to suffer the extreme failure in its early years that would likely be needed to merit a nonrenewal upon its first renewal petition.

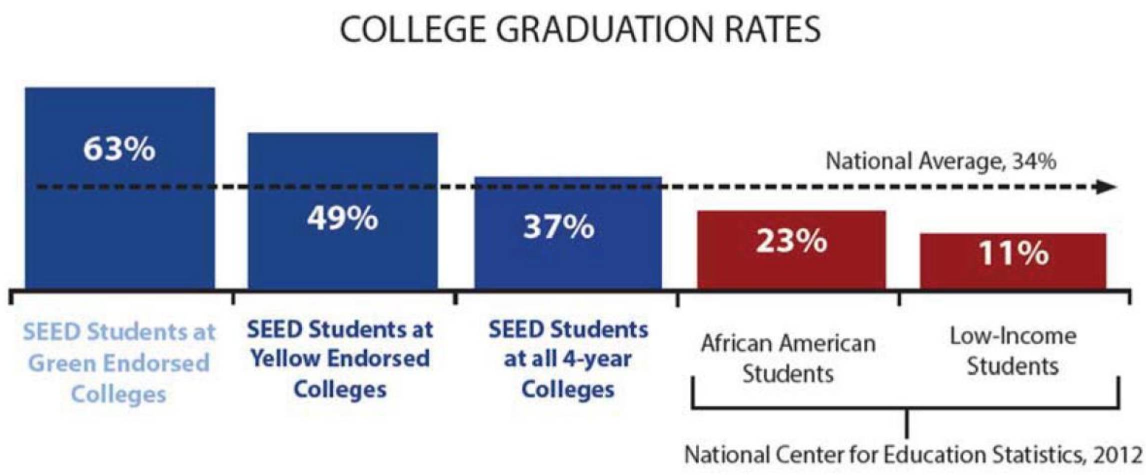
[3] Charters may be revoked at any time, not only upon petition for renewal. However, it is extremely rare for charters to be revoked outside of the renewal petition process.

The Educational Program:

The School will feature a program designed to meet the educational needs of housing insecure or otherwise at-risk students by serving their immediate academic needs, building pathways to college and careers, particularly within the transit industry, and providing significant social and emotional support and counseling made possible through the boarding school model. The educational model will be focused on trauma-informed, community-centered, and regional specific approaches toward education. The school will leverage its partnership with Metro to specialize in transportation-related curriculum, which the Foundation's leadership believes is a high-growth regional industry that can offer a clear jobs pipeline for students in engineering, information technology, public administration, urban planning, and supply chain management.

The School plans to partner with several local non-profits and agencies to best design the curriculum to match local needs. Project Lead the Way, a local nonprofit that teaches engineering, has experience training young adults in STEM skills. Metro will provide students with internship opportunities during their senior year, while LA Trade Tech will link students with job pipelines. Metro's E3 Initiative aims to prepare Los Angeles youth for careers and pathways in the global transportation infrastructure industry. The establishment of a transportation school is key to that initiative. STEM Prep, another South LA-based charter school network, will offer professional development for teachers. The School will also partner with two local YMCAs as satellite locations that will act as pick-up/drop-off points for students and provide teen programming on the weekends. For most of these partnerships, formal MOUs are pending and will not be in place until the School is nearing opening or in operations, but the School has developed relationships with all partners to date.

Students will receive four years of college counseling, helping them build a resume, understand the college application process, and select schools that will best support them throughout college. Other schools in the Foundation's network have benefited from SEED's College Transition and Success program, which aims to both select the schools with the best fit for the student (with strong-fit schools rated Green and medium-fit schools rated Yellow) and provide supportive services throughout college. See the chart below for a summary of student outcomes:



In the districts that are likely to be served by the School, the college-going rate is between 34% and 73%, with the average being 58%. SEED has a 94% graduation and college-going rate within its network schools.

As with all SEED schools, students will stay on-campus five days a week (Sunday night through Friday afternoon). The boarding school aspect of the charter school is built around the Foundation's HALLS (Habits for Achieving Life-Long Success) curriculum, which focuses on building soft skills for personal growth and development. Students will have the option to participate in after-school clubs and learning-sessions, and resident advisors oversee the boarding environment. The boarding school enables additional opportunities for students to experience stability while gaining access to 24/7 wrap-around supportive services.

SEED LA believes in a trauma-informed, culturally responsive approach toward teaching. Teachers and staff are expected to engage with parents/guardians, the local community, and the students in a way that facilitates understanding. In addition, teachers are expected to build a college-bound, high-expectation culture within the school. All coursework is designed to make students college-ready and overcome persistent achievement gaps in low-income student college graduation rates. The SEED LA curriculum will meet California's A-G criteria by supplying courses in Social Studies, English, Mathematics, Laboratory Sciences, Language Other Than English, and College Preparatory Electives. In addition, the School will offer a Gifted and Talented Education (GATE) program for high-achieving students, Advanced Placement (AP) courses, and Special Education classes. Additional support will be provided for English-learner students and students who qualify under the Americans with Disabilities Act.

Enrollment and Admissions:

The School will have a weighted admissions policy that favors students residing in the immediate community. The Vermont Manchester area and immediate adjacent zip codes represent two of the top ten areas served by the Los Angeles County Department of Child and Family Services ("DCFS"), accounting for 15% of the agency's caseload. The poverty rate is more than double the County's 17%, with household incomes between 38% and 56% of the area median. The School believes that integrating a college-preparatory institution, with a curriculum that favors strong academics, social emotional skills, college advising, wrap-around services, family/community engagement, and industry-focused courses will provide clear pathways for the high-needs students. SEED LA will actively recruit from students who may be receiving DCFS and other public services in LA County, or who are housing insecure/homeless.

The School will ultimately enroll 400 students in grades 9-12 each year. The School plans to open with 125 freshmen students in its first year of operation (the 2022-2023 school year). Administrators anticipate that 100 of those students will matriculate to Grade 10, and 90 will graduate. The School will be composed of 120 freshmen, 100 sophomores, 90 juniors, and 90 seniors by Year 4 of operations, for a total of 400 students. Enrollment will be managed through a weighted priority system based on the following criteria:

- Siblings of students who are currently enrolled at SEED LA
- Students who reside in the Vermont Manchester and surrounding South LA neighborhoods
- Resilient Youth, defined as any prospective student who have:
  - Faced homelessness or housing insecurity
  - Interacted with DCFS
  - Had contact with the probation department
  - Had immediate family members incarcerated
- Resident of the county
- All other applicants

If there are more applicants than available seats, a public lottery will be held to determine admissions. Students who are not admitted due to capacity will have the option of being placed on a wait list.

To reach a diverse group of students, the Foundation has developed a Community Engagement Plan and hired a Community Engagement Specialist to inform their outreach initiatives. To enroll at-risk students, SEED LA plans to continue strategic advertisements and marketing materials that are likely to reach specific demographics. They have started and plan to continue outreach to the neighborhood to explain the School's educational model and mission, engaging with local stakeholders, enlisting local networks to help with outreach, and obtaining feedback from consultation with the community. The School has already begun outreach to approximately 20 local organizations and plan to create partnerships with several local agencies, including DCFS and others that interact with at-risk youth.

Given the unique student population targeted for the School and the Foundation's experience operating similar schools, the enrollment plan appears proactive and reasonably likely to achieve full enrollment.

Measurable Outcomes and Method of Measuring Student Performance:

The Foundation believes in utilizing data to fully assess success. In addition to relying on state standardized tests, they plan to utilize an analysis system, such as the Measure of Academic Progress tool developed by the Northwest Evaluation Association, to demonstrate progress to both students and stakeholders. Data utilized includes both outside metrics (such as PSAT performance) and rapid cycles of testing to determine measurable impacts for specific curriculum changes.

The School's staff will include a full-time Data Analyst whose job will involve compiling, analyzing, and reporting out information on key student metrics throughout the year. This will enable the charter school to effectively respond to changing dynamics in a time-efficient manner. Data efforts will be aided by the Foundation's School Support Team, which is made up of former school leaders with expertise in course design and evaluation. They will assist with data analysis and improvement strategies based on trends and ensure fidelity to the SEED network's educational standards.

SEED LA has outlined six goals upon which the success of its program should be judged. All goals relate to the overarching desire to see students graduate from a four-year college within no more than a six-year timeframe. The specific annual measurable outcomes stated in the schools' charter petition can be found in Appendix A.

Staff:

The School will be led by a Head of School, who will be responsible for day-to-day operations. A search firm has been hired to identify candidates and a Head of School Search Committee had its first meeting in November 2020. The organization intends to hire the Head of School by July 1, 2021. Staffing for other administrative positions will follow. Job postings and hiring for teaching positions will occur prior to the opening of the School in 2022. Faculty will be asked to provide commitments to return each year in January, allowing for ample time to recruit and hire new staff each spring. Education staff will have access to the Foundation's Effective Instruction workshop, a five-part series of development courses that will help them understand SEED's philosophy in five areas of practice, including: clear learning objectives, models of effective practice, checks for understanding, guided practice, and effective feedback. The School will provide staff built-in personal development time to ensure ongoing Professional Development Trainings are accessible to staff.

Top-level governance of the School is illustrated in the diagram below.

Board of Directors:

The School's Board of Directors is responsible for identifying organizational needs, promoting the School's vision and mission; ensuring adherence to legal requirements set forth in the charter petition; engaging in ongoing strategic planning; approving the annual budget; reviewing and approving annual fiscal audit and performance reports; recruiting Board candidates who have demonstrated a passion for advancing education for historically underserved students; and other oversight responsibilities. The bylaws of the School state that there will be no less than three or more than 15 board members. LACOE may designate a single representative to serve on the Board of Directors. Other vacancies will be appointed by a majority of the Board. Bios for the Board of Directors are included in Appendix B.

Financial Condition of the Foundation:

The financial condition of the Foundation is relevant to the transaction in order to assess its long-term viability as a critical partner and service provider to the School. The Foundation provided audited consolidated financial statements for the fiscal years ending June 30, 2018, 2019 and 2020. On an unconsolidated basis, the Foundation had total assets of $6.37 million at FYE20. Assets primarily consist of the following three accounts:

- Cash and cash equivalents of $1.01 million. After a one-year spike in 2019, the Foundation's cash balance was consistent at FYE20 with the FYE18 balance. The cash balance represents 85 days of cash, indicating sound liquidity at present, though this is the lowest days' cash reported over the last three year-ends. Further, the cash balance is supported by a $483,821 Paycheck Protection Program loan. Without this loan, liquidity would be a greater concern.
- Property and equipment of $1.87 million. This is significantly higher than in prior years, as the school invested cash in fixed assets in FY20.
- Due from SEED School of Miami of $3.28 million. This reflects funds the Foundation borrowed from several individual supporters and loaned on to the Miami school for its construction project. Principal repayment of the loans is expected in FY21 from the proceeds of a refinance of the school facility by the Miami school.

The Foundation's liabilities at FYE20 were $3.94 million, including the $3.24 million of pass-through loans related to the Miami school and the $483,821 Paycheck Protection Program loan, which is ultimately expected to be forgiven. The Foundation carries minimal accounts payable, which offsets the minor liquidity concerns raised by decreasing days' cash. Net assets were $2.43 million at FYE920, up from $1.35 million and $1.92 million at the previous two year-ends. The strong net assets growth is favorable and results in an acceptable leverage ratio of 1.62 (which would be a very favorable 0.29 without the pass-through loans associated with the Miami school).

The Foundation's generated $4.84 million of revenue in FY20. Revenue is on a strongly positive trend, with virtually all of the growth attributable to increasing contributions revenue:

	FY18	FY19	FY20
Contributions	$ 1,409,738	$ 2,621,663	$ 3,084,642
Total Revenue	$ 3,000,846	$ 4,281,429	$ 4,842,330

The Foundation's only other major source of revenue is fees for services from its related schools, which were between $1.37 million and $1.42 million each year. Expenses are concentrated in salaries and benefits, which account for over half of total expenses in each year. Salaries and benefits were essentially flat from FY19 to FY20 at $2.40 million. Supplies and services expense has grown, however, driving total expenses up from $3.71 million in FY19 to $4.33 million in FY20. This resulted in a modest decline in the change in net assets from $566,972 in FY19 to $510,911 in FY20. The change in net assets was negative in FY17 when contributions were lower, at ($281,941).

Summary of Financial Condition

The Foundation has a notable reliance on contributions for revenue and operating profits. While the addition of a new school to the Foundation's network should result in some operating efficiencies, the organization is not self-sustaining at present. Given the current climate of economic uncertainty caused by the COVID-19 pandemic, this reliance on unearned income exposes the Foundation to macroeconomic risk. The lack of leverage on the balance sheet limits the magnitude of the risk, as reduced donations would likely lead to cuts in the operating budget rather than a default on debt. The Foundation presents as a viable enterprise and acceptable partner for the subject transaction, but its lack of excess liquidity and high reliance on unearned revenue indicates that it should not be relied upon as a fully assured backstop to the transaction in the case that the School faces financial struggles.

Operating Projections for the School:

The School's financial projections have been evaluated to assess its ability to make the lease payments needed to fund the QALICB's debt service. The Foundation and ExED have cooperatively produced five years of projections for the School. This covers the period from school opening to the first years of full enrollment Year 4 plus one additional year, which brings the projections through the first 6.5 years of the NMTC compliance period. The Underwriter extended the financials one additional year to bring the projections through the end of the NMTC compliance period using a conservative 2% revenue increase and 3% expense increase assumption. The final year of the projections is used to assess the School's ability to refinance the NMTC transaction.

The projections are presented in summarized form below, followed by a discussion of key assumptions.

School Year	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
NMTC Compliance Period Year	1.5-2.5	2.5-3.5	3.5-4.5	4.5-5.5	5.5-6.5	6.5 - 7 / Refi
Operating Year	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Income						
LCFF	1,645,525	3,020,996	4,313,745	5,586,942	5,698,776	5,812,751
Other Federal Income	212,034	399,640	559,496	710,471	748,411	763,379
Other State Income	243,421	444,237	624,364	794,268	798,402	814,370
Other Local Income	2,257	2,352	3,326	4,265	4,308	4,394
LA County / Metro Funding	5,750,000	7,262,000	8,988,000	10,000,000	10,000,000	10,000,000
Total Income	7,853,238	11,129,225	14,488,931	17,095,947	17,249,896	17,394,894
Expenses						
Salaries and Benefits	2,277,393	4,045,572	5,410,102	7,195,018	7,427,223	7,650,039
Supplies	682,732	1,062,043	1,389,584	1,723,569	1,720,049	1,771,650
Operating Services	1,783,294	2,562,001	3,446,471	4,127,602	4,165,501	4,290,466
Rent	2,942,000	2,942,000	2,942,000	2,942,000	2,942,000	2,942,000
Other Expenses	66,455	78,850	80,392	79,188	65,657	67,626
Total Expenses	7,751,875	10,690,466	13,268,549	16,067,377	16,320,429	16,721,782
Net Income	101,363	438,759	1,220,382	1,028,570	929,467	673,112
Add Back: Rent Expense	2,942,000	2,942,000	2,942,000	2,942,000	2,942,000	2,942,000
Net Income before Rent	3,043,363	3,380,759	4,162,382	3,970,570	3,871,467	3,615,112
Lease Coverage Ratio	1.03	1.15	1.41	1.35	1.32	1.20

Revenue

Per California law, revenue is based on average daily attendance ("ADA"), which is assumed to be 95% of enrollment. The 95% assumption is consistent with the experience of ExED and the SEED Foundation with other schools. High ADA is expected in part based on the nature of the School as a boarding school—if students attend on a Monday, they are nearly assured of being there all week. The table below shows enrollment and ADA expectations.

School Year	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
NMTC Compliance Period Year	1.5-2.5	2.5-3.5	3.5-4.5	4.5-5.5	5.5-6.5	6.5-7 Refinance
Grades	9	9-10	9-11	9-12	9-12	9-12
Total Enrollment	125	225	315	400	400	400
Total ADA	119	214	299	380	380	380
ADA %	95%	95%	95%	95%	95%	95%

Enrollment is expected to start with 125 students in ninth grade in the first year of operations, with an additional grade level added annually as each grade cohort moves up until the school reaches full enrollment of 400 students in grades 9-12. The School plans to enroll more ninth graders (125) than necessary to meet the goal enrollment of an average of 100 students per grade. Some attrition is expected as students exit the School, both due to the differentiated nature of the School as a boarding school and due to family moves and other life circumstances. The School does not intend to backfill seats, meaning if a student leaves the School they will not be replaced. This practice is intended to ensure the success of the School's program, which relies in part on the stability and culture of a boarding school atmosphere. School management expressed that if financial circumstances required it (for example, if high attrition reduced enrollment below the break-even level), additional students could be added.

As with all public schools in California, revenue for school operations will come primarily from state and local sources through the Local Control Funding Formula ("LCFF"), which combines several revenue sources to ensure an adequate minimum level of operating support for schools. Changes to the formula can only be made through legislative action, making this a highly reliable funding source. The mandated annual cost of living adjustment to the LCFF introduces uncertainty, however, particularly given the current economic climate. Due to the COVID-19 pandemic, the LCFF funding level was not increased for the 2020-21 school year after over a decade of annual increases. The School's projections assumed increases in the LCFF of 2.80% and 3.16% prior to opening of the School, and 2.50% thereafter. In light of the pandemic, the Underwriter adjusted the projections to assume a 0% increase for one year followed by annual increases of 2% thereafter. If such increases are not met, the School will need to either fundraise to fill the resulting gap or decrease expenses. Given the combined experience of the SEED Foundation and ExED in successfully managing school budgets, this risk is considered effectively mitigated.

In addition to funding similar to other schools, the School will also receive substantial funding from Los Angeles County and Metro to support boarding operations. The County and Metro combined have made a 15-year commitment for a total of $142 million, with each agency providing 50% of the allocated funding. While the formal operating agreement between the County and the School is not yet complete, the total 15-year funding commitment of $142 million has been approved and is not subject to further budget appropriations or legislation. Committed funding is $5.75 million in Year 1, $7.26 million in Year 2, $8.99 million in Year 3, and $10 million annually thereafter, with the increases intended to match the scaling of enrollment. The School intends to fundraise from other private donors in addition to the fixed funding from the County and Metro, though the projections do not show additional fundraising. The School raised approximately $30 million for the subject project over a 15-month time period and the Foundation's other schools all raise over $1 million annually, so the potential for additional fundraising is considered high and provides a buffer in the operating projections.

Expenses

Expenses in the proforma are based on the combined experience of ExED with charter schools in Los Angeles and the Foundation with its boarding charter schools in other locations. Salaries and benefits account for 30% of total expenses in Year 1 and escalate to 38% of expenses in the final two years of the projections. The personnel budget is supported by a detailed personnel schedule that shows the staged hiring of administrators, teachers, and support staff as enrollment grows. The staff will ultimately grow to include 34 teachers; 16 residential advisors; 16 student life counselors; three mental health counselors; six administrators including a Head of School, Principal, Director of Admissions and Student Services, and three Deans; and various office, maintenance, food service, and other support staff. The School believes it has been aggressive in its staffing assumptions and could reduce staffing somewhat if budget pressures demand it without materially weakening its services to students.

Non-personnel expenses include the following notable expenses:

- Administrative and Management Support Contracts:
    - ExED will provide back-office financial services to the School, including accounting, payroll, retirement benefits, budgeting, monthly forecasting, compliance, and related services. ExED is a critical partner to the School and the Foundation because of its expertise in NMTC transactions, school facility construction in Los Angeles, and charter school operations and laws in California.
    - The School will have a management agreement with the Foundation through which the Foundation will provide a variety of organizational and curricular support to the School.

The fee for the management agreement is 5% of the annual expense budget. The Foundation will provide curriculum development services, school performance and evaluations systems development services, fundraising support, training and advising to the Head of School, strategic human resource guidance and support, student recruitment strategic guidance, board recruitment and development support, government relations support, advisory services related to college counseling and college transition services, and other services.

- On a combined basis, the ExED and Foundation contracts range from 6.8% - 7.0% of the School's budget each year. This is below the 7% - 10% that is typical of charter management organizations that provide similar services through a single provider.

- The model assumes the School will obtain a $1.0 million term loan at the start of operations to fund upfront working capital needs. This would generate $50,000 of interest expense in an interest-only first year and lower interest payments in future years as the loan is paid down over a presumed five-year term. This loan is needed because LCFF funds are paid quarterly and boarding grants will be paid annually in December, causing a cash flow gap. No lender has been identified to date given the length of time until the need will arise. ExED has lender relationships it intends to tap for the working capital need, and there are several companies who factor receivables for charter schools at a higher cost if needed. Given the market for loans of this nature, the lack of committed financing to meet this need is not considered a major risk in the transaction by the Underwriter.

Net Income and Lease Coverage Ratio

The School will be the source of payment for both the direct loan and the NMTC QLICI loans. Based on the adjusted underwriting, the School's net income will range from a low of $101,363 in Year 1 of operations to a high of $1.22 million in Year 3 of operations. Net income becomes lower thereafter as boarding grant funding is presumed to be flat, while expenses continue to increase. The resulting lease coverage ratios[4] ("LCR") will be 1.03 in Year 1, followed by ratios of 1.15 in Year 2 and ratios between 1.32 and 1.41 in the remainder of the term. While the Year 1 LCR is low, several factors mitigate the associated risk:

1. The School's projections assume stronger LCFF escalations than the Underwriter's adjusted projections. In an operating environment that is less favorable than the environment projected by the School, its management would be likely to adjust its expense budget accordingly to ensure successful operations. Even in the harsher operating environment projected by the Underwriter, the School would still be able to fund lease payments without any expense adjustments.
2. The projections assume no fundraising beyond the grants already committed from the County and Metro. SEED's other schools have historically had strong fundraising performance, suggesting that the School may be able to generate private donations to supplement revenue included in the projections.
3. The Foundation's management agreement will be formally subordinated to lease payments, meaning the School will be required to make lease payments before making payments under the management agreement. The management agreement accounts for no less than $365,000 in each year of operations, providing substantial additional cushion. While a long-term deferral of the management agreement would not be practical, as the Foundation relies in part on these fees to fund operations, being able to manage cash flow via payments due to the Foundation provides a meaningful measure of flexibility to the School's operations.

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[4] The ratio of income available for lease payments to total lease payments, or (net income + lease payments) / lease payments. This is equivalent to a debt service coverage ratio, which is used when the sponsor entity is making debt service payments directly.

Refinance Analysis
At the end of the seven-year compliance period, the estimated refinance need is $41.36 million. This includes the balances due on the two direct loans (one from a conventional lender and one from the Los Angeles County Development Authority), eight QLICI loans (the A and B loans), and a presumed transaction cost and reserve requirement of $2.48 million. Assuming a 30-year amortization on the refinanced debt, the interest rate could be as high as 6.15% before the lease coverage ratio would fall below 1.20. These terms are readily achievable in the bond market at present. A longer amortization and lower interest rate may be possible, providing for further cushion. If rates are higher than anticipated, the School would need to pay down a portion of the debt through fundraising or other means, or it could petition LACDA for an extended term on its financing and subordination. Overall, while there is some interest rate risk in the refinance scenario, the analysis suggests a viable refinance and exit from the NMTC transaction.

Conclusion
Overall, the School's operating projections indicate a viable plan for financial sustainability. The proforma is supported by detailed revenue and expense assumptions and was constructed by qualified parties, including ExED and the Foundation. As underwritten, the projections assume no fundraising beyond committed funding from the County and Metro, and LCFF revenue escalation is conservatively budgeted. Based on these factors and the subordination of the Foundation's management agreement to lease payments, the transaction is judged to be financially sound.

Key Risks and Mitigating Factors:

Risk: The SEED Foundation, which is contracted to provide critical support services to the school, has declining liquidity and relies heavily on contributions for operating revenue.
Mitigating Factor: The Foundation has been in operation for over 20 years, proving that it is capable of generating sufficient contributions to survive and grow over the long term, including through the Great Recession. Further, while the Foundation is vital to the success of the School, it is not financially obligated under the terms of the proposed NMTC transaction. While its ability to absorb long-term non-payment of management fees from the School in order to support the NMTC transaction may be limited by its liquidity position, it could likely defer portions of the management fee for short timeframes to support the transaction. The Foundation's long track record of successful operation of its network schools is on the whole a significantly positive factor in this transaction.

Risk: While the Foundation has an operating history in other markets, the School is a start-up and the Foundation has not operated in California previously.
Mitigating Factor: The Foundation has been working toward opening a school in Los Angeles for 16 years, giving it substantial opportunity to become familiar with the operating market. Further, it has partnerships with ExED, a deeply experienced charter school developer and service provider in Los Angeles, as well as with the County itself, which has stepped forward with critical funding to ensure the success of the School's boarding operations. Finally, each of the Foundation's other schools operate in different regulatory and geographic markets, giving it experience adapting to new environments that should be an asset as it develops and opens SEED LA.

Risk: As underwritten, the lease coverage ratio is just 1.03 in Year 1 of the School's operations, which is below typical financing requirements.
Mitigating Factor: The 1.03 LCR reflects adjustments made by the Underwriter to make the projections more conservative. If the conservative revenue assumptions bear out, the School is likely to adjust its budget to ensure financial sustainability. Further, the School could seek external fundraising support or could defer payments to the Foundation if needed to buoy operations in its initial year. The Foundation

and its other existing schools have proven to be effective fundraisers in the past, including in raising funds to support construction of the School's facility.

Risk: As is the case for all charter schools, the School's authorizer, LACOE, has the right to revoke its charter at any time. LACOE a limited authorizing history to assess but has shut down one of the four schools it has directly authorized in the past.
Mitigating Factor: The School will only need to achieve a single charter renewal during the NMTC compliance period, and mid-term revocation of charters is exceedingly rare throughout the charter school sector. Further, it is rare for schools to lose a charter in their initial renewal, as often they have not yet had sufficient stabilized operations to make a final assessment of success. This will likely be the case for the School, as it will only reach stabilized enrollment in its fourth year of operations, the same year that its charter will be subject to renewal. Given these factors and the success of the Foundation in operating charter schools in other markets, the risk of closure is considered low during the NMTC compliance period.

Recommendations and Limitations:

The Underwriter concludes that the School is a suitable counterparty in the subject NMTC transaction, and that its operations are likely to support payment of its lease during the NMTC compliance period. The Foundation has a strong operating history and has established several successful schools in other markets, and it has developed strong and meaningful local partnerships to ensure success of its new Los Angeles school. While the current economic uncertainty and the nature of the school as a start-up represent risks, the risks are deemed adequately mitigated by the management and fundraising experience of the Foundation and its partners.

This report is intended for the sole use of LADF. The recommendation presented herein is limited solely to the appropriateness of the School as a counterparty in the NMTC transaction. This recommendation did not consider the ability of the development team to complete the project successfully, characteristics of the project property, or other factors that may impact the project's ultimate success and performance.

Appendix A
Measurable Outcomes

The School has identified the following priorities and associated outcomes by which it will measure its performance in the year of its first charter renewal.

Priority	Description	Metric	Acceptable Outcome for 2026-2027
Priority 1: Basic Services			
Outcome 1	Ensure teachers are appropriately assigned and fully credentialed in the core subjects they teach.	Percentage of teachers assigned to appropriate courses.	100%
Outcome 2	Students have access to the standards-aligned instructional materials and resources.	Percentage of students who have sufficient access to standards-aligned instructional materials.	100%
Outcome 3	School facilities are maintained and in good repair (i.e., meet federal, state, and local statutory requirements for structure, fire, and public safety)	90 percent or greater Passing Rate on Inspection Site Reports. Demographic reporting not applicable to this outcome metric.	90%
Priority 2: State Priorities			
Outcome 1	ELA growth on the NWEA MAP formative assessment	NWEA MAP score reports. Baseline data will be gathered in the opening year.	Increase 5% year-over-year for all students, dependent upon baseline
Outcome 2	Math NWEA MAP formative assessment	NWEA MAP score report. Baseline data will be gathered in the opening year.	Increase 5% year-over-year for all students, dependent upon baseline
Outcome 3	Increase percent of students enrolled in AP classes who earned a 3 or higher on the AP exam.	Percent of students earning a 3 or higher. Baseline data will be gathered in the first year AP classes are offered, 2025-26 school year.	Increase 5% year-over-year for all students, dependent upon baseline
Priority 3: Parent Involvement			

Outcome 1	Increase the number of parents who attend school events annually.	Percentage of parents attending school events. Baseline data will be gathered in the opening year.	Increase 5% year-over-year for all students, dependent upon baseline
Outcome 2	Parents and families are satisfied with the overall educational program.	Parent Survey. Baseline data will be gathered in the opening year.	89%
Priority 4: Student Achievement			
Outcome 1	Increase CAASPP ELA proficiency (Students scoring at Level 3 or Level 4)	CAASPP score reports [Smarter Balanced Summative Assessments]. Students will take the CAASPP ELA their junior year. Baseline data is based on composite scores of local schools, the district, county, and state.	44% (school-wide)
Outcome 2	Increase CAASPP Math proficiency (Students scoring at Level 3 or Level 4)	CAASPP score reports [Smarter Balanced Summative Assessments]. Students will take the CAASPP Math exam their junior year. Baseline data is based on composite scores of local schools, the district, county, and state.	46% (school-wide)
Outcome 3	Percentage of students reclassified from an English learner to Fluent English Proficiency	English Language Proficiency Assessments for California. Baseline data will be gathered in the opening year.	52% (school-wide)
Outcome 4	Percentage of eligible students testing in grade ten, eleven, or twelve	California Science Test (CAST) score report. Students will take the CAST during their junior year.	Increase 5% year-over-year for all students, dependent upon baseline
Outcome 5	Increase the number of English Learners who reclassify as Reclassified Fluent English Proficient	Percentage of English Learners who are reclassified. Baseline data will be gathered in the opening year.	Increase 5% year-over-year for ESL population, dependent upon baseline

Priority 5: Student Engagement			
Outcome 1	Percentage of students passing all courses.	Percentage of students meeting grade level A-G course requirements.	81% (school-wide)
Outcome 2	Percentage of students graduating in 4 years.	Graduation Rate of students who complete school in four years, not adjusted.	85%
Priority 6: School Environment			
Outcome 1	Increase percentage of staff members who feel supported professionally with professional development.	Staff Survey. Baseline data will be gathered in the opening year.	90%
Outcome 2	Increase percentage of parents who are satisfied with academic program.	Parent Survey. Baseline data will be gathered in the opening year.	90%
Outcome 3	Increase the percentage of students who believe that SEED LA prepares them for college and beyond.	Student Survey. Baseline data will be gathered in the opening year	95%
Outcome 4	Percent of all students who score an overall Developmental Assets Profile (DAP) score of adequate or thriving.	DAP Survey. Baseline data will be gathered in the opening year.	95%
Priority 7: Course Access			
Outcome 1	Percentage of students graduating in four years.	Graduation Rate. Baseline data will be gathered in the 2025-26.	85% (school-wide)
Outcome 2	Percentage of students graduating in five years.	Baseline data will be gathered in 2026-27.	97%
Outcome 3	Percentage of students graduating in six years.	Graduation Rate. Baseline data will be gathered in 2027-28.	100%
Priority 8: Course Access			
Outcome 1	Percent of students who complete the PLP.	Readiness, interest, and learning profile	100%

Appendix B
Board of Directors
SEED LA (the School)

Sarah Ali, Education Consultant*:* Sarah brings a wealth of education experience to the SEED LA board. She is currently an advisor to family foundations on their education-oriented philanthropy. She helped develop the Kayne Scholars program and she administers it for the Ric & Suzanne Kayne Foundation. She was a principal of Antonio Maria Lugo Academy when it was named a Title 1 Academic Achievement School in years 2010, 2011 and 2012 and recognized as CA Distinguished School in 2010. After completing her bachelor's degree from Loyola Marymount University (LMU), Sarah taught third grade at Dolores Mission School in Los Angeles. She moved to a teaching and then administrative position at Accelerated Charter Elementary School. While completing her master's degree in School Administration from LMU, Sarah earned certificates in Charter School Leadership and Special Education Leadership. She also took a position coordinating professional development at Camino Nuevo Charter Academy.

Sophia Echavarria, **Production Assistant, Ripple Effects***:* Sophia is a SEED School of Washington, D.C., graduate who currently works in the education field in Los Angeles. After graduating SEED, she went on to Princeton University, where she earned a bachelor's degree in English in 2009. Currently, she is a writer and production assistant at Ripple Effects, which is a personalized software to address non-academic barriers to school success. The company provides affordable, trauma-informed, culturally responsive, personalized, evidence-based, digital tools for delivery of social-emotional behavioral supports and training for both students and staff. We are thrilled that a SEED graduate will serve on the board of directors.

Rod Hamilton, Real Estate Consultant and Attorney*:* Rod brings significant real estate expertise to the SEED LA board. Prior to joining WRH Advisors, a real estate firm, he was a New School Construction Development Manager with LAUSD from 2000-2010. He was in charge of locating property in the southeastern portion of the district and the San Fernando Valley, to build new schools to relieve decades of overcrowding on campuses. He came to LAUSD after serving as a Vice President for Southern California Development of Catellus Development Corporation. He is an attorney and prior to focus on real estate development was Vice President of Business and Legal Affairs at MCA, Inc. Rod is a long-time board member of the Los Angeles Educational Partnership. He has a bachelor's degree from Princeton University and a JD degree from Harvard Law School.

Jackie Kimbrough, Ph.D., Founding Director of The Children's Collective, Inc.: Dr. Kimbrough is Founding Director of The Children's Collective, Inc., a non-profit organization which has provided comprehensive educational and family support services to children and families in Los Angeles since 1972. Adjacent to the SEED LA site, the Children's Collective serves more than 13,000 children, youth and adults in child development, youth development, family support and health programs. For the past 30 years, she has directed child development and family support programs for low-income African-American and Latino families in South LA. Prior to founding the Children's Collective, Dr. Kimbrough was a research psychologist at the RAND Corporation examining the impact of federal education programs. Jackie Kimbrough has a bachelor's degree in psychology from the University of Texas at Austin and a doctor of philosophy degree in psychology from UCLA.

Jennifer Price-Letscher, Director Programs & Special Projects, **The Ralph M. Parsons Foundation***:* Jennifer joined the Ralph M. Parsons Foundation in 2011 bringing more than 15 years of nonprofit and philanthropic experience, including leadership and capacity-building roles at the Sterling-Dorman and Whitecap foundations and various positions in arts, education, journalism, outdoor leadership and youth development. She holds a Master's degree in positive organizational development and change management from Case Western Reserve, a bachelor's degree from the University of Oregon, and professional certifications in appreciative inquiry, business sustainability, coaching and college counseling. Currently a trustee at the Westside Neighborhood School, Jennifer previously served on the boards of Hill & Dale Family Learning Center and Diavolo Dance Theatre and on the membership committee of Grantmakers for Effective Organizations.

Ruth Stalford, Founder and Executive Director of the Book Foundation*:* Ruth has been the constant, driving force for starting a SEED school in Los Angeles for more than 15 years. She has been a Hollywood producer, led a very successful annual event called *What a Pair!* to raise money for breast cancer research, and most recently Ruth started the Book Foundation to get books into the hands of underserved students. The Book Foundation program under the Make Good umbrella nonprofit organization has grown beyond the founder's expectations. It has given away over 85,000 books and expanded on its holistic vision of literacy to include a shop where transition age foster youth can come shop for clothing and basic necessities free of charge. Ruth brings significant knowledge about the LA County child welfare system and knowledge of philanthropy to address the needs of foster youth, to the SEED LA board of directors.