



## Equitas Academy Charter School

### Minutes

#### Ad Hoc Facility Committee Meeting

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##### **Date and Time**

Friday August 25, 2017 at 1:30 PM

##### **Location**

Call In: 719-394-0060, PIN: 81249. Additional Call in Locations: 1700 W. Pico Blvd., Los Angeles, CA 90015, 3000 Olympic Blvd, Suite 2120, Santa Monica, CA 90404, 3943 Pine Ave, Long Beach, CA 90807, 3169 Glendale Blvd, Los Angeles, CA, 90039, 655 N. Central Ave., Suite 2300, Glendale, CA 91203.

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PUBLIC COMMENT AT EQUITAS ACADEMY 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 pertaining to Equitas Academy. The Board may not take any action on matters discussed during the public testimony period that are not listed on the agenda. Brown Act Compliance: Agenda posted at School

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##### **Committee Members Present**

A. Valentine (remote), B. Snyder (remote), J. Host (remote), O. Bajracharya (remote)

##### **Committee Members Absent**

A. Sowrirajan

##### **Guests Present**

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Frank Gonzalez, Kathy Gonzalez, M. Borrego, Mike Alderdice

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## **I. Opening Items**

### **A. Record Attendance and Guests**

### **B. Call the Meeting to Order**

B. Snyder called a meeting of the Ad Hoc Facility Committee of Equitas Academy Charter School to order on Friday Aug 25, 2017 at 1:30 PM.

## **II. Ad Hoc Facility**

### **A. 1630 Commission Agreement**

Frank Gonzalez briefed the committee on the opportunity:

As Jon stated, there is a two-story property at 1630 W Olympic Boulevard. It's 1/2 a mile north of EQ and just down the street from EQ3 site. Building constructed in 1958, wood framed building. A structure retrofit will be necessary. The building itself is zoned as C4-1 meaning that this charter school facility is by-right. There is no Q position, nor HPOZ overaly on the building. There are over 70 legal parking spots that are zoned R-3 that will required a variance or CUP to change the space to a playground. We walked the building a couple of times, to yield up to 20 classrooms for up to 500 students. Full mechanical/engineering and plumbing required. There is a very wide structural grid, it lends itself very well to a school use. As a former manufacturing facility, there is sufficient electrical.

We have been supporting for a site for over a year and half and believe that this facility meets the needs of the organization. We believe that the project is worth pursuing because it's in the target area. We like the zoning, there is potential development of shared outdoor space for EQ3. Because of its adjacency to EQ3, one of the considerations to secure the site so that another school doesn't move in to create competition. We sent in an LOI to ask for a 30 year lease. We asked for 6 months of free rent.

We asked for 2 5-year options at Equitas' discretion. We asked for additional 30 days on LOI. With that I'll turn it over to Kathy, she has been working with Chris Giordano (broker).

KG: We are feeling confident with the direction of the negotiations. They have been working for us for multiple months, they have brought on-market and off-market properties to us. To date this has been the most promising one. They were able to negotiate commission agreement with the landlord. Typically the way it works on lease

agreements, it is customary for landlord to pay for the broker commission. In this case the landlord has said that they only want to pay for years 1-10. Given that this is 30 years of the lease, the broker is asking for Equitas to pay the next 10 years. The fee would be due once Equitas released all contingencies to the lease. The only way that Equitas would be if the deal would move forward and would close. What we wanted to do was bring to you our thinking about this request. To incentivize the realtors, rather than agreeing to 4% for 10 years, we could counter with 3% for 10 years if you were able to offer 6-months of free rent. This would essentially cover the cost of the fee plus one additional month. As an added incentive, the organization could potentially offer 4% for 1 year of free rent. 4% is approximately \$180K based on \$150 per sf rent. Even at 4% you would still be covered by that free rent. We would be a way to continue to negotiate the landlord and incentivize the real estate agents to really fight hard for the 12-months of free rent.

Brett: I'm confused as to why we need to pay anything. This is the responsibility of the landlord traditionally? Does that mean the broker would not work on the deal? Why would we do anything to relieve the responsibilities?

KG: What we are hearing 4% is on the low range for what's typical for the market (which can range as high as 6%). Because it was something that was pitched to them by Charles Dunn, the landlord has put a firm foot down asking for that amount. That's the amount of compensation that they feel is just to them. Will they walk away and close that deal? Frank and I agreed to hear them out, Equitas has a right to say no. We can go back to the landlord. That's perfectly within your right to do so. We have been pushing these agents to take their properties off the market and bring to Equitas, because they do represent other Charter Schools in the area.

Oliver: If you're able to negotiate the free rent for us, Equitas will ultimately save money? Essentially if we get free rent, if we're saving money at the end of the day, why wouldn't we do it?

KG: The ask was for a full year, that's the exact rent amount that's still being negotiated.

Oliver: Why would the owner give us free rent?

KG: They are interested in the rent commencing because it's money down the road for 30 years.

Aarthi: Do you have a sense for TI that will be required to bring the building up to code?

KG: About \$5.4 million with the retrofit. We have architectural plans but not structural plans.

Oliver: When do you need an answer by?

KG: A counter LOI submitted by the organization, it's at that point we would need to have some kind of agreement around it. Ideally sometime within the next 2 weeks.

The board would need to approve the commission agreement that would be contingent upon an executed lease agreement.

## **B. Capital Impact Partners Loan Commitment Letter**

The board discussed the commitment loan letter as part of the close of the EQ3 NMTC deal.

Concerns were expressed related to the debt ratio coverage covenant. Malka Borrego to reach out to Emilie at CIP to determine if negotiation is possible before board meeting next week.

## **C. EQ3 LLC Sublease**

Michael Alderdice walked through the committee about an outstanding issue of uninsured casualty that is a loan requirement of Capital Impact Partners in the event of an earthquake insurance.

The likely scenario in a non-insured casualty is that buildings will be damaged, and Equitas Academy will be reaching out with other schools to FEMA for support. Any senior leveraged lender would likely take the same position that the building be reconstructed as part of the collateral.

Brett: Would like to explore the cost of the insurance for earthquake.

Oliver: If this position is not typical, is there any room for pushback?

- The senior leveraged lender wants to know how they can be repaid
- Their collateral is that building, that's what they're looking for
- The pushback so far is giving us sufficient time to put our financing in place
- What do you recommend for timeframe for payback, we're going to ask for as long as possible. The owner/ground lessor will need to cede the ground lease, and that will need to come down to rent interruption insurance.

We need to explore the cost of rental interruption insurance --> Jon to do so

Michael Alderdice - to negotiate with Community Impact Partners around timing of repayment/reconstruction if this should ever come to pass.

Frank Gonzalez -- I've never seen this provision before. Going to state or federal government for reconstruction funds, I would ask for 60 months to rebuild it to see what

programs might be offered to rebuild. Would it be possible to work with the owner to put in an agreement to pause rent on the master lease in this event?

Ultimately we are on the same grounds lease, and we have to agree with the terms of the ground lease.

### **III. Closing Items**

#### **A. Adjourn Meeting**

There being no further business to be transacted, and upon motion duly made, seconded and approved, the meeting was adjourned at 2:30 PM.

Respectfully Submitted,  
B. Snyder