



April 24, 2020

Navigator Schools
650 San Benito St., Ste 230
Hollister CA 95023
Attn: Kevin Sved, CEO

Re: Financing Proposal for Watsonville Campus

Dear Kevin,

ExED FACILITIES XVIII LLC, a limited liability company organized under the laws of Delaware with its principal offices at 11858 LaGrange Avenue, 2nd Floor, Los Angeles, California 90025 (ExED CDE or Lender) proposes to make a loan (Loan) to the borrower named below, subject to the terms and conditions of this Proposal Letter, including the Financial Summary, Attachment 1.

1. Borrower and Tenants. Borrower shall be a limited liability special purpose entity. Borrower's sole member (Holding Corp) will be a separate California not-for-profit, tax-exempt corporation. Holding Corp's primary purpose should be to support Navigator Schools, a California not-for-profit corporation (Navigator), and none of Holding Corp's officers or directors may be compensated. In this Proposal Letter Tenant shall mean Navigator, and School shall mean Navigator Watsonville, a K-8 school operated by Navigator as an unincorporated division, under a charter issued by the California State Board of Education (Authorizer). Borrower and Navigator will provide approximately \$800,000 of total required capital, as an equity contribution to Borrower as shown in the Financial Summary, plus an additional direct loan as described below.
2. ExED CDE; CDE Capitalization. Excellent Education Development, a California nonprofit corporation (ExED) established the ExED CDE as a "Community Development Entity" certified by CDFI Fund, US Treasury, to receive a \$6MM Qualified Equity Investment (QEI). In 2017 this QEI was received and deployed to make a "Qualified Low Income Community Investment" (QLICI) pursuant to New Markets Tax Credit (NMTC) rules, funding a QLICI loan for a project in San Diego (Prior Loan). On November 26, 2019 the borrower repaid the Prior Loan; the ExED CDE must reinvest these proceeds in another qualifying QLICI not later than November 25, 2020 (the Outside Closing Date). The ExED CDE proposes to fund the Loan to Borrower on the terms of this Proposal Letter, provided that such loan can be structured as a QLICI in compliance with NMTC rules and close not later than the Outside Closing Date. Some terms of the proposed Loan to Borrower are fixed by the 2017 QEI and the Prior Loan, as set forth below.

The ExED CDE is 99.99% owned by an upper tier investment fund (IF) formed and controlled by Chase Community Equity, an affiliate of JP Morgan Chase Bank, N.A (Chase). In addition, in 2017 the IF obtained a loan (Senior Loan) from the Low Income Investment Fund (LIIF). Consents from both Chase and LIIF will be required for Lender to close, as set forth below.

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3. Sources & Uses; Other Loans. The Financial Summary sets forth estimated sources and uses as of the date hereof. The total Loan will be divided into two promissory notes (Note A and Note B) as shown in the Financial Summary. In addition to the Loan described herein, (i) Pacific Charter School Development (PCSD) and the Charter School Growth Fund (CSFG), have expressed willingness to make loans to Navigator (collectively, Support Loans) to facilitate the Project (defined below), and (ii) Navigator will use the proceeds of the Support Loans and its own resources, as needed, to fund a Direct Loan to Borrower shown in the Financial Summary. The Support Loans and Direct Loan must close at the same time as the Loan, and the terms of such loans are subject to approval by the ExED CDE, Chase and LIIF.
4. Loan Closing. In this Proposal Letter the Closing shall mean the date on which all conditions to funding the Loan have been met, and the ExED CDE funds its Loan to the Borrower.

The Senior Loan, obtained in 2017, requires debt service of approximately \$20,000 per month commencing as of April 1, 2020, when Lender's allowance for this cost will be depleted. Upon acceptance of this Proposal Letter Borrower shall pay nonrefundable fees (Commitment Fees) to Lender as follows:

- (a) \$40,000 is due on acceptance.
- (b) \$20,000 is due on the first day of each month, commencing June 1 and ending at Closing.

PCSD has informed us that the Project requires certain discretionary entitlements from the City of Watsonville (Watsonville), including appropriate clearances under CEQA (collectively, the Project Entitlements). Lender will have the right to terminate this Proposal Letter under any of the following conditions:

- (w) At any time if the Project receives an adverse ruling or determination by Watsonville, pertaining to the Project Entitlements or otherwise, and Lender reasonably concludes that the Project is unlikely to Close prior to the Outside Closing Date;
- (x) If Borrower is unable to obtain favorable determination from Watsonville regarding the Project Entitlements on or prior to September 11, 2020;
- (y) If Borrower, Lender and Master Lessor fail to agree on material terms required to close as outlined herein, or if for any reason Lender reasonably concludes that the Project is unlikely to Close prior to the Outside Closing Date, or
- (z) without cause, provided that Lender refunds any payments made by Borrower pursuant to this paragraph 5 at the time of such termination.

Payments made by Borrower to Lender pursuant to this Paragraph 5 are nonrefundable to Borrower, except only in the event of termination by Lender without cause as provided above.

5. Term. The term of the Loan shall commence on the date the Closing occurs. Lender presently estimates that:
 - (a) Note A will mature August 25, 2024, seven years after the closing of the Prior Loan (Maturity Date).
 - (b) Note B (funded indirectly through net NMTC tax credit proceeds) is expected to be interest only through the Maturity Date, and then amortizing for the next 23 years (for a total term of 30 years from the closing of the Prior Loan). At the Maturity Date,

Lender will subordinate Note B to a new loan to be obtained by Borrower from a third party to refinance the Note A and the Direct Loan.

The amortization and term of each Note will be determined in consultation with counsel during underwriting, and may be changed by Lender prior to Closing. The Loan is subject to earlier acceleration following an event of default, all in accordance with terms of the final loan documents (Loan Documents).

6. Interest Rate. Each Note shall bear interest at a rate of interest to be determined during underwriting (Interest Rate). The estimated rate set forth in the Financial Summary is subject to change.

ExED CDE's cost of funds will include the IF's regular interest payments to LIIF for the Senior Loan, approximately \$20,000 per month at 5.75%. In addition, the interest rate will include the following:

- (a) Annual servicing fees to ExED for its administrative and compliance services, estimated at \$6000 per year (10 bps on the QEI);
 - (b) Annual servicing fees to NMSC or another service provider for funds management and servicing, presently estimated at \$14,250 per year (25 bps on the Loan); and
 - (c) The annual costs of LA City business taxes and audits of the ExED CDE.
7. Loan Purpose; Additional Loans. Hansen Family Trust, as Master Lessor, owns commercial property at 407 Main St., Watsonville CA, APN 017-641-12 (Property). The Property is located in Census Tract 06087110300, which appears to qualify as "severely distressed" under applicable NMTC rules. Confirmation that the Property and Premises (defined below) are located in a severely distressed census tract in form acceptable to Lender and its counsel is a condition to the Closing of the Loan.

Master Lessor and Navigator are negotiating a long term lease (Master Lease). The leased premises (Premises) consist of approximately 37,750 sq. ft on the second floor of the building at the Property, and 3,000 sq. ft of enclosed play space on the first floor of the building. Approval of the Master Lease by Lender, Chase and LIIF is also a condition to closing of the Loan. Without limiting the foregoing, Lender requires (i) rights to cure Master Lease defaults that are separate from the tenant's right to cure, so as to make the Master Lease "financeable," in form acceptable to Lender and its counsel, and (ii) a nondisturbance agreement from any lender holding a lien on the Property (NDA). Public records show that Master Lessor has obtained an \$11.4MM loan from Santa Cruz County Bank. Borrower should confirm as soon as possible that this NDA can be obtained from the Master Lessor's lender.

The Loan and Direct Loan proceeds shall be used solely to finance (i) negotiation of the Master Lease, (ii) approximately \$8 MM of tenant improvements and renovations to the Premises, as shown in the Financial Summary (Renovations), and (iii) related soft and transaction costs. Navigator has engaged Artik Art & Architecture as architect and is now seeking permits for proposed Renovations (the Master Lease and the Property Renovations are referred to as the Project). Borrower has engaged PCSD for certain development and construction oversight services. PCSD is now assessing potential contractors for the Project. Borrower's general contractor must be approved by Lender, Chase and LIIF.

8. Loan Loss Reserve & Fees. The ExED CDE has deposited \$180,000 (3% of the QEI) into a Loan Loss Reserve (ExED CDE LLR). This sum is funded from QEI capital invested in the ExED CDE, and is not paid by Borrower or funded from QLICI Loan proceeds. Upon default

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by Borrower the ExED CDE may advance sums from the ExED CDE LLR to protect the Project, to pay sums due to the Master Lessor pursuant to the Master Lease, or to cover other costs incurred as a result of Borrower default. Any such disbursements shall be treated as protective advances by Lender under the loan documents, and shall be due from Borrower to Lender on demand.

For services provided in connection with this transaction, at the end of the NMTC compliance period if the Borrower meets its obligations and LIIF Senior Loan has been paid, ExED will receive a fee (Success Fee). ExED's Success Fee is 3% of the QEI plus 90% of cash remaining at the ExED CDE on the Maturity Date. These sums are funded out of the ExED CDE LLR and the Loan payments to be made by the Borrower through the life of the credit.

Separately the ExED CDE will incur annual asset management, audit, tax return, and other related costs. These costs are included in the interest rate for the Loan, as described above and in the Financial Summary.

At Closing the ExED Lender will charge fees (Administration Fees) as follows:

- (a) LIIF will assess a Loan Modification Fee for amendments to the Senior Loan which the Lender will pass through to the Borrower at Closing. The Loan Modification Fee is estimated to be 1% of the Senior Loan, or approximately \$40,000.
 - (b) The interest rate is set to cover annual expenses, but since the Loan will close more than halfway into the year, first year expenses will exceed what can be collected through interest. Also as noted above Commitment Fees due from Borrower are intended to cover the cost of carrying the Senior Loan. When the Loan closes Lender will reconcile costs and assess a one time fee to cover projected year one shortfalls. The need for and amount of this fee will be determined during underwriting.
9. Prepayment. The Loan may not be prepaid at any time, in whole or in part. Based on past experience we do not expect prepayment restrictions for the Senior Loan. It may be feasible to refinance the Senior Loan using tax exempt bond proceeds during the compliance period, if the bond investors are willing to accept Chase's restrictions.
10. Collateral. The Loan shall be secured by a perfected first lien on and with respect to:
- (a) The Borrower's leasehold estate in the Property and the Project improvements now or hereafter located thereon.
 - (b) All leases, rents, revenues, issues and profits relating to and derived from the Property, including the Lease to the School described below.
 - (c) All tangible and intangible personal property of the Borrower, and all of the Borrower's accounts receivable, inventory, furniture, fixtures, equipment and machinery, whether now owned or hereafter acquired.
 - (d) All cash and non-cash proceeds, increases, substitutions, replacements, additions and/or accessions of any type, to or for any of the foregoing.

Loan proceeds will be fully disbursed to Borrower at Closing. The portion of Loan Proceeds to be used to fund construction and related costs, as reasonably determined by Lender, shall be held in a controlled account in Borrower's name, at a financial institution to be determined by mutual agreement of Borrower and Lender. Disbursements from this account

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will require approvals from Lender as construction progresses, as well as lender inspections in accordance with industry standard construction loan disbursement practices.

In addition, Lender requires intercreditor subordination agreements in form and substance acceptable to Lender, LIIF and Chase (Subordination Agreements), with each of Master Lessor, PCSD, CSFG and Navigator, pursuant to which each party will acknowledge that Navigator's regular and timely payment on the Loan shall come first, and payments on the Master Lease, each Support Loan and any CMO or management fee to Navigator shall be subordinate.

11. School; Charter Agreement.

- (a) Project construction is projected to be concluded by August 2021. We understand that you now project to open in FY 2021-22 with 300 students. The Project Budget includes allowances to cover Ground Rent and related costs through August 1, 2021. On August 1, 2021, it is assumed that the Sublease from Borrower, as landlord, to Navigator (for School) as tenant, will be in effect. At this time there is no "ramp up reserve" to cover the cost of empty seats.
- (b) Authorizer has issued a charter contract (Charter) to Navigator for School. Subject to the terms and conditions of such Charter, Navigator is authorized to organize and operate School. So long as any amounts shall remain outstanding under any Loan Document, Navigator shall: (a) keep and maintain the applicable Charter in full force and effect; (b) apply for and obtain a charter renewal prior to the expiration of the current charter, and (c) operate the School in full compliance with the Charter and the statutes and regulations which apply to charter schools in the State of California, including, without limitation, the provisions of The California Charter Schools Act of 1992 and any regulations promulgated there under (and any predecessor statute, the Charter School Act). Borrower and Navigator acknowledge and agree that it shall be an event of default under the Loan Documents if the Charter is revoked or terminated or the charter school is placed on probationary status.

12. Guarantee. Navigator may be required to guarantee all or some portion of the financing described herein. This decision will be made during underwriting.

13. Borrower and Tenant Reporting Requirements. Each of Borrower, Tenant, and Holding Corp shall at all times during the Loan term provide to the Lender, or cause to be provided to the Lender, in a form acceptable to the Lender, regular and customary financial statements (Financial Statements), as shall be set forth in the Loan Documents.

Each of Borrower, Tenant, and Holding Corp shall also deliver to the Lender such other financial information with respect to the Premises and its business operations as the Lender may reasonably request from time to time. All reports, statements and other information required to be submitted by Borrower, Tenant, and Holding Corp shall be in form and content satisfactory to the Lender in all respects, and all financial reports, statements and information shall be prepared in accordance with generally accepted accounting principles, as applied to charter school accounting.

14. Lease.

- (a) The Borrower will lease the Premises to the Tenant, and Tenant will operate School. Among other things, the Lease will provide annual NNN rental payments in an amount sufficient to pay rent due to the Master Lessor pursuant to the Master Lease, and to meet the Borrower's debt service requirements under the Loan and Direct Loan,

commencing at Closing. The terms and conditions of the Lease shall be acceptable to the Lender in all respects.

- (b) The Borrower acknowledges and agrees that it shall be an event of default under the Loan Documents if there is a default under the Lease or the Master Lease.
 - (c) The Lease will include a covenant by Tenant to manage its financial affairs by (i) hiring a financial manager/consultant with the expertise needed to provide these services, or (ii) hiring internal staff with expertise needed to provide these services.
 - (d) The Borrower shall at all times during the Loan term cause the Tenant to operate the School in accordance with the Lease. Tenant shall consent to the Borrower's deed of trust and execute and deliver any and all documents required in connection with the foregoing as may be required by the Lender, including, without limitation, the Lender's standard form of subordination, non-disturbance and attornment agreement, pursuant to which the Lease and the Tenant's rights thereunder shall be subject and subordinate to the deed of trust granted by the Borrower to encumber the Premises. From and after the Closing, the Borrower shall keep the Lease in full force and effect, and the Borrower shall not amend, modify, terminate or cancel the Lease without first obtaining the prior written consent of the Lender.
15. Financial Covenants of the Borrower and Tenant. From and after the Closing, the Borrower and Tenant shall comply with the financial covenants to be determined during underwriting in consultation with LIIF.
16. Other Covenants, Representations and Warranties. The Loan Documents shall contain such covenants, representations and warranties as the Lender deems appropriate and includes in credit facilities similar to the Loan, including, without limitation, the following:
- (a) The Borrower, the School and the Lender shall enter into a Community Benefits Agreement (CBE). In the CBE the Borrower and the Tenant will commit to (i) causing School to employ not less than 50 FTE employees, all of whom shall make not less than California minimum wage or City of Watsonville Living Wage, whichever is greater (after an initial ramp up period); (ii) enroll and retain not less than 540 students (after an initial ramp up period), (iii) provide opportunities to residents of the Low-income Community such as skills training, or Low-Income Persons employed by the School, such as instructional training, that will impart skills and knowledge to such persons and enhance their employability and earning potential; (iv) track and report on Tenant's use of minority owned vendors for services or supplies, (v) track and report on the diversity of students, staff and board members at Tenant and school, and (vi) report to the ExED CDE not less than once per year on the foregoing efforts. The ExED CDE reserves the right to add reasonable additional requirements to the CBE based on metrics used in the 2017 NMTC application round.
 - (b) The Borrower shall notify the Lender in writing of any change in the composition of its board of directors/trustees and senior management within ten (10) days of obtaining knowledge of such change. For the purposes hereof, the term "senior management" shall include the positions of principal and assistant principal at School, and executive director and business manager for Tenant.

- (c) Without the prior written consent of the Lender, the Borrower shall not make any further assignment, pledge or disposition of any collateral securing the Loan, or do or permit anything to impair the security or value of such collateral.
 - (d) Without the prior written consent of the Lender, the Borrower shall not suffer or permit any sale, assignment or other change or transfer of legal or equitable control of the Borrower or Holding Corp, or suffer or permit the issuance, sale, merger, consolidation, transfer, pledge, assignment or disposition of any ownership interest of the Borrower or Holding Corp.
 - (e) Without the prior written consent of the Lender, the Borrower shall not: (i) create, incur, assume or suffer to exist any indebtedness, or in any manner become liable directly or indirectly with respect to any indebtedness, except for amounts owing to Lender and trade debt incurred in the ordinary course of business; (ii) enter into any commitments for money to be borrowed; or (iii) guarantee or become obligated to pay the obligations of any other person, whether direct or indirect.
 - (f) Without the prior written consent of Lender, the Borrower shall not enter into, amend, modify and/or extend the Lease, the Master Lease, or any capital lease.
 - (g) Without the prior written consent of the Lender, the Borrower shall not declare any dividends, or pay any fees, expenses or other sums, or make any distribution in cash or assets, to any Affiliate, have any employees, or make any loans, salary advances or other payments to any person employed by Tenant or affiliated with School or Tenant.
17. Conditions Precedent to Closing. The closing of the Loan and disbursement of Loan proceeds is subject to the Borrower and/or Tenant's satisfaction on or before the Closing of the conditions set forth in this Proposal Letter and in the Loan Documents. All documents, information and due diligence materials furnished to Lender in connection with the Loan shall be acceptable to Lender in all respects. In addition, the Closing of the Loan is subject to (i) Lender's receipt of final underwriting approval from LIIF and Chase, (ii) funding of the Direct Loan and the CSFG Loan, (iii) Borrower's and Sponsor's funding of equity as described herein, and (iv) final building permits, and any other conditions necessary for Contractor to commence construction of the Project.
18. Loan Documents. The Borrower agrees to execute and deliver all documents required by the Lender in connection with the Closing of the Loan, including but not limited to, a loan and security agreement, promissory notes, a leasehold deed of trust, an assignment of leases and rents, an indemnity agreement regarding hazardous materials and handicapped access, financing statements and such other documents, instruments and assurances as the Lender may request. Such documentation shall reflect the material terms and conditions of the Loan set forth in this Proposal Letter and contain such other terms, conditions, covenants, agreements and representations and warranties as the Lender deems appropriate or otherwise includes in loans of this nature.
19. Expiration. This Proposal Letter may be terminated by Lender as set forth in Paragraph 5. In such event the Lender shall have no further obligation or liability to the Borrower hereunder or otherwise.
20. Standard Terms and Conditions. This proposal is subject to the Borrower continuing to maintain a satisfactory financial condition, as determined solely by the Lender, and the Lender may terminate its discussions with Borrower, in the event that: (a) the Lender, in its sole discretion, determines that a material adverse change has occurred in the Borrower's

or Tenant's financial condition, or in the condition or value of the Property or Project; (b) the Borrower or Tenant fails or refuses to comply in a timely manner with any of the terms, provisions or conditions of this Proposal Letter; or (c) any of the information, data, representations, exhibits or other materials submitted to the Lender in connection with the Loan shall contain any inaccuracy or misrepresentation that the Lender, in its sole discretion, determines to be material.

21. Expenses.

- (a) LIIF may request an expense deposit, a portion of which is nonrefundable, for its costs and expenses pertaining to the Loan. To the extent that you have previously sent these deposits no further deposit is due upon acceptance of this Proposal Letter, but ExED reserves the right to require additional deposit(s), in amount(s) to be determined, prior to closing, in its sole discretion. If so requested a deposit will be applied to third-party expenses incurred by ExED in closing this transaction, and any unused funds will be refundable to the Borrower or credited towards expenses at closing.
- (b) The transaction described in this Proposal Letter requires specialized legal counsel and accounting services. By its acceptance of this Proposal Letter Navigator agrees to pay (or reimburse ExED for) all costs incurred by ExED, LIIF or Chase in connection with the transaction described herein, whether or not ExED requests a deposit, or the transaction ultimately closes. Project Costs include projected fees to counsel for LIIF, ExED, Chase, and Borrower, as well as accounting and modeling services by Novogradac. Navigator acknowledges that the fee estimates in the Financial Summary are subject to change depending on the complexity of the transaction and the negotiations led by the Borrower.

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Please sign this Proposal Letter to acknowledge your acceptance of the foregoing terms and conditions, and return it to the undersigned on or before May 1, 2020. Thank you for your interest in our NMTC loan program.

Sincerely,

ExED Facilities XVIII LLC

By: L.A. Charter School New Markets CDE,
LLC, a Delaware limited liability company, Its
Manager

By: Excellent Education Development, a California
not-for-profit corporation, its Sole Member

By: _____
Anita Landecker
President & CEO

Accepted and agreed:

Navigator Schools

By: _____
Kevin Sved
CEO

Date: _____, 2020

Attachment: Financial Summary

Project: **Navigator Watsonville**
 Total Seats: **540**
 QALICB/Borrower: **Navigator LLC TBD**
 Initial Tenant: **Navigator Schools**
 School: **Watsonville Preparatory Academy**
 ExED CDE: **ExED Facilities XVIII LLC**
 Investor: **JP Morgan Chase**
 Lev Lender: **LIIF**
NMTC Compliance period Ends 8/24/24

SOURCES & USES

Lev Loan (LIIF)	3,992,424	QEI	6,000,000
NMTC Equity (Chase)	1,887,576	Fee paid to ExED in 2017	(120,000)
Managing Member Contribution (0.01%)	100	Add'l Reserve - MM contribution	100

Total Sources	\$ 5,880,100	Total Uses	\$ 5,880,100
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IF funding 2020	5,880,100	CDE Loan Loss Reserve	3.00%	180,000
		QLICI Loan A		3,992,424
		QLICI Loan B		1,707,576
		Operating Reserve - MM contribution		100

Total Sources	\$ 5,880,100	Total Uses	\$ 5,880,100
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QLICI Note A	3,992,424	lease related costs	40,000
QLICI Note B	1,707,576	construction	8,046,000
		HC contingency	327,375
		soft costs	429,125
		soft cost contingency	39,500
		Financing Costs	196,000
		Lender Fees	80,000
		Capitalized interest	142,000
Sponsor Equity	% of Project Costs 8.6%		
	800,000		

Total Sources	\$ 9,300,000	Total Uses	\$ 9,300,000
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Estimated Annual Cost

Debt Service	Annual Pmt	Rate	Amortization	Term - Years	Repayment
A Note	185,483	4.65%	no	4.40	Yes
B Note	79,332	4.65%	after compliance	30	Put - \$1,000
Payments for NMTC Loan	264,814				
Direct Loan	155,000	2.75%	interest-only blended rate		

Total Costs including rent	Annual Pmt	Per seat
ground rent FY 2020-21	-	0
QLICI Debt Service	264,814	490
Direct Loan	155,000	287
Other Borrower costs (E&O, accounting)	5,000	9
INITIAL	\$424,815	\$787
SEATS IN THIS YEAR	240	\$1,770

Direct loan detail	
Navigator loan	2,800,000
amortization	25 years
rate	2.75%

Estimated QLICI Interest		
LIIF debt service	229,564	
Asset mgmt fee	6,000	0.11%
servicing	14,250	0.25%
CDE Expenses	15,000	
total	264,814	
estimated rate	4.65%	

5-year during ramp up and lease concession in early years

	2021-22		2022-23		2023-24		2024-25	
	Total	Per seat	Total	Per seat	Total	Per seat	Total	Per seat
Ground Rent	80,000	\$148	180,000	\$333	260,000	\$481	320,000	\$593
QLICI Debt Service	264,814	490	264,814	490	264,814	490	264,814	490
PCSD Debt Service	155,000	287	155,000	287	155,000	287	155,000	287
Other QALICB costs (E&O, accou	5,000	9	5,000	9	5,000	9	5,000	9
AT CAPACITY	504,815	\$935	604,815	\$1,120	684,815	\$1,268	744,815	\$1,379
SEATS IN THIS YEAR	300	\$1,683	360	\$1,680	420	\$1,631	540	\$1,379