

Testimony Presented by  
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**The Maple Street School**  
Brooklyn, New York



**Before the U.S. House of Representatives  
Committee on Banking and Financial Services  
Subcommittee on Capital Markets,  
Securities & GSEs  
Field Hearing, City Hall, New York City  
October 8, 1999**

To Congresswoman Maloney and other guests of the hearing:

My name is Kendall Christiansen; I am Chairperson of the Maple Street School, a nonprofit parent cooperative pre-school founded 23 years ago in Brooklyn's Lefferts Manor neighborhood. I am pleased to describe the School's recent experience in developing and financing a major relocation and expansion project, and to otherwise offer the benefit of my experience with respect to the Kiddie Mac proposal, which I believe would be very useful to spur the development of community-based day-care and pre-school facilities like ours.

By way of introduction, I also should note that I previously ran a loan guarantee program while serving as Special Projects Officer for The New York Community Trust, and so have relevant experience in understanding the respective financing needs of nonprofits and those of conventional and alternative lenders. Through that Loan Guarantee Program, I arranged guarantees of up to \$50,000 for nearly 30 nonprofit-sponsored projects, totaling more than \$1 million in financing.

One other note of relevance to this discussion: I am President of the New York Congregational Nursing Center, a 90-year-old nonprofit nursing home in Brooklyn. In that capacity, I oversaw the development, financing, construction and start-up of a 200-bed, \$23 million facility that opened two years ago. As indicated in some of the

background material for this hearing, the Kiddy Mac proposal is not unlike the federal guarantees offered for the development and operation of facilities for the frail elderly. In our case, because we are a nonprofit, HUD issued a guarantee for 95% of the Congregational Nursing Center's development cost, which enabled the State to sell tax-exempt bonds to finance the Center's construction.

Now, to describe the Maple Street School's project, and how a loan guarantee would have been helpful in hastening the project's development.

Although much about this project is unique and extraordinary, key lessons can still be learned from our experience.

The Maple Street School's new home will be in a commercial space controlled by the MTA at the Prospect Park Station in Brooklyn. As such, the School will be the first child-care related tenant in a subway station complex in the city. In our case, the School and Station are literally next door to Prospect Park, and several other cultural amenities like the Brooklyn Botanic Garden and the Prospect Park Zoo. Not only will our school be extraordinarily convenient for families in our neighborhood and along the subway line, but the site offers wonderful educational opportunities for our children just outside of our front door.

This project, which is now under construction, took two years of a aggressive hard work to develop, from our initial proposal to the MTA to the signing of the lease and closing on the project's financing. The project involves the total renovation and expansion of approximately 2800 square feet of abandoned commercial space into a School that can serve up to 40 children at a time with a full-day, year-round program. The total cost of the project is estimated to be \$600,000, of which \$500,000 is for construction-related costs.

What is unusual about our project's financing is this: unlike a conventional commercial tenant, the MTA is not investing a single penny in the site's renovation and development. That means the School had to raise – in grants and loans – the \$600,000 needed to begin demolition and construction. In fact, we did: grant commitments to the project total \$400,000; and the School's permanent debt will be approximately \$200,000.

This arrangement, which was tremendously complicated to work out – it involves at least eight sources of grants, and two sources of loans – works for this project because our rent deal with the MTA is extraordinary. The School will pay on average over 15years approximately \$1 per square foot for rent, while commercial space nearby goes for \$15 per square foot. However, the School's debt repayment cost will be approximately \$8 per square foot, which is entirely affordable as an operating expense.

However, finding a lender willing to deal with the School, under ordinary circumstances, would have been impossible. First, even a pre-school with a relatively stable 22-year history of middle-class parent "ownership" would have scared away most lenders – with an annual budget of perhaps \$125,000, taking on a loan of \$200,000 or more would

have been seen as too risky. Second, most lenders would only consider a five-year loan term, while the School needed a loan that would parallel its 15-year lease term.

Third, the School needed some flexibility in loan terms that would support its expansion into the new space, and "bridge" some of the grants committed to the project that would not arrive until later in the project. And, fourth, most lenders would have balked at such a loan for wholesale renovation of a space without either ownership of the space, or a conventional landlord that would agree to secure the lender's investment, should the School fail. In our special case, the MTA did agree to several extraordinary lease provisions designed to protect the School's investment in the space, but they probably would not have been sufficient to satisfy a conventional lender.

So, in our case, we were very fortunate to find a sympathetic alternative lender already committed to supporting the expansion of child-care facilities, and to find a supplemental lender with the same interest. Our primary lender is the Nonprofit Facilities Fund, based in New York, which together with Child Care Inc. operates a technical assistance and financing program called ECCO – Expanding Child Care Opportunities. Our supplemental lender is the National Cooperative Bank, through its community development arm. Both were experienced lenders willing to work closely and flexibly with us to custom-design a loan package that enabled this project to go forward.

Needless to say, given the uniqueness of our project, a loan guarantee would have been a welcome part of the package so as to have enabled this project to have proceeded on a faster timetable, or to have rescued it at critical points when the project ran into roadblocks.

Clearly, the same is true of my experience with development of the New York Congregational Nursing Center. In fact, we have a space in our old building that would make for a perfect day care facility that we are discussing how best to finance its renovation.

Now, my experience as manager of a loan guarantee program through which I worked closely with more than a dozen lenders of various types, reminds that loan guarantees by themselves are not a simple solution: no respectable lender will make a loan just because a guarantee is offered. No respectable lender wants to make a loan that more likely than not will fail, because of the costs and hassle involved in foreclosure, especially when a nonprofit is involved. I in fact looked closely at several loans for day care facilities in the mid-80's, and was not able to participate in any of them.

In other words, a guarantee doesn't make a "bad" loan good; it simply helps make a plausible loan "better."

The totality of my experience with projects such as these, and the variety of financing tools available to them, is that good projects are very difficult to develop. They take an enormous amount of effort, of creativity, of persistence, of experience, and of good will to be successful. In the case of the Maple Street School, I was blessed with all of those

attributes, including substantial personal experience and relationships to bring to the table. In most cases, however, even supportive lenders are faced with substantial challenges in taking plausible projects through the development process to successful financing.

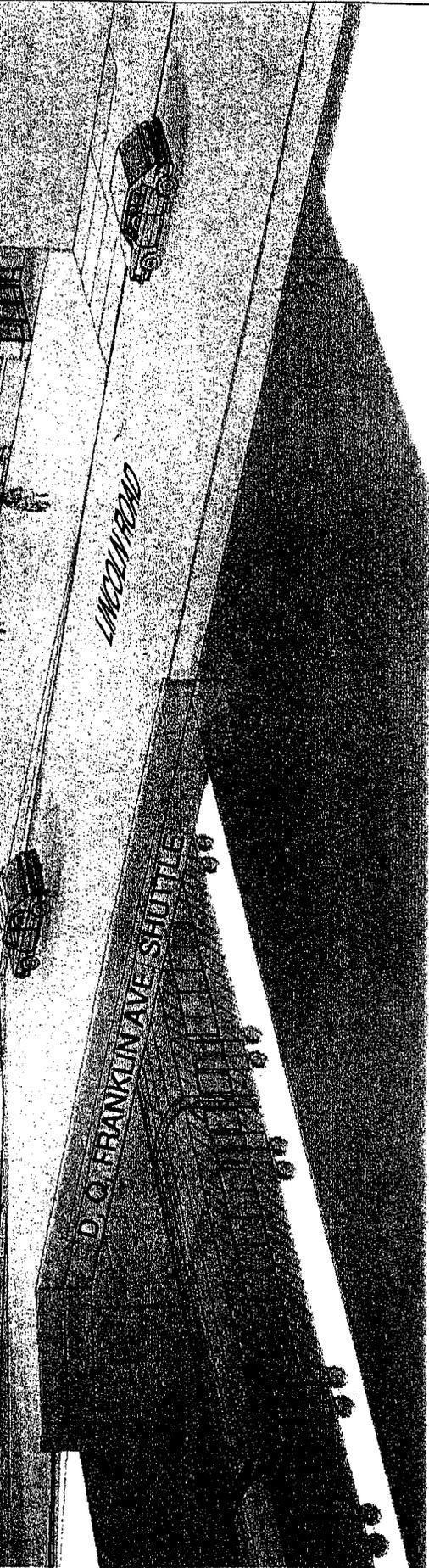
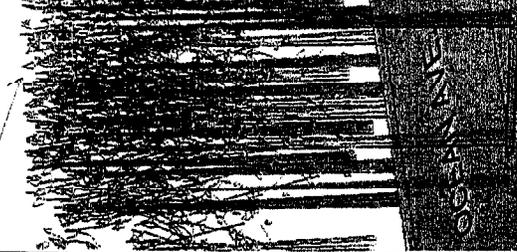
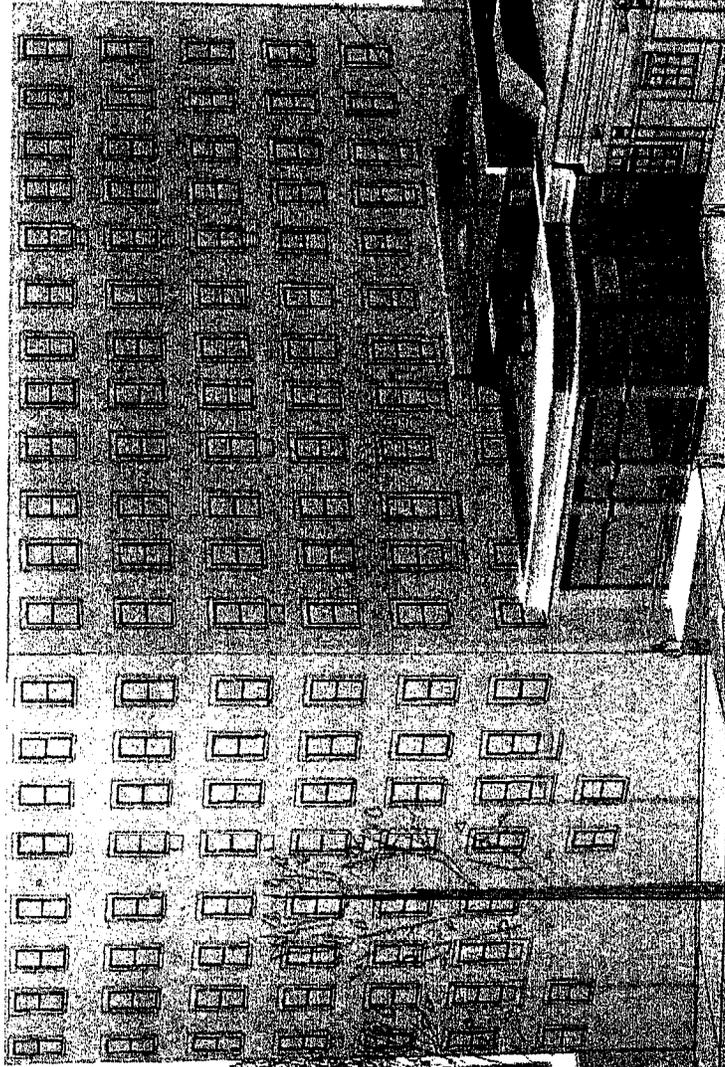
In other words, there is, from my perspective, lots of "good money" chasing just a few "good" projects. But the availability of a guarantee might help push more borderline projects into the "good" category so as to make them viable to financing and pursue.

As much as I would like to comment on the particulars of the Kiddie Mac proposal, I will close my testimony with the hope that these comments have been helpful for your consideration. I am glad to answer any questions you may have about the Maple Street School's project, or any other aspect of my testimony. I also would be glad to participate in further discussions about the particular aspects of the Kiddie Mac proposal so as to make it as effective and viable as possible.

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# The New York Times

## The City

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P R O S P E C T L E F F E R T S G A R D E N S



### Drop the Kids at the Subway Station, and Go to Work

A nursery school in Prospect Lefferts Gardens that has introduced neighbors to one another for 22 years has found a new home inside, of all places, a subway station storefront.

The Maple Street School is planning a move next winter from 1039 Nostrand Avenue to 18-21 Lincoln Road, an above ground space attached to the Prospect Park subway station, which serves the D and Q lines and the Franklin Avenue shuttle. Officials with the school say the new location, just steps away from the park, is perfect for parents who drop children off before commuting to work.

The school, which is run as a cooperative, was founded by a group of parents on Maple Street who held classes in their homes. The involvement it demands of parents has made the school a neighborhood institution, said Simone Leigh, whose 3-year-old daughter goes there. "It really holds the neighborhood together," said Ms. Leigh, a ceramist who will make decorative tiles for the renovation. "It is a way for people to get to know each other."

The neighborhood has been growing in popularity among young families who have been priced out of



Pratt Planning and Architectural Collaborative

The Maple Street School's new location, attached to the Prospect Park subway station, might be considered an unlikely one.

Park Slope, residents say. The move will allow the 23-seat school to meet some of the demand by expanding to 40 seats.

The \$600,000 renovation is being financed by loans and grants from

greenhouse and photovoltaic panels to generate electricity.

A consultant, Ecosmart Healthy Properties, has been hired to make sure the interiors are built with materials safe for young children, said Kendall Christiansen, chairman of the school's board of trustees.

The Maple Street School, the only qualified bidder for the site, will at first pay only \$100 a month in rent to the Metropolitan Transportation Authority because of the extensive renovations. Although child care advocates said they had explored using other M.T.A. spaces for nursery schools, there are few other subway properties that would be appropriate, said Bean Everett, an official with the authority's real estate division.

Nancy Kolben, the executive director of Child Care Inc., noting the growth in demand for preschool classes, said she hoped the Maple Street project would inspire other day care centers and public officials to think broadly about new locations.

"We need so much space," she said, "we have to move from the traditional to the nontraditional."

JULIAN E. BARNES