QUALITY OF PROJECT DESIGN AND SIGNIFICANCE

About the Capital Access Program (CAP)

Real Estate Advisory and Development Services, Inc. (READS), in conjunction with Nonprofit Finance Fund (NFF) and Boston Community Loan Fund (BCLF) as the Members of the Consortium respectfully requests consideration of an $8M credit enhancement grant (the Grant) to assist charter schools in meeting their facility financing needs. The *Capital Access Program* (the Program), a unique partnership of a nonprofit real estate development organization and two of the country's leading community development financial institutions (CDFIs), will provide a comprehensive set of products, services and expertise to: a) provide charter schools with concrete and practical real estate development expertise and technical assistance; b) create additional development structures for charter school facilities (e.g. READS develops a project on behalf of a charter school as would a charter management organization; and c) connect charter schools with capital from the Nonprofit Finance Fund and Boston Community Loan Fund as well as other new and flexible sources of capital to finance charter school facilities particularly in communities of high need.

Grant proceeds will be used to credit enhance charter school projects particularly in cities where the Consortium Members have a market presence and the resources to build a strong pipeline of charter school borrowers (current pipeline of 30 charter schools in need of facility financing is detailed in *Appendix A*). The combined geographic footprint (*Appendix B*) includes the Northeast and Mid-Atlantic regions from New England to Washington DC. Consortium Members currently serve these markets with offices in cities including: Boston, MA; New York, NY; Newark, NJ; Trenton, NJ; Philadelphia, PA; and Washington D.C. NFF and BCLF have a five year track record of lending to charter schools and a combined total of $80M in loans and $30M in New Market Tax Credits deployed to this sector. Since its inception in in 2003, READS has completed the development of twelve (12) charter school facilities with development costs exceeding $67M dollars. In today's economic environment when credit from banks and Community Development Financial Institutions (CDFIs) is scarce and/or costly, BCLF and NFF have liquidity and solid expertise in financing and advising charter schools on facility needs, and READS has shown an ability to locate financing from a range of sources including New Markets Tax Credits, USDA Community Facility Financing, tax-exempt bonds, and conventional debt. The Program will enable all three partners to deploy more capital with favorable terms and rates to charter schools and provide incentives for banks and other lenders to re-engage in this sector.

Capital Access Program *Goals*

The following are the seven overarching goals for the *Capital Access Program* including: **1) removing barriers to charter school facility projects and strengthening the pipeline of financeable projects**; **2) ensuring the academic and organizational quality of charter school borrowers**; **3) increasing access to capital and reducing the cost of borrowing for at least six (6) start-up schools and twelve (12) growing and/or mature schools over the first three years of the program**; **4) expanding the supply of loan funds; 5) targeting the credit enhancement program and resources to communities in need; 6) pooling our charter school, marketing, real estate and lending expertise; and 7) marketing and replicating the initiative.**

Goal 1: Removing Barriers to Charter School Facility Projects and Strengthening the Pipeline of Financeable Projects

The Consortium Members will work proactively to remove barriers to charter school facility projects. READS will provide critical early stage guidance on facility plans including assistance with owning vs. leasing, long term facility needs planning, equity requirements, charter school regulations regarding facility developments and the viability and availability of energy efficiency and renewable energy improvements (both READS and BCLF have developed expertise on financing and implementing measures to "green" a facility). A unique feature of this program is that in select instances, READS as a nonprofit real estate development organization will develop a facility project on behalf of a charter school or lease space on behalf of a start-up charter school. This structure will also defray the risk of a real estate project by providing charter schools with access to a Consortium Member with extensive real estate and facility expertise (as a CMO would provide real estate support to affiliate schools). Lastly, READS along with NFF and BCLF as experienced lenders to charter schools will provide technical assistance and guidance to schools through workshops, materials and presentations for charter schools.

Goal 2: Ensuring the Academic and Organizational Quality of Charter School Borrowers

The Consortium Members will engage the help of the NYS Charter School Association and Elevate for a thorough academic and organizational assessment of schools to access the credit enhancement. Any related costs associated with the assessment can be folded into the overall project budget. The Consortium Members will also make an academic and organizational assessment a component of all real estate feasibility and loan underwriting (further detailed in *Selection Criteria*). Schools in need of improvement will also have access to ongoing technical assistance via elevate to implement an improvement plan.

Goal 3: Increase Access to Capital and Reduce the Cost of Borrowing for at Least Six (6) Start-Up Schools And Twelve (12) Growing and/or Mature Schools in the First Three Year

Because of the tightening credit markets, charters schools over the past two years have been increasingly unable to access the needed capital to secure and/or develop facilities. For charter schools today, the two major issues are access to capital and the cost of capital when it is available. To mitigate this trend, the Consortium Members would use $8M in credit enhancement for financing the acquisition, renovation, construction and leasehold improvements of charter school facilities.

Charter schools are particularly challenged as potential borrowers because: a) they are viewed as risky credits by most conventional lenders mainly due to the uncertainty of charter renewals and a lack of knowledge of charter schools among traditional commercial lenders; b) charter school facilities are special purpose facilities with limited adaptive reuse possibilities thus posing appraisal challenges; c) loan-to-value ratios often exceed traditional bank standards thus increasing the need for subordinate debt, and d) charter schools often lack significant equity to contribute to projects.

The *Capital Access Program*, though, will play a critical role in overcoming these barriers and expanding facility capital to charter schools. The credit enhancement will be made available for projects involving acquisition, renovation or new construction, leasehold improvements, predevelopment and if necessary lease guarantees. A large amount of financing is expected to be geared toward acquisition and renovation/new construction (detailed in *Table 1*). These projects will typically range from $4 million to $15M in size. NFF and BCLF, as Consortium Lending Members, will provide subordinate debt (ideally no more than 30% of project financing) to maximize the senior debt. This subordinate debt will also be priced at a significant discount to what typical risk-based pricing would charge in the market (likely a 10-12% risk premium). In many instances, the credit enhancement funds will be used to guarantee a portion of NFF's and BCLF's subordinate debt given the considerable risk associated with this loan product. For smaller projects involving leasehold improvements, acquisition or predevelopment financing, NFF and BCLF as senior lenders will use the credit enhancement to support loans that are generally risky due to a lack of sufficient collateral. This is a key component of the Capital Access Program since the Consortium Members are committed to overcoming the barriers that prevent new schools from accessing capital, and this can adversely impact a school's ability to grow and thrive. These project sizes may range from $100,000 to $750,000. Terms and structures will be flexible and favorable; however, success will also be defined by bringing sufficient liquidity to this market and making previously un-financeable though viable projects "bankable."

Table 1: Summary of Construction, Renovation, Acquisition and Energy Efficiency/RE Loans

Construction or Renovation Loans:			
	Early Stage	Medium Stage	Mature Stage
Equity	**0%**	**10%**	**10%**
Sub Debt	**40%**	**20%**	**20%**
Senior Debt	**60%**	**70%**	**70%**
Guarantee of Sub Debt	**50% Of Sub Debt**	**75% of Sub Debt**	**50% of Sub Debt**
Percent of Transaction Credit Enhanced	**20%**	**15%**	**10%**
Term	**≤ 7 yrs**	**≤ 7 yrs**	**≤ 7 yrs**
Amortization	**≤20 yrs**	**≤20 yrs**	**≤20 yrs**
Interest Rates - Senior Debt	**Market Rate**	**Market Rate**	**Market Rate**
Collateral - Senior Debt	**1st Mortgage**	**1st Mortgage**	**1st Mortgage**
Interest Rates - Sub Debt	**6.0% - 8.0%**	**6.0% - 8.0%**	**6.0% - 8.0%**
Collateral - Sub Debt	**2nd Mortgage**	**2nd Mortgage**	**2nd Mortgage**
Guarantee Fee	**1%**	**1%**	**1%**
Approx. Leverage	**5:1**	**6.67:1**	**9:1**

Other advantages of the proposed structure are: 1) higher overall loan-to-value ratios; 2) minimal equity requirements; 3) loan terms which are not tied to the charter term; 4) leverage of between 7:1 to 9:1 on anticipated start-up school (6) and mature school (12) projects; 5) willingness to lend to start-up charter schools and schools not associated with a CMO network; 6) new sources of capital as the structure will reduce senior debt exposure and thereby enable lending institutions to more readily provide capital; and 7) making borrowing more affordable (the guarantee fee will be no more than 1% while other credit enhancements such as that offered by the NJ Economic Development Authority can add up to 5% in additional fees).

Lastly, *Table 2* summarizes the lending terms for start-up schools that would otherwise be excluded from accessing capital. With the benefit of READS involvement and the credit enhancement, we believe the CAP will make significant progress towards addressing the unmet charter school facility financing needs of start-up schools that are typically prevented from borrowing.

Table 2: Leasehold Improvement Direct Lending

Leasehold Improvement:	
Equity	**5%**
Sub Debt	**0%**
Senior Debt	**95%**
Guarantee of Debt	**75%**
Term	**5 years**
Amortization	**10 years**
Interest Rates - Senior Debt	**6.0% - 8.0%**
Collateral - Senior Debt	**Lease Assignment**
Interest Rates - Sub Debt	**6.0% - 8.0%**
Collateral - Sub Debt	**N/A**
Guarantee Fee	**1%**
Approx. Leverage*	**1.4:1**

** The modest leverage results from the risky nature of the investment to start-up schools which are otherwise denied access to capital for leasehold improvements*

Goal 4: Expanding the Supply of Loan Funds

The Consortium Members anticipate that the first round of schools (12 existing and six start-up schools) will receive total project financing of $144.75M across all lenders by the close of the third year of the program. It is expected that proceeds from the credit enhancement program will be leveraged at a ratio of between 7:1 and 9:1, and we expect to attract different types of lenders and different sources of capital and help more regional and local banks to enter the charter school financing arena. Furthermore, the credit enhancement will help to increase loan-to-value thresholds (likely from 60% or 65% to 70% or 75%) among new lenders to the charter school sector, and as loans season and a track record emerges, it is expected that loan to value ratios may be able to increase over time as charter school facility financing is seen as less risky. In the first three years of the program, the Consortium Members are committed to deploying $60M to $70M of their own capital in loans to start-up charter schools for leasehold improvements and existing schools for acquisition and/or construction of permanent facilities to develop *secure school space for 5,000 students* and approximately *400,000 SF of school space* based on current projections. We expect to draw upon a wide range of sources of financing including traditional bank debt, tax-exempt bonds, New Markets Tax Credits, foundation program-related investments, grant dollars such as the Community Development Block Grant, and federal, regional and state lending programs.

Goal 5: Targeting the Credit Enhancement Program and Resources to Communities in Need

Understanding the critical role that charter schools are playing in transforming communities plagued by failing schools, the Consortium Members plan to target 75% of the credit enhancement grant to schools in communities in need of improvement (the current pipeline of 30 schools includes 21 schools in communities in need of improvement). Target geographies include Boston, MA; Bronx, NY; Brooklyn, NY; Buffalo, NY; Camden, NJ; Newark, NJ; Jersey City, NJ; Trenton, NJ; Philadelphia, PA; Wilmington, DE; and Washington, DC. These communities represent some of the nation's poorest school districts and districts with the greatest need for public school choice, and all are home to neighborhoods struggling with a high proportion of schools in need of improvement, large percentages of low-income students and students performing below proficient on state assessments. Further details regarding indicators for communities in need and the priority areas are provided in the *Competitive Preference Priority* section.

Goal 6: Pooling Our Charter School, Marketing, Real Estate and Lending Expertise

The Consortium Members will seek to increase the pipeline of charter school facility projects by working together and sharing our collective charter school contacts and relationships with lenders and program partners like statewide associations. CAP is also unique in that it integrates three key elements: 1) seasoned real estate expertise in the form of a nonprofit community development organization like

READS; 2) educational expertise in the role that the NYS Charter School Association and READS' Academic Advisory Board (listed in *Appendix C*) will play in assessing and promoting the academic and organizational strength of charter schools; and 3) the invaluable role of NFF and BCLF in underwriting and credit analysis as well as these organizations' critical direct lending (both senior and subordinate debt).

Goal 7: Marketing and Replicating the Initiative

Lastly, the Members will publicize the activities of the *Capital Access Program* in conferences, lender roundtables with traditional lenders, charter school events such as national, regional and statewide conferences and online and through the Member organizations' communications and marketing channels. This structure could also be replicated elsewhere in the country with an organization like READS playing a similar role with real estate development. NFF—given its geographic presence in Detroit, San Francisco, and Los Angeles—could facilitate entry into these markets.

A good example of this replication would be growth into the California market given NFF's close ties with the California Charter School Association ("CCSA"). California is home to more than 900 charter schools serving more than 415,000 students. In conjunction with its CDFI partners, CCSA developed a loan program to provide working capital to member schools, and in Fall 2010, NFF assumed the lead role for managing and underwriting the loan program. NFF invested $2M of its own funds into the program, and with knowledge of the California market and ties with key organizations, NFF could help the Consortium to establish a more significant presence and to create a similar program (e.g. real estate development, academic assessment and direct and indirect lending for facilities) in California.

Achieving Measurable Objectives

The following table describes the objectives and measurable outcomes to against which we will measure success.

Table 3: Objectives and Measurable Outcomes

Objectives	Measurable Outcomes
Provide schools with charter school facility feasibility studies over the first three years of the program.	• 30 feasibility studies will be conducted that clearly help charter schools to develop better real estate projects
Remove facility and access to capital barriers for start-up charter schools.	• With READS' ability to develop and lease space on behalf of schools (like a CMO) and the credit enhancement, finance leasehold improvements for six start-up schools.
Provide flexible terms including higher LTVs, below market equity requirements and willingness to lend to start-up charter schools with loan term NOT tied to charter term and minimal equity requirements	• Loans to start-up schools • Longer terms • Lending at higher LTVs than in existing portfolio
Leverage grant proceeds to attract more and diverse sources of private capital to charter school arena including banks, CDFIs, and foundations that will subordinate to commercial banks	• Increased number of charter school facility loans • Greater leverage ratio than in existing loans • Lending partnerships with new banks, CDFIs or foundations that would not otherwise be lending to charter schools
Attract favorably priced debt to charter school facilities financing	• Analysis of credit enhanced transactions demonstrating more favorable financing (better rate, longer amortization, better debt coverage ratio)
Where possible leverage grant dollars to facilitate the use of New Market Tax Credits	• Track the use of New Market Tax Credits with charter school projects

Selection Criteria for Determining the Type and Amount of Assistance

The first step to selection is attracting and identifying strong charter school borrowers and projects. The Members will expand existing outreach efforts to identify eligible charter schools. The Members all have charter school contacts developed over many years, relationships with statewide associations in NJ, NY, DE, PA, and MA, and national contacts to help identify schools in need of facility financing. The Members also work together on workshops, conference presentations, lender roundtables, and various charter school functions across the region.

Once a project is identified, in the initial prescreening phase, READS will conduct a feasibility study for a proposed facility project and establish an initial assessment of a project's viability. Based upon the project viability and other selection criteria including whether the school is located in a *District in Need of Improvement*, the school will move forward into underwriting. As part of the underwriting process, READS will coordinate a third-party academic and organizational review, and NFF and BCLF will conduct a thorough financial and organizational review. The Consortium Lending Members all have a long track record of financing and developing charter schools and will apply the same credit worthiness criteria and process for selecting qualified organizations that they have developed and adapted successfully for their respective charter school loan programs.

Ideal candidates will have the capacity to successfully balance the many competing priorities of charter school management including managing day to day administration, meeting performance goals, managing a facility project while maintaining financial health. A detailed description of the selection criteria is broken out in *Appendix D,* but the credit enhancement selection criteria will include: demonstrated need for the school; track record of the management team; financial strength and stability; prospects for completing the facility project on time and within budget; service within a community in greatest need for school choice; academic strength and results (READS and NYS Charter Association will assist with academic assessment), and special requirements for start-up schools including waiting list, marketing plans and growth projections.

Leveraging Private and Public Sector Funding to Help Greater Numbers of Charter Schools

It is expected that credit enhancement proceeds will be leveraged 8.81 times to attract a total of $144.75M in facility loans to more than 18 charter schools across the target region (see *Table 4* for timeline and deployment schedule and *Table 5* for leverage assumptions and calculation).

Table 4: Credit Enhancement Transaction Pipeline

Guarantee Schedule	**Year 1**	**Yr 1 Transctns.**	**Year 2**	**Y2 Transctns.**	**Year 3**	**Y3 Transctns.**
Predevelopment Loans*	1,600,000	8	400,000	2	100,000	1
Construction Loans*	2,250,000	2	2,250,000	2	1,125,000	1
Permanent loan**	1,125,000	1	1,125,000	1	2,250,000	2
Leasehold Improvements**	187,500	1	562,500	3	187,500	1
Lease Guarantees**	900,000	4	225,000	1	225,000	1
Total Annual Credit Enhancements	6,062,500	16	4,562,500	10	3,887,500	9
Prior Year's Credit Enhancement***	-		3,304,875		4,057,125	
Portfolio Credit Enhancement Exposure	6,062,500		7,867,375		7,969,000	

** Assumes that predevelopment and construction loan guarantees expire every 16 months and can be redeployed quickly thus revolving credit enhancement funds quickly.*

*** Assumes that permanent loans will burn-off according to the loan amortization. Leasehold improvements and lease guarantees burn off by one-fifth every year assuming a five year lease term.*

**** Assumes that each year there will still be outstanding long-term credit enhancement exposure that will limit the amount of credit enhancement to be deployed in that year.*

However, it should be noted that the Consortium Members anticipate a total of 38 credit enhancement transactions. Some schools will benefit from the credit enhancement for a predevelopment, construction and permanent loan for a single facility project. The leverage calculation also assumes that critical predevelopment loans will leverage subsequent financing since projects would not get done without this early source of capital, and NFF and BCLF are only able to make these risky, uncollateralized loans with access to the credit enhancement. Finally, it is important to note that the leverage projections are specific to the first three years of the Program; as loans become more seasoned and repay, credit enhancement proceeds will be redeployed to support financing for new borrowers.

Table 5: Leverage Assumptions and Calculation

Construction & Permanent	***Amounts***	***Assumptions***
Total Development Costs (TDC)	67,500,000	4 construction and 5 permanent loans averaging $7.5M
Subordinate Debt	20,250,000	Subordinate debt is assumed to be 30% of TDC
Guarantee	10,125,000	Guarantee is set at 50% of subordinate debt
Leverage Ratio	6.67:1	Total Development Costs / Guarantee
Leasehold Improvements (or Energy Efficiency or Renewable Energy Loans)		
Total Development Costs (TDC)	3,750,000	5 loans averaging $750,000
CDFI Senior Debt (NFF and BCLF)	3,562,500	Senior debt provided by NFF and BCLF is 95% of TDC
Guarantee	1,125,000	Guarantee is at 75% of sub debt
Leverage Ratio	1.4:1	Total Development Costs / Guarantee
Predevelopment/General Development		
Total Development Costs (TDC)	60,000,000	Predevelopment loans leverage 8 construction loans at $7.5M
CDFI Senior Debt (NFF and BCLF)	2,200,000	Average of 11 loans @ $200,000 each
Guarantee	2,200,000	100% guarantee of senior BCLF/NFF debt
Leverage Ratio	30:1	Total Development Costs / Guarantee
Lease Guarantees		
Total Development Costs (TDC)	13,500,000	Assumes 6 leases with annual rents of $450,000 for 5 years
Subordinate Debt	-	Not applicable
Guarantee	1,350,000	10% guarantee on lease payment or first six months of rent
Leverage Ratio	10.00	

Portfolio Total Development Costs	144,750,000
Capital Access Program Debt*	26,012,500
Portfolio Guarantees	16,346,875
Portfolio Leverage Ratio	8.81

** This model assumes that BCLF and NFF will supply subordinate debt as well as senior debt to meet their target deployment of $60M to $70M as part of the Capital Access Program.*

As part of the proposed pipeline, NFF and BCLF are prepared to deploy $60M to $70M together in debt financing for charter schools. Without this credit enhancement, it is unlikely that NFF and BCLF would be able to reach this scale of loan activity particularly in a subordinate position. Further, as evidenced in the letters of support provided by Bank of America, JPMorgan Chase, WSFS, Sun Bank, Sussex Bank and others (a total of 11 banks wrote letters of support for CAP), the credit enhancement would increase interest amongst banks to expand lending activity in the charter school arena. As described previously, a principal aspect of the *Capital Access Program* is to increase loan-to-value ratios and spread risk more evenly across the senior and subordinate lenders in a way that acknowledges the diminished risk appetite in the current market environment. The proposed structure creates strong leverage and offers attractive terms to introduce new lenders to the charter school arena and expand lending relationships with existing lenders.

The Consortium is also dedicated to expanding the number and type of charter schools that receive financing from NFF and BCLF and other conventional lenders like banks. One clear example is new or start-up charter schools. Consortium Members do not typically lend to start-up or early-stage charter schools as there is no or a limited prior track record of school performance and management capacity. Further, new charter schools are typically not able to contribute their own capital or equity to the project financing, thereby requiring high loan-to-value ratios for lenders who are already wary of the start-up nature of the school. The Program structure, however, mitigates some of these risks as it provides a guarantee for a portion of the loan amount or lease payments and limits the combined loan exposure for instance reducing overall financing from 100%LTV to 90%LTV to qualify. Furthermore, READS as a Consortium Member has the ability to take on the leasehold improvement debt directly for a start-up school and to manage the real estate project directly. Taken together, the credit enhancement combined with READS' role with leasehold improvements, lowers the risk to each lending party, thereby encouraging capital providers to lend to start-up schools previously deemed too risky to finance.

Another way that new types of charter schools are served by the proposed Program is by the commitment to target 75% of the credit enhancement proceeds to schools in low-income areas or schools in districts identified for improvement or school restructuring under Title I (specifically, this is defined as charter schools located in a community where schools have been identified for improvement, corrective action, or restructuring under Title I of the Elementary and Secondary Education Act or charter schools where at least 40% of the total number of students attending the charter school are eligible for free or reduced-price school lunches). Charter schools meeting these criteria are typically viewed as risky by banks because they are located in districts that have long struggled to improve academic performance and have little spare capital to put towards facility improvements and lack extensive fundraising capacity. This causes uncertainty about the charter school's ability to meet enrollment targets, achieve sufficient academic requirements for charter renewal, and develop additional cash reserves for debt service to allay the fears of traditional lenders. Further, there is concern about the quality of the collateral since the value of a special purpose building such as a school is limited in the event of a school's closure. In this scenario, lenders are typically hesitant to provide long-term financing at typical loan -to-value ratios. But again, by guaranteeing a portion of the facility financing and limiting loan-to-value exposures, lenders are more likely to be flexible in providing longer terms not tied to charter renewals, longer amortization schedules, and less onerous requirements regarding collateral, debt service reserves and/or debt coverage ratios.

Serving Charter Schools in States with Strong Charter School Laws

The Consortium currently has the ability to serve charter schools in five primary states including Delaware, New York, New Jersey, Massachusetts, Pennsylvania; two replication states (Michigan and California); and Washington DC. With the credit enhancement, the *Capital Access Program* aims to deepen its presence in these markets and eventually into surrounding areas. Currently, 40 states and the District of Columbia have charter school laws in place, and as of fall 2010, there were more than 5,400 charter schools serving more than 1.7M children across the country. Based on 2010 data obtained from the Center for Education Reform, the geographic areas (current and replication states) served by the Consortium Members include 1,846, charter schools or 34% of the nation's charter schools, representing nearly 700,000 students or 39% of charter school enrollment nationwide.

Per section 5202e3 of the Elementary and Secondary Education Act, there are three main criteria for states to be considered as having strong charter school laws. First, states should allow charter schools to have a high degree of autonomy over school budgets. Second, they should provide one authorized chartering agency that is not a local education agency, and have an increasing number of charter schools that are held accountable to meeting the objective of the their charters. The Center for Education Reform has reported that states with strong charter school laws have experienced the most dramatic growth in the licensing of charter schools (2007 Annual Survey).

Based on The Center for Education Reform's ranking of the 41 states with charter school laws, of the eight states that are in our market, four are in the top ten (Washington DC (1), California (3), Michigan (5), New York (7)), and the remaining four are ranked in the top half (Pennsylvania (12), Delaware (14), Massachusetts (17), and New Jersey (19)). It should also be noted that while New Jersey ranked the lowest out of the eight states, New Jersey's Governor Christie is a proponent of charter schools and has encouraged their expansion by streamlining and easing the application process. The state received fifty charter school applications in October 2010 of which 23 were approved in January 2011 to open in September 2011 and September 2012.

In addition to charter law ranking, we also gathered data on charter school waiting lists by state, charter school caps, and facilities funding. The six priority areas (DC, DE, MA, NY, NJ, PA) have over 110,000 students on charter school waiting lists, collectively, with 42,000 in New York City alone. Also, four of the states that are in the Program's Northeast and Mid-Atlantic market have no facilities funding for charter schools (DE, MI, NY, NJ). It is also important to note that none of the eight states in the Program's current and future market is in danger of meeting quotas for approval suggesting that the demand for charter school facility financing will only continue to rise in the years to come.

The table in *Appendix E* shows each state ranking according to charter school law (based on the Center for Education Reforms criteria), the number of charter schools and enrollment, state caps, number of students on charter school waiting lists and whether or not the state provides facilities financing. We are confident that given our staffing, presence and outreach we will be able to target our efforts in the most supportive and compatible markets.

Reasonableness of the Grant Request and Proposed Fees

The Consortium projects that the $8M in credit enhancement proceeds will leverage debt to provide at least $144.75M in total financing to at least 18 charter schools over the next three years. These funds will be used to finance the construction or renovation of owned facilities, leasehold improvements, site acquisition, predevelopment costs and energy efficiency or renewable energy additions. The design of the program assumes that the credit enhancement funds will be managed by NFF and invested and monitored according to the same standards as NFF's other funds. The budget for the program assumes that there will be no assessment of a .25% administrative fee. In most cases, any guarantee fees will also be reinvested; the only exception is instances where NFF and BCLF are not investing directly in a USDOE credit enhanced transaction. In that instance, a guarantee fee of 1% will be charged by the Consortium for the use of the credit enhancement.

The budget to launch CAP, perform outreach, underwrite and provide technical assistance will be borne by each of the Consortium Members. In order to achieve efficiency and minimize costs, the members will approve a set of standardized template documents, which will include the participation and loan agreement. It is expected that the negotiation of the template documents will require the review by the respective legal counsel of each Member. To the extent that a Member incurs expense in doing this, it will be their responsibility to cover that expense. Existing Consortium staff will perform outreach, underwrite and administer the Program and the respective salaries and fringe benefits will be absorbed by the members.

Finally, it is important to note that in a market where many lenders have experienced liquidity constraints, both NFF and BCLF have adequate capital available for lending to meet the goals outlined in this proposal.

II. QUALITY OF PROJECT SERVICES: Meeting the Facility Financing Needs of the Charter School Market

The Consortium Members have experienced significant demand from charter schools in recent years for real estate technical assistance and access to capital. It is widely acknowledged that the charter school community lacks access to traditional financing and tools due to misperceptions about charter schools, lack of familiarity among traditional lenders of charter schools and erroneous assumptions about the riskiness of lending to charter schools. This is attributed to a limited history of financial and operating performance for a school, the continual need for growth and expansion to reach capacity and scale, the relative newness of the charter school movement, and the varied legal, political and governance environments across the country.

The *Capital Access Program* is designed to meet the acknowledged financing, "loan brokering" and technical assistance needs of charter schools seeking facility financing. In terms of structuring the credit enhancement, Consortium Members have drawn upon READS' expertise as a real estate development partner and technical assistance provider and NFF's and BCLF's expertise as direct community development lenders to analyze our respective portfolios and pipelines.

We also gleaned specific information from studies and a survey that charter schools responded to directly. In total, **49 schools responded to the survey** and along with the **30 schools in our current pipeline**, we were able to develop a broad sense of the current needs of the charter school community. The needs identified were: 1) access to capital particularly for facility financing as 75% of the charter schools in our existing pipeline intend to undertake a facility project; 2) help to address strict collateral requirements; 3) relief from standard equity requirements; 4) access to additional equity through programs like the New Markets Tax Credit program; 5) affordable financing including lower interest rates, lower debt coverage ratios, lower debt service reserves and reduced fees; and 6) longer terms and amortization to reduce monthly debt payments.

The proposed structure and products offered through the Program address each of these needs. First, the *Capital Access Program* provides access to credit with NFF and BCLF capable of providing subordinate financing (there is currently a severe shortage of subordinated debt that can go up to 100% LTV on a project). All Consortium Members have a track record of bringing other senior lenders into the market and helping to structure transactions that are as affordable as possible for charter school borrowers. Second, the program uses the credit enhancement to provide collateral coverage to the senior and subordinate lenders relieving pressure from the transaction and helping schools to borrow more (a particularly dire need given how real estate now appraises). Third, recognizing the limited resources of many schools, the CAP criteria for schools permit minimal equity into projects. Fourth, in the most recent round of New Markets Tax Credit allocations in 2010, NFF received $21M and BCLF received $53M in allocations, and both organizations could provide credits to charter school projects bringing significant equity into schools in communities in need. Fifth, the program enables schools to take on subordinate debt that is credit enhanced and discounted from the risk premium that subordinate lenders in the marketplace would require. NFF and BCLF interest rates are steeply discounted from the risk-based pricing (10% to 12%) that the market would otherwise dictate. Furthermore, the associated fees charged by NFF and BCLF are minimal. Sixth, the Program and the debt offered directly by NFF and BCLF allows up to seven year terms and up to 20 year amortizations making debt service more manageable.

> <u>Charter School Financing Needs Survey Results</u>
> The Consortium survey results (detailed in full in *Appendix F*) indicated that of the 49 responding schools, 75% percent of respondents anticipate the need to move, expand or purchase a facility within the next five years. For those schools that had already considered obtaining a loan to finance facility expansion, obstacles to obtaining a loan included insufficient collateral, inability to afford debt service payments and equity constraints. Over 30% of respondents said the long-term viability of their school is affected because the facility cannot be secured or expanded, while over 60% of respondents said additional operating or capital funds were needed to better run their school. About half of respondents say a lack of equity affects their school's ability to meet facility needs.
>
> Results of this survey, which confirmed our own assessment of the market, informed the Program structure developed by the Consortium Members to include more flexible and favorable terms to address the challenges schools are facing in meeting their facilities needs. The survey results also indicated that most schools, regardless of geographic location, are facing similar financial and facilities-related issues. Almost every school indicated a clear need for affordable, long-term capital with low fees and the proposed *Capital Access Program* is responding with a program designed to meet those needs.

Lastly, with regards to technical assistance, we recognize from experience and have confirmed directly with the schools that the range of needs is wide. Applicant schools will need guidance (and in some instances development partners like READS) in the development of real estate projects, putting together project financing, creating sustainable business models, and undertaking and financing energy efficiency and renewable energy initiatives. For start-up schools, technical assistance is needed for long-term facility planning, how to access funds for leasehold improvements for start-up space and how to overcome barriers to financing due to limited track records. READS, NFF and BCLF are already providing significant technical assistance as well as creating innovative ownership and financing structures that are designed to overcome the institutional barriers to financing charter school facilities. A credit enhancement grant of $8M would only further help to bolster these technical assistance efforts.

Working in a partnership, the Consortium will bring the best possible benefits to each individual organization while specifically meeting their financial needs. The goal is to finance schools in communities in need while also meeting reasonable and informed criteria for financial strength and sustainability. The Consortium brings dexterity and a unique approach to financing and development in the charter school sector that includes a diverse array of integrated resources that address both the capital as well as the technical assistance needs of charter schools in the Northeast and Mid-Atlantic and ultimately the Midwest and West Coast as well.

Involving Charter Schools Directly in the Project Design

In preparation of this application, the Consortium solicited input from a wide variety of charter school community stakeholders. A survey was drafted to determine the types of obstacles charter schools face when pursuing facility financing and terms/structures that would be helpful to overcoming these obstacles. As previously mentioned, 49 schools in our target market were reached of which 76% (37) are located in areas where the district is performing below proficient on state assessments, compared to 16% (8) that were in proficient-performing districts, and 8% (4) that did not know. Respondents included both young and mature schools with 65% (32) having operating records of

5 years or more, and 37% (18) having 10 years or more of operating history. Schools that opened prior to 2006 have significantly larger waiting lists (average of 261 students) compared to schools that opened within the past 5 years (average of 168 students).

Of the respondents, 63% (31) said that they did not currently have sufficient space. There was no significant correlation between the number of students at the school and the need for facility space. 86% (42) of respondents anticipate undertaking a facility project (either leased or owned space) within the next 5 years. This is interesting because although 37% of respondents said that they have sufficient space, 86% were looking to undertake a facility project. On the other hand, only 39% (19) of respondents that were going to undertake a facility project had inquired about obtaining a loan to meet the school's facility needs.

Demonstrated Support for the **Capital Access Program (CAP)**

As evidenced in the attached letters of support (*Appendix G*) from charter schools (14), banks (11), state charter school associations (5) and partnering organizations (2), the Consortium Members have been instrumental in structuring financing to meet charter school facility needs. As noted by Paul Augello, CFO of Victory Education Partners, "We hope to be able to continue working with NFF in the future as we are working with many new charter groups who all have a desire to eventually own their own facility down the road. Dealing with a first rate organization who already has experience with this growing industry is a major plus. Being able to provide charter schools with credit enhancement is not only beneficial, it's imperative to the future development of charter schools in our country".

The Consortium has also taken charter school views and observations under advisement and incorporated the identified needs into the proposed credit enhancement program. The Program is designed to deliver financial products to schools at different stages in the evolution including: a) start-up charter schools during their fragile early stages of operations with support for their facilities needs through leasehold improvements; b) established and/or expanding charter schools with purchase and/or renovation projects as they reach capacity and grow; c) ongoing facility support through financing for improvements, energy efficiency projects and/or renewable energy efforts. Based upon our conversations with the 30 existing pipeline schools, our collective experience, and survey results, a number of charter school partners—existing in our current pipeline of 30 schools and perhaps from among the 49 survey respondents—could benefit greatly from a credit enhancement vehicle to achieve their goal of improving a leased facility, owning a facility and/or further improving their existing facility.

Lastly, charter schools have continued to demonstrate a need and express a desire for additional technical assistance to grapple with the challenges of real estate projects. The proposed program incorporates technical assistance as a cornerstone of the initiative by providing schools with real estate expertise from READS including concrete guidance on how to: select a site, determine whether leasing or owning is the appropriate structure, assemble and manage a project team; and access financing. Furthermore, by engaging the READS Academic Advisory Board and the team from Elevate (an initiative within the NYS Charter School Association to promote school accountability), the Consortium is also helping to assess and promote ongoing academic and organizational success for charter schools that participate in the Program. Not only will this help to ensure the soundness of the borrowers, but this should also help to bring traditional lenders and other sources of capital to the table as they are better informed about the soundness and quality of the charter school borrowers.

Making the* Capital Access Program (CAP) *Cost-Effective

The Consortium Members have experienced significant demand from charter schools in recent years and would like to continue to meet their financial needs. It is acknowledged that the charter school community lacks access to traditional financing tools, and the *CAP* is designed to help attract financing to schools. As discussed earlier in the application, the lending terms are cost effective in that the subordinate debt interest rates of NFF and BCLF with the benefit of the credit enhancement are significantly discounted from what the market would dictate (if such subordinate debt were available at all in this tight credit market). The guarantee fee of 100 basis points is reasonably priced and again steeply discounted from other comparable programs. Lastly, in cases where NFF and BCLF are lending directly to a project, the guaranty fees will be reinvested in the credit enhancement pool.

In addition to making financing more accessible, the Capital Access Program will also provide much needed and affordable technical assistance. READS will coordinate this critical function with support from NFF and BCLF helping charter schools to create more "bankable" transactions with guidance on renting vs. buying, how to plan for owning a facility, and how to understand the various financing options. In some cases, READS may also develop and finance a site on behalf of a school as well (like a CMO might). And lastly, through the partnership with Elevate and the NYS Charter School Association, the CAP will also make academic and organizational technical assistance a critical part of this program to help ensure that schools are performing well, have the capacity to take on a real estate project and can receive ongoing support in cases where there is need for academic and organizational improvement.

NFF and BCLF also provide one-on-one assistance to their loan clients during the underwriting stage as well as throughout the lending relationship during ongoing portfolio management. Typical areas covered include evaluating and planning for facility projects and the related financial implications of growth. Although READS will have worked with participating schools on developing project budgets, assembling project teams, creating sources and uses, and developing project financing scenarios (or confirmed that a charter school project is viable if it is in more advanced stages of development), NFF and BCLF will analyze the ongoing organizational and financial management of schools benefitting from the credit enhancement. On the operating side, NFF and BCLF will also provide support on assumption testing, scenario planning and benchmarking operating data. This will also be a resource to schools that ultimately do not pursue financing directly from NFF and BCLF.

Targeting Resources to Schools with a Likelihood of Success and in Communities in Need

All across the country, educators, parents and state officials are concerned with the quality of education and school choice options that are available to their students. Based upon our background research, discussions with state charter school associations and our knowledge of the market, the target footprint of CAP including the Northeast and Mid-Atlantic includes significant numbers of communities in need. Target geographies for the CAP will include Washington, DC; Philadelphia, PA; Camden, NJ; Newark, NJ; Jersey City, NJ; Bronx, NY; Brooklyn, NY; Buffalo, NY, and Boston, MA, and already our pipeline of charter school projects and survey respondents reflect a large majority of schools in communities in need. Over time, and given NFF's footprint in Detroit, San Francisco and Los Angeles, the Members will look at using the credit enhancement for schools in communities in need in these geographies as well with the same emphasis on targeting communities in need.

The *Capital Access Program* will target 75% of the credit enhancement for use in communities demonstrating the most need. Communities in need will be defined based upon three criteria: 1) areas where public schools have been identified as underperforming according to Title 1 standards; 2) areas in which a large number of students are scoring below proficient in academic assessments; and 3) geographic areas where a large part of the student body comes from low-income households.

Lastly, as noted above, the Members are also focused on states where there is strong support for charter schools. Working in these communities along with government and CMO support and association services will help to ensure that the schools financed will have access to a range of support and technical assistance. Additionally, the screening and underwriting process will also focus on selecting schools that not only have strong likelihood of succeeding financially but also academically. As such, the role of Consortium Members in initial technical assistance and in a rigorous academic and organizational assessment through services provided by the NYS Charter School Association, Elevate, and the Academic Advisory Board at READS is critical.

III. CAPACITY: Experience of the Members:

About the Capital Access Program Consortium Members

Real Estate Advisory and Development Services, Inc. (READS) is a nonprofit real estate and community development firm and a national leader in the development of charter school facilities. Since its inception in in 2003, READS has completed the development of twelve (12) charter school facilities with development costs exceeding $67M dollars. In addition, READS is currently in the process of developing six schools which will be completed by September 2012 with development costs exceeding $34M dollars. READS has four additional schools in development with completion dates for 2012 and 2013. In total, READS' school facilities are housing or will house approximately 5,000 children when complete, and 83% of these schools are in chronically underperforming districts such as Newark, NJ; New Brunswick, NJ; and parts of Brooklyn and the Bronx in New York City.

In total, READS has worked with charter schools to arrange financing of nearly $100M dollars from the capital markets for the development of charter school facilities. Of the $100M dollars secured, approximately $45.5M was developed with New Markets Tax Credits, approximately $37.5M was developed with tax-exempt bonds through direct purchases and private placements, and $22.5M was developed using a combination of traditional bank debt, the US Department of Agriculture Community Facilities Lending Program, program-related investments (PRIs) from foundations, private lenders, landlords and investors and Community Development Financial Institutions (CDFI).

By working in the Northeast and Mid-Atlantic with charter schools, READS recognizes that property prices often exceed national averages substantially increasing the cost of developing a charter school facility. The special purpose nature of a charter school facility project often means that development costs exceed appraised values thus adding to the difficulty and the complexity of charter school facility projects. To address this need, READS has developed extensive networks with various funding and financing sources in order to get projects financed and complete.

READS also serves as a real estate development partner—either assisting schools with their real estate projects as advisors or developing a project directly similar to the real estate role of a Charter Management Organization. While there are development fees for READS as part of the total development costs, these fees (3% – 5%) are significantly below market. Of READS' 12 completed projects, all are performing as agreed; no project or school has lost any form of project financing. In cases where there have been maturing predevelopment and construction loans, all have been repaid in full and on time. In total READS and its projects have borrowed and repaid approximately $15M of the $100M in debt secured. Furthermore, to facilitate lending to charter schools and strengthen schools' capacity, READS created an Academic Advisory Board and is working with the NYS Charter School Association and Elevate to assess and promote the long-term academic and organizational quality of charter schools that utilize the credit enhancement.

Another critical function of READS as part of the Consortium is to provide real estate guidance and expertise to charter schools developing a real estate project. READS was initially modeled after real estate initiatives within Self-Help and Illinois Facilities Fund and was created to offer nonprofits support to manage real estate projects and make well-informed real estate decisions. READS offers nonprofits that lack in-house real estate expertise assistance to develop high-quality, financially sound, and more holistic real estate projects, and it is expected that READS will play this critical role with charter schools in the facility pipeline. Since 2003, READS has completed feasibility studies for over 40 charter schools (a sample feasibility study is included in *Appendix H*) analyzing the financial, academic and organizational strength of charter schools as well as the financial viability and timing of prospective real estate projects. In 2005, READS partnered with Greater Brunswick Charter School and the New Jersey Charter Schools Association to create *Gaining Ground* (www.njcharterfacility.org), an initiative to provide information, guidance and direct technical assistance to charter schools on facility development matters. READS' work on Gaining Ground was recognized as part of a *New Jersey Department of Education Corporate*

Partnership Award and has been cited as a best practice by the National Resource Center on Charter School Finance and Governance.

In addition to providing individual schools with technical assistance, READS offers workshops, webinars and full day clinics focused on school facilities and financing issues to charter schools. Furthermore, via a recent partnership with the New York State Charter School Association and its *Elevate* initiative, READS intends to involve Elevate on the assessment and on-going support for charter schools that benefit from the Consortium's credit enhancement. The Elevate team has a great deal of concrete charter school expertise ranging from governance, finance and operations to compliance and community relations, and they are highly experienced in taking numerous charter schools through the authorization and renewal. Background information on Elevate including their initial charter school assessment and school improvement plan are included in *Appendix I*.

The **Nonprofit Finance Fund (NFF)** is a national leader in financing nonprofits, strengthening their financial health and improving their capacity to serve their communities. With NFF's help, nonprofits build and renovate facilities, fund growth needs, and expand and sustain operations over time. NFF offers an integrated package of financial and advisory services, including facility financing and working capital loans, terms loans and revolving lines of credit, as well as emergency loan pools to bridge state payments; asset-building programs; intensive workshops; and other consulting engagements to strengthen nonprofit organizations. NFF Capital Partners helps nonprofits develop effective plans to attract equity-like growth capital.

Since inception in 1980, NFF has provided $270M in loans to over 800 nonprofit organizations across the country. NFF's niche is providing affordable financing for small to medium size nonprofits to help them expand/renovate facilities, bridge working capital gaps or fund growth needs. NFF provides facility financing to a wide range of organizations in a variety of sectors, including charter schools, healthcare, human services and youth serving organizations. Further, with a 30 year track record and minimal historical losses of approximately 1% of total loans deployed, an NFF loan is often the "seal of approval" that attracts conventional lenders like banks to this sector.

NFF has seven years of experience in lending to charter schools, and over the past four years it has expanded its commitment to serving this sector. In addition to having provided $27M in loans to 117 charter schools, NFF has partnered with the Gates Foundation to help charter school organizations build business models and strategize about ways to scale operations. Other charter school facility programs aimed at helping charter schools sustain operations and plan for future needs include the Building For the Future (BFF) program (described in *Appendix J*), an initiative to help charter schools set aside money with the added incentive of matching grants to help them plan, build, develop and manage cash assets such as building reserves and endowments for necessary building system replacement projects. The *Systems Replacement Plan (SRP)* is also a valuable resource (detailed in *Appendix K*). It is an assessment of the 20-year repair and replacement needs and costs for a nonprofit facility.

In addition to facility-related work, NFF's consulting team provides hands on guidance customized for each client that may include scenario and contingency planning and cash flow management. NFF's Nonprofit Advisory Services assesses an organization's underlying business health, and has worked with over 20 charter schools to provide financial diagnostics and facilitate Board conversations about financial goals, as well as provide guidance to the schools on the employment of tools to effectively manage cash flow and develop contingency plans in preparation for future financial challenges.

In addition to its standard loan portfolio, NFF deployed and currently manages $106M in New Markets Tax Credits to support affordable facility financing for nonprofits. In 2011, NFF was awarded an additional $21M New Markets Tax Credit (NMTC) allocation to continue this work. Charter schools currently make up nearly 20% of the NMTC deployed and leveraged almost $65M in financing and investment in underserved communities. Approximately 40% of the NMTC pipeline is for charter school projects where facility construction or renovation costs may be reduced due to tax credit financing.

Where possible, proceeds from the Program may be incorporated into NMTC transactions to further deliver financial benefit to charter schools.

All of these programs demonstrate NFF's growing expertise in providing financial and technical assistance to charter schools, and the *CAP* complements the products and services geared to strengthening this sector. NFF is headquartered in New York City, and has offices in Boston, Trenton, Philadelphia, Washington D.C., Detroit, San Francisco, and Los Angeles, and NFF's presence in Detroit, San Francisco and Los Angeles are particularly important as the CAP expands and replicates in these territories.

Boston Community Loan Fund, Inc. (BCLF), a subsidiary of Boston Community Capital, was established in 1985 to build healthy communities where low-income people live and work through socially responsible lending and investing. BCLF finances affordable housing, child care facilities, charter schools, health clinics, youth programs and other community services.

Since inception, BCLF and affiliates have made more than 500 loans and investments totaling more than $350M to support organizations and businesses that benefit underserved communities. These loans and investments have helped: build or preserve affordable homes for over 11,000 families and individuals; support child care facilities and youth programs serving almost 10,000 children; renovate over 800,000 square feet of commercial real estate in distressed communities, and create more than 1,500 jobs in low-income communities.

BCLF and affiliates have lent over $34M to five charter schools, including over $31M in New Markets Tax Credit leverage loans. Additionally, Boston Community Capital has made an $11.2M New Markets Tax Credit Qualified Low Income Community Investment (QLICI) originated as a CDE in conjunction with its own NMTC allocation award. Additionally, BCLF has committed $1.5M in new lending to charter schools in 2011 and anticipates committing an additional $3M by June 30, 2011.

BCLF serves as a vehicle for a wide range of investors, including individuals, institutions and faith-based organizations. Working together with public and private partners, BCLF achieves the cost-effective access to capital that is key to building healthy communities. BCLF is headquartered in Boston, MA and provides loans across the Northeast and Mid-Atlantic region.

BCLF reviews and underwrites loan applications in a rigorous process led by a primary loan officer in consultation with other members of the Loan Fund staff, as well as with external Loan Committee members if and as needed for their particular expertise. The application and underwriting process is typically an iterative process, with development plans and budgets being revised and resubmitted to BCLF following discussions with development sponsors, team members and other lender and funders. BCLF has staff level authority to approve certain types of loans up to $500,000 based on the purpose of the loan and the characteristics of the borrower, collateral and project. Loans exceeding these limits are presented to an external Loan Committee for approval. Staff level and Loan Committee approval decisions are made weekly, as needed, in regularly scheduled meetings.

Key criteria assessed during the underwriting process include borrower/sponsor strength, including financial and staff capacity; market demand for the proposed development; financial structure and feasibility of the proposed development; security and collateral; sources of repayment, including operating cash flow of borrower or project as appropriate; and BCLF's posture, including portfolio concentrations, and single-project and single-borrower lending limits. BCLF's loan underwriting and portfolio monitoring procedures are described in greater detail in the application attachments.

Financial Strength of the Members

In addition to each lending partner having more than 20 years of operating history, financial stability is further reflected in the lending Members' diversity of income, prudent management of expenses and strong capitalization. As previously noted, the loan portfolios of each of the lending Members (NFF and BCLF) have maintained a high level of credit quality. Charge-offs have been minimal—at approximately 1% across all sectors. As of December 2010, the lending Members have loan-loss reserves of 6.5% and partake in thorough due-diligence and underwriting processes.

NFF and BCLF have diverse revenue shared between earned income and contributed sources. Earned income, comprised of loan interest, loan fees and consulting/technical advisory income, amounts to roughly 47% of the total annual income for each NFF and BCLF. The remaining 53% of income is comprised of public and private grants as well as government contracts for carrying out specific programs. In the case of READS, the organization's revenues are split between consulting/technical advisory and development income and third-party grants to defray the organization's technical assistance including workshops and feasibility studies.

For the lending Members, expenses have been carefully managed to avoid incurring consecutive years of losses and deterioration of capital bases. The capital structure of each lending partner remains strong and is primarily comprised of loans from banks and socially-oriented lenders and program related investments (PRIs) from foundations. Finally, each organization's net worth is also strong with equity to total assets of 30% or greater.

Below is a brief snapshot of the financial health of each of the Consortium Members:

Table 6: Financial Snapshot of the **Capital Access Program** ***Consortium Members***

FYE 2010	BCLF	NFF	READS
Total Capital Under Management*	$527,146,662	$194,777,400	N/A
Operating Expenses	$1,578,582	$14,044,714	1,590,403
Total Assets	$98,782,460	$98,777,409	5,785,864
Total Liabilities	$84,716,160	$51,400,758	5,710,287
Total Equity, Net Assets or Net Worth:	$14,066,300	$47,376,651	75,577
Equity/Total Assets	14%	48%	N/A
(Equity + EQ2)/Total Assets	24%	50%	N/A
Total Portfolio (Loans + Investments + Guarantees)	$83,940,113	$61,718,882	N/A
Loan-loss reserves/Total Loans Outstanding	8.5%	6.0%	N/A
Net Loss Ratio (Net Write-offs/Total Loans Outstanding)	0%	1.0%	N/A
Delinquency>90 days Accruing/Total Loans Outstanding	0.2%	1.2%	N/A

** Total Capital Under Management for BCLF is for parent Boston Community Capital (BCC). All other numbers are BCLF.*

NFF and BCLF have continued to maintain healthy loan-loss reserves with minimal losses demonstrating their financial health and sound underwriting standards. While READS is not a lender, the organization's balance sheet has grown, and it should be noted that as a nonprofit developer of charter school facilities, READS has passed along almost all of the wealth creation of real estate development to the charter schools with which it has worked.

Loan Underwriting, Portfolio Monitoring and Financial Management

The *CAP* will help to ensure the strength of charter school borrowers with READS' involvement in determining the initial project feasibility. READS uses a thorough review process that takes into consideration a charter school's age, growth plans, waiting list, size, academic performance, financial and organizational performance, school equity, school governance and proposed real estate project. In 2011, READS partnered with Elevate and the NYS Charter School Association to expand this evaluation process and provide schools with an academic and organizational assessment as well as the necessary tools to ensure ongoing quality and improvement.

The first line of defense against losses is a stringent credit analysis. All charter school prospects will develop a detailed project overview, development budget and operating projections. READS, as the front-end partner for the real estate assessment and feasibility stage of the process, will review the project plans and assess the viability of the school's facility project (since a core competency of READS is real estate development). After the initial review, the loan/credit enhancement application will be submitted to NFF and BCLF for credit quality assessment and underwriting. As part of the underwriting process, Elevate will conduct an assessment of the charter school's academic, financial, governance and administrative quality. As charter school projects are identified by BCLF and NFF and are highly feasible, READS will coordinate the academic assessment while NFF and BCLF take the lead on underwriting and financial analysis. This structure is also captured in the CAP Organizational Chart in *Appendix S*.

As the lending Members, the primary business of NFF and BCLF is direct lending and both have been rated as part of a national comprehensive assessment for CDFI investments (The CDFI Ratings and Assessment Systems or CARS). The CARS rating for both organizations is included in *Appendix L*. As previously noted, each has more than a 20 year track record of providing loans to nonprofit organizations and small businesses in low-income communities. The strength of loan underwriting, monitoring and financial management is evidenced in the historically low level of charge-offs and delinquencies in the lenders' portfolios. Loan underwriting, monitoring and financial management policies and procedures for NFF and BCLF are summarized in *Appendix M***.**

NFF lending is governed by formal, board-approved credit policy guidelines. In addition, NFF's Underwriting Manual (included in *Appendix N*) is an additional resource to lenders as it provides an overview of NFF's lending philosophy and detailed guidance on the analysis, due diligence and structure options for a range of financing needs. These tools serve as guiding documents in the lending and credit review process. Lending staff are encouraged to think creatively about structuring options while mitigating risk in order to best balance the credit needs of NFF's borrowers and maintain strong credit quality. For its part, BCLF has staff level approval up to $500,000 and requires Loan Fund Committee approval for all transactions over $500,000.

Loan Underwriting: Both NFF and BCLF have seasoned lending staff who market, underwrite and structure loans. In the case of NFF (the leader underwriter), each lender works closely with the Chief Credit Officer to ensure that deals are structured to meet clients' needs in concert with credit risk considerations in accordance with NFF's credit policy guidelines.

NFF performs a thorough and deep analysis and requires a comprehensive application of clients with supporting materials which include five years of audited financial statements, financial projections, cash flow projections, project budgets, board and management lists with bios, corporate documents, and funding sources. The underwriting process also includes a site visit and in-depth conversations with senior management and other relevant stakeholders such as board members, CMOs, funders, charter authorizers, and consultants. Staff evaluate the requests with six primary areas of focus: 1) Organizational History and Mission; 2) Management, Financial Oversight, and Governance; 3) Financing Need or Project Analysis; 4) Financial Condition and Repayment Source; 5) School academic performance; and 6) Organizational capacity and program quality and sustainability.

Through the underwriting process, an understanding of the organization and its operations is gained, which in turn is used to assess the risks, appropriateness of the request and determine the optimal loan structure. NFF considers both the organizational financial analysis and the non-financial due diligence critical to understanding the organization, the financing need and risk. Rather than fitting a request into a predetermined product or structure as many traditional lenders do, NFF strives to align the loan structure and repayment terms to an organization's operating model and business plan.

Approval Process: The approval processes and credit authorities for NFF and BCLF are determined by the aggregate exposure to the borrower and related entities. The chart in *Appendix M* outlines specific approval authority for varying loan sizes. All loans above $500,000 are approved by one or more committees of 7-8 members representing an internal staff committee and an external credit committee. These members bring expertise and backgrounds in community development and commercial lending. The committees meet regularly and on an ad hoc basis as needed between meetings. NFF, BCLF and READS organizational approval is needed per the governance structure outlined in the *Capital Access Program* organizational chart (included as *Appendix S*).

Portfolio Monitoring and Servicing: The underpinning of NFF's portfolio monitoring and management process is its five-tier Loan Rating System. Its purpose is threefold: 1) to facilitate the initial and ongoing assessment of the individual transaction risk and cumulative portfolio risk; 2) to facilitate the ongoing and recurring loan monitoring cycle; and 3) to serve as a guide in determining appropriate levels of loan-loss reserves. The National Financial Products Committee, a sub-committee of the NFF Board of Directors, evaluates and approves the system; review occurs on a regular basis.

The criteria for determining the loan rating are aligned with the underwriting criteria mentioned previously. Based upon the strengths and weaknesses of the organization and the loan facility, each loan is assigned one of five ratings: strong, good, acceptable, marginal and doubtful. These loan ratings determine the schedule for periodic internal review by the Financial Services staff and may be adjusted during the scheduled review with the approval of the Chief Credit Officer. In addition to the regular reviews as determined by the loan rating, there are a series of monthly loan monitoring meetings which include a review of delinquent loans, upcoming maturities, and borrowers on the comprehensive watch list. The NFF watch list is intended to promote ongoing communication on a broad swath of the portfolio and to foster active relationship management. Through these reviews, both formal and informal, NFF is proactively managing real, potential and perceived risk in its portfolio.

NFF also mitigates risk of the overall portfolio through diversification. The portfolio is quite varied geographically, by sector, loan purpose and repayment structure, and consists of 138 borrowers with total; exposure of $74.5M as of year-end 2010. There is representation from nearly every corner of the nonprofit world: arts and culture groups, public benefit organizations (such as umbrella agencies, advocacy groups, etc.), educational institutions and health and human service organizations. Geographically, NFF's markets share the portfolio as follows: the Midwest is 10%, Mid-Atlantic States total 19%, New York is 39%, New England 9% and the West Coast is 22% of dollars outstanding. NFF's capital is used for a variety of purposes as well, from working capital needs to facilities purchase.

The NFF loan portfolio has a solid performance history with an historical write-off rate of approximately 1% of total loans. This track record is the result of NFF's underwriting process, loan monitoring and approach to borrowers experiencing trouble meeting the repayment schedule. In the case of troubled loans, NFF employs persistence and patience, working with borrowers to understand their situation, their prospects for improvement and assesses the options available. When necessary, NFF considers a restructure of the terms to allow for an organization to regain financial strength, all the while providing advice and support.

Financial Management: NFF has a five person finance and accounting department headed by the Chief Financial and Administrative Officer who also functions as NFF's CFO. It has a several policies and strategies in place to ensure that its internal controls are sufficient, its assets are appropriately safeguarded and that its financial information is accurate and is provided to management and other stakeholders on a timely basis. NFF is in compliance with all applicable rules, regulations and covenants and files an A-133 audit annually with no significant deficiencies or material weaknesses cited by its auditors.

Cash management is a critical concern and NFF monitors and manages several financial accounts, bank accounts and investment account, at several different financial institutions. With over 50 funders, NFF tracks and regularly reports on the use of both foundation and public agency funders. NFF monitors interest rate risk on a monthly basis, and reports this to its Finance and Budget Committee and the Board of Directors at regular meetings, no less frequently than quarterly. It has established parameters for allowable interest rate risk. Movement outside of the parameters would warrant actions. Liquidity risk of the NFF loan fund is managed on a portfolio basis, rather than by matching maturities. NFF has a strong permanent capital base in the loan fund. In addition, NFF monitors the weighted average maturity of loans payable and loans receivable to ensure that these are within an acceptable range. NFF also has access to lines of credit if needed to fund liquidity in the loan fund.

Investment risk is governed by the NFF Investment Policy, which is very specific as to establishing investment objectives, stating guidelines for short and long-term investments, diversification parameters, and Board reporting. The credit enhancement reserve account will be managed within the guidelines established by the regulations of the program. Lastly, NFF's financial reporting system enables the organization to monitor operating and loan fund risk on a regular basis. NFF produces monthly internal financial statements which are used by management to review activity and measure actual to budget results enabling use to make any course corrections necessary. In addition, quarterly financial statements are distributed to investors and reviewed by management and the board of directors. Lastly, NFF is audited on an annual basis; such audits have resulted in clean opinions with no significant deficiencies or material weaknesses identified.

Educational Expertise and Evaluating the Success of a Charter School

As discussed earlier, the *Capital Access Program* sees a clear need to integrate educational expertise and assessment in the underwriting and ongoing monitoring process. For that reason, READS—through its Academic Advisory Board and the NYS Charter School Association and Elevate—will conduct a thorough academic and organizational review of applying charter schools. For schools in need of improvement or start-up schools, resources and support from READS and Elevate will help schools to improve academically and organizationally (e.g. improved governance or better financial management). The leadership at READS has also been involved in various ways with charter schools as founders, board members, advocates, and technical assistance providers, and NFF and BCLF have also developed extensive expertise through their charter school lending (e.g. familiarity with school reports and charter school industry contacts) as well as the personal charter school board and task force affiliations of staff. *Appendix P* offers greater detail on the education and technical assistance expertise of the Consortium Members.

NFF's Education Expertise: With a mission to support the nonprofit sector, for almost 30 years NFF has successfully served a range of organizations with complex, multifaceted aspects to the their program, funding, and management. Education institutions have been a part of the NFF clientele since its beginning; the first NFF loan to a school was in 1982. Today, education-related organizations—such as pre-school and early education entities, charter schools and after-school corporations—comprise a significant percentage of NFF's client base.

NFF underwrote its first charter school in 2002. Since that time, NFF has directly financed 120 charter schools totaling $57M in debt. These funds have leveraged an additional $200M in financing and acquired, renovated or constructed more than 670,000 SF of space for 11,000 students in NFF markets across the country. Nearly 15% of NFF's work with charter schools has been for working capital needs—smoothing the irregular, episodic funding streams of the schools or providing fragile start-up and/or growth capital. The other 85% has been devoted to facilities projects where NFF has stepped in to provide debt where other financing was unavailable. Through this financing work along with our technical assistance work, NFF has developed extensive expertise in the education market.

A critical component of the Consortium Lending Members' underwriting process is contact and consultation with other agency stakeholders such as authorizers and management organizations. Collectively the Consortium Lending Members have relationships with statewide associations and

Departments of Education in CA, NJ, NA, NY, MA, PA, DE and Washington, DC. Working in partnership with these entities is a critical part of the due diligence and underwriting process. The result is that better loans are made and more dollars flow into schools—especially more fragile start-up schools and those experiencing growth.

A good example of this partnership approach to lending is Academy Charter High School (ACHS). ACHS is a free public high school for residents of Allenhurst, Asbury Park, Avon, Behnar, Bradley Beach, Deal, Interlaken, and Lake Como, NJ. Since 2007, ACHS has received technical assistance from READS on facility needs and growth plans, and the school worked with READS to acquire their current facility. They also worked with READS to conduct an investment grade energy audit and assessment of the facilities (expected to yield annual energy savings of about $13,000). Carol Scamorza, the School Business Manager, says, "We could not have done this project without the critical role of READS and the support and commitment of lending partners like the Nonprofit Finance Fund and Boston Community Capital."

In addition to financing real estate transactions, NFF and BCLF meet the capital needs of the charter school market by offering additional products such as working capital loans and financing for energy efficiency and renewable energy initiatives.

Preventing Conflicts of Interest

Each partner maintains a Conflict of Interest Policy along with guidance on the varying scenarios that qualify as conflicts of interest. Each organization's Conflict of Interest Policy is attached to this application in *Appendix Q*. Staff are required to follow their organization's policy with regard to conflicts of interest. The Consortium Members have also agreed to a Capital Access Program Consortium Conflict of Interest Policy (included as *Appendix R*). The policy outlines how credit enhancement decisions are to be made if a member is determined to have a conflict or appearance of a conflict. In some cases, those interested parties or organizations may recuse themselves from a final decision at the *Capital Access Program* governance level for decisions on the use of the credit enhancement.

***Bringing Additional Resources to the* Capital Access Program**

Each partner brings a strong track record and experience in charter school facility lending. In addition, each organization is committing resources to make the program successful. First and foremost, NFF and BCLF are committed to providing essential subordinate capital to make facility projects work. In their roles as subordinate lenders, and in some cases as senior lenders, **BCLF and NFF have committed to providing between $60M and $70M for senior and subordinate charter school financing through this partnership**. This will help to leverage the additional funds needed to support the anticipated $144.75M of total development costs. READS will invest a significant amount of staff time and resources during the initial feasibility stage, coordinate the academic and organizational assessment of each school, and in some cases will take on the direct development of a facility on behalf of a charter school.

In addition to providing the critical loan capital, the Consortium Members are also committing human and other resources to support the marketing, underwriting, identification of financing partners and provision of technical assistance. Each Member has agreed to commit resources to market the program, attend relevant conferences, reach out to other potential lenders and seek potential transactions enabling us to extend the reach of the program. Because marketing frequently requires a physical presence and builds on networks and relationships, READS, NFF and BCLF will each work closely with local charter school associations, technical assistance providers and other financing partners to talk about the program. They will participate on panel discussions and attend conferences, in addition to adding the program description to their general marketing materials.

In seeking to facilitate the packaging of financing, the Members are also committing resources to identify and solicit participation by other financing partners. These financial partners are essential to accessing the capital necessary to complete projects and leverage the credit enhancement. Each Member will spend time cultivating and managing these vital bank and foundation relationships. While banks will most often provide senior debt, foundations may also play an important role in providing grant funding or PRI funding to further support the financing of a particular transaction.

Quality of Project Personnel

The Consortium Members have worked diligently to assemble a project team with critical experience in: a) developing and financing charter school facilities; b) providing technical assistance to charter schools on their real estate plans; and c) assessing and supporting the academic, organizational, and financial strength of charter schools. The Members have concluded that a USDOE credit enhancement would improve their ability to provide their own capital and leverage other reasonably priced and flexible capital to create a strong pipeline of facilities for high-quality charter school borrowers. Lastly, the Capital Access Program enables the Consortium Members to achieve more together than would be possible individually.

The Consortium Members have executed an MOU (included as an attachment) to guide the decision-making, effective governance and clear roles and responsibilities of the Consortium Members. *Table 7* also lists the organization that will take the lead for each functional area and that will "keep score" on behalf of the Consortium.

Table 7: Partner Responsibility Assignments

Underwriting and Credit Analysis	*NFF*	*Anne Dyjak*
Portfolio Monitoring	*BCLF*	*Mike Nilles*
Feasibility Studies and RE Devlp	*READS*	*Brian Keenan*
Academic Assessment	*READS*	*Keith Timko*
Marketing	*NFF*	*Archie Colander*
Grant Reporting	*READS*	*Christina Oztan*
Partner Coordination	*READS*	*Lauren Bolline*

The Consortium Members intend to form a *Capital Access Program* Special Purpose Entity ("SPE") as the governing body for the Consortium. Each Member will select one person to serve on the Board for a one year term. Meetings will be held on a quarterly basis. READS will provide a staff person to the *Capital Access Program* SPE to assist with meeting coordination, agenda, minutes, etc. The following program areas have been assigned to the Members respectively: a) feasibility studies and direct real estate development (READS); b) academic assessment (READS in conjunction with NYSCSA); c) portfolio monitoring (BCLF); d) marketing (NFF); e) grant reporting (READS); and f) partner coordination (READS).

The current staffing plan for the consortium aligns a staff member from a Consortium Member with the functional area that best suits their strength. The following staff with their respective expertise will lead up each of the key functions of the Consortium.

Underwriting and Credit Analysis: Anne Dyjak will lead the underwriting and credit analysis of the Consortium and coordinate between BCLF and NFF. Anne is the Chief Credit Officer and Vice President at Nonprofit Finance Fund. She oversees credit quality nationwide for NFF, working with a complement of lenders in the underwriting and structuring of loans and management of credit risk. Ms. Dyjak joined NFF in 2005 following a 20 year career in financial services. She has held diverse positions including regional Chief Operations Officer and Vice President at Wachovia Bank. She has extensive experience in management, analysis, strategic planning, risk management and organizational development. Her career has included responsibilities ranging from the origination of consumer and commercial loans, credit and operational risk management, and the resolution of distressed loan and real estate portfolios. Prior to joining NFF, she served in the nonprofit sector as the Finance and Administration Director of a grassroots environmental organization. Ms. Dyjak is active in community service and has served in various board officer capacities as well as an outings leader with the Sierra Club Inner City Outings youth outreach program. A complete resume is included as an attachment.

Portfolio Monitoring: BCLF will coordinate the portfolio monitoring function of the Consortium. Heading up this effort is Mike Nilles. Mike worked as a Senior Loan Officer at Boston Community Loan Fund from 1996 – 2001 and rejoined in 2004. As Senior Loan Officer, he markets Boston Community Loan Fund to potential borrowers, underwrites loan requests, and conducts ongoing portfolio management. During his time away from BCLF from 2001-2004, Mike worked as a private consultant in community-based financing and real estate development. He came to Boston Community Loan Fund in 1996 from BayBank, where he was an Assistant Vice President in a middle-market commercial lending group. A graduate of Georgetown University and the Yale School of Management, Mike previously served as a Jesuit Volunteer in Seattle. A complete resume is included as an attachment.

Feasibility Studies, Technical Assistance and Direct Real Estate Development: Feasibility studies as well as direct real estate development by READS will be coordinated by Brian Keenan. As the founder and Director and President of READS, Brian is dedicated to community economic development and promoting school choice. Brian has a Bachelor's of Arts Degree in Social Work from Molloy College, a Certificate in Community Economic Development from Pratt Institute and a Masters of Business Administration from St. Peter's College. Brian has 20 years of experience in real estate development and financing, having worked for NJ Community Capital where he was instrumental in expanding the organization's financial activities, including committing the organization's first charter school loan and first social enterprise equity investment and expanding the organization's financial capital basis. Additionally Brian has developed more than 1,500 units of affordable housing in the tri-state area and has led READS and its development of 12 charter school facilities. Brian serves on the Boards of New Jersey Community Capital, Learning Community Charter School, Federal Home Loan Bank of New York Advisory Board and the New Jersey Charter Schools Association. A complete resume is included as an attachment.

Academic and Organizational Assessment: The academic review of charter schools will be coordinated by Keith Timko and will benefit from the assistance of the NYS Charter School Association and Bill Phillips and Jill Shehan. Keith Timko has been with READS since September 2008 and brings over fifteen years of experience in community development including: involvement in educational reform issues with The Center for Collaborative Education in New York City; experience in leadership development and management programs as the former President of the Leader to Leader Institute (formerly the Peter F. Drucker Foundation); and exposure to policy and community development approaches across the country during his time with Living Cities: The National Community Development Initiative. Keith has a Bachelor's degree in History and Russian from Rutgers University and a Masters in Business Administration from Columbia University. Importantly, Keith served as the Director of

Accountability and Assessment for four years with a membership organization of small public schools giving him insight into the academic and organizational assessment of schools. A complete resume is included as an attachment.

Providing additional support to READS and the Consortium Members with the academic assessment will be Bill Phillips and Jill Shehan of the NYS Charter School Association and Elevate. Bill Phillips is the president of the New York Charter Schools Association (NYCSA). Bill served in business development leadership positions with Beacon Education Management and SABIS Educational Systems. Prior to entering the charter sector, he worked as a marketing and new product specialist and a manufacturing supervisor with Texas Instruments, Inc. During that period he also served as a school board member in Massachusetts and, during his tenure, founded a regional charter school in Foxboro. Bill earned his Master's in public administration from George Washington University and a Bachelors of Science from Lehigh University.

Jill Shahen is the Managing Director of the New York Charter Schools Association. In this role she oversees school membership relations, compliance and oversight issues for all Association member schools, provides Help Desk services to member schools, and oversees the daily operations of the Association. Jill also provides consulting services through NYCSA's Elevate Charter Schools project through CharterShield, CharterRenew and CharterGo. Her experience is specifically concentrated in board governance, compliance and oversight, and school policy implementation. Jill is the former Director of Charter Accountability for the Charter Schools Institute of the State University of New York, a position she held for over seven years. At the Institute she was responsible for charter oversight, monitoring and compliance issues for over 40 SUNY authorized charter schools including charter schools that were closed.

Marketing and Outreach: Although all Consortium Members will share responsibility for marketing and outreach, the marketing function of the Consortium will be coordinated by Archie

Colander. Archie is the NFF Program Director for New York & New Jersey. His responsibilities include managing NFF's advisory services, lending services and new business development activities throughout New York and New Jersey. His experience combines over 30 years of management in both the nonprofit and corporate sectors. He has provided economic and community development leadership, resources and technical support to small businesses, CDC's, and social services organizations in his banking roles. Most recently he was with PNC Bank, where he served as Vice President, Community Development, focusing on business development and lending to nonprofits in PNC's Northeast Territory. He has served on numerous boards and is currently Chair of the Urban League of Essex County, a member of Newark LISC Local Advisory Committee and Jersey City Episcopal CDC board. Archie holds a Bachelor of Science degree in Biology from Trinity College, Hartford, CT. A complete resume is attached.

Grant Reporting and Staffing: READS will also provide support to the Consortium with grant reporting assistance from **Christina Oztan**, READS' Director of Fund Development and Special Initiatives. **Lauren Bolline** of READS will provide staffing support and coordination for the Members' quarterly meetings.

Competitive Preference Priority

The *Capital Access Program* targets geographic areas in the Northeast and Mid-Atlantic encompassing five states (Massachusetts, New York, New Jersey, Delaware, and Pennsylvania) and Washington, DC. Within these states, the geographic priority areas include: Washington, DC; Boston, MA, Philadelphia, PA; Wilmington, DE; Newark, Jersey City, Camden and Trenton in New Jersey; and Buffalo, and New York City (Bronx and Brooklyn) in New York. Collectively, these states have over 110,000 students on charter school waiting lists, including 42,000 in New York City alone. While much of the Members' expertise resides in the Northeast and Mid-Atlantic, we plan to use our collective networks, experience and the footprint of NFF in Michigan and California to expand and replicate the program in communities and areas with the greatest need for public school choice in these states including Detroit, Los Angeles and San Francisco.

These priority areas were selected for several reasons. First, these areas are communities that all of the Consortium Members have experience in, specifically working with charter schools, and in addition they reflect the footprint of the Consortium Members. Of the thirteen charter school facility projects that READS has completed or is currently developing, all but two are located in low income urban areas with school districts that have been identified as in need of improvement, and six of the schools are located in the *CAP* priority areas. Three of the five charter school projects that BCLF has financed are located in targeted priority areas, including two in Boston and one in Washington, DC. NFF has provided financing to 9 charter schools located in the priority areas, including four in the Bronx, NY, two in Brooklyn, NY and three in Philadelphia. In addition, NFF has financed two charter schools in Detroit and two schools in Los Angeles and provided $4.5M to the California Charter Schools Association in support of charter schools in California. In addition, of the 30 charter schools in the CAP pipeline, 70% are located in districts in need of improvement with 17 located in CAP priority areas including, 3 in Newark, 6 in New York City, 2 in Boston.

. In addition to the Consortium Members' experience developing and financing charter school facilities in the priority areas, the priority areas were selected as the consortium members have established strong partnerships, ties and networks in the charter school industry in these areas including with charter schools, state departments of education, charter school lenders and state and city charter school associations. While the Consortium Members already have a strong presence in the priority areas, CAP will enable the members to reach a greater number of charter schools in need of facilities. While each of the members already markets to the geographic priority areas, CAP will be further marketed by each Member organization, by partner organizations and through outreach by state and city charter school associations. Marketing by the Consortium Members will include direct outreach through mailing of letters and postcards to charter schools, lenders and other contacts, press releases to local media and national media outlets, organizational newsletter articles regarding the program, and online marketing through email, Consortium member websites and other social media outlets. In addition, workshops and webinars on charter school facilities and financing will be offered to charter schools in the targeted areas. The Consortium has received letters of support for the project from state charter school associations for New Jersey, New York, Massachusetts and California as well as from 14 charter schools and 11 financial institutions. State and city charter school associations have worked with the Consortium Members on marketing prior initiatives and will market CAP to charter schools in their respective states through email, workshop offerings, newsletters and other outreach methods.

Lastly, the priority areas were selected as they represent some of the country's poorest school districts and communities with the greatest need for public school choice with respect to three criteria: 1) areas where a large proportion if public schools or districts have been identified as in need of improvement, under corrective action or restructuring; 2) areas in which a large proportion of students score below proficient in state academic assessments; and 3) geographic areas with a high percentage of low income students. The *Capital Access Program* will target 75% of the credit enhancement for use in communities demonstrating the most need.

The data summarized in Table 1 below, speaks volumes to the need for public school choice in these communities. The percentage of schools identified as in need of improvement range from 41% in

Buffalo, NY and Philadelphia to 89% in Jersey City, NJ. The performance on state assessments shows similar results with most of the districts reporting 60% or more of the students performing below grade level. These communities also are home to a very high percentage of low income families as indicated by the percentage of students eligible for free and reduced lunch. With the exception of two priority areas, all areas have more than 70% of students eligible for free and reduced lunch and three areas in NJ are above 80%. Based on the experience of Consortium Members working with charter schools in these areas, many of the schools often have 100% of their students eligible for free and reduced lunch.

Schools In Need of Improvement

The need to provide public school choice is mandated by the No Child Left Behind Act, which requires districts to provide public school choice to students in schools that have been identified as schools in need of improvement, under corrective action or under restructuring. The following highlights data from Table 1 below with respect to this indicator:

- All of the targeted priority areas have a large number and/or percentage of districts and/or schools that have been identified as in need of improvement, under corrective action or restructuring;
- In New Jersey, three of the four priority areas (Newark, Jersey City and Camden) are districts that are under a state restructuring mandate;
- 12 of the 32 school districts in New York City or 38% are in need of improvement;
- 41% of the public schools in Buffalo are identified as in need of improvement, corrective action or restructuring;
- 41% of the public schools in Philadelphia did not meet AYP;
- In DC, 74% of public schools did not meet AYP; 71% of schools are in need of improvement; and
- In Boston, 59 of the 130 schools (45%) in the district are in need of restructuring, corrective action, or in need of improvement. All receive Title I funds.

Performance on State Assessments

In addition to districts with a large number of schools or districts identified as in need of improvement, the priority areas include geographic areas in which a large proportion of students perform below proficient on state academic assessments. Some of the highlights from the data collected and analyzed and summarized in Table 1 below for this indicator include:

- In Buffalo, NY, 40%-60% of students scored below proficient on state tests
- Upwards of 72% of students performed below proficient on state tests in Boston
- In New York City, 37% of the public schools had more than two-thirds of the students performing below grade level
- In New Jersey, between 45% and up to 80% of students in Newark, Camden, and Jersey City scored below proficient on the state assessments.
- In Philadelphia, 42% of students performed below proficient
- In DC, nearly 60% of student scored below proficient

Percentage of students from Low Income Families

In addition, data collected and analyzed includes the percentage of low-income students as indicated by student eligibility for free and reduced lunch in each of the priority areas**.** As indicated in Table 1 below:

- In 82% or in 9 of the 11 geographic priority areas, at least 70% of the student population is eligible for free and reduced lunch;
- Three of the four priority areas in NJ have over 80% of students eligible for free and reduced lunch

Expansion and Replication Areas

With respect to the geographic areas in need that are targeted for expansion and replication (Detroit, Los Angeles and San Francisco) of the program, the data gathered shows:

- 81% of students in Detroit and 77% of students in Los Angeles are eligible for free and reduced lunch;
- In Los Angeles, between 60%-84% of students performed below proficient on state assessments ; and
- Between 69%-77% of students in Detroit performed below proficient on state tests

TABLE 1 – Capital Access Program *and Priority Area Indicators for Public School Choice*

Priority Areas	% of Students Eligible for Free and Reduced Lunch	% of Students Below Proficient on State Assessments	Data on Schools in Need of Improvement
Delaware			
Wilmington, DE	47%	23%-42%	
District of Columbia	75%	58%	71% of DC public schools are in need of improvement; 74% of DC schools did not meet AYP
Massachusetts			
Boston	76%	68%-72%	45%
New Jersey			
Newark	82%	45%-66%	64%
Jersey City	75%	35%-60%	89%
Camden	83%	60%-85%	63%
Trenton	82%		71%
New York			
New York City	74%	37% of NYC public schools had more than 2/3 of the students performing below proficient	60% of NYS schools identified as in need of improvement are in NYC; 38% of NYC public school districts are in need of improvement
Buffalo	76%	40-50%	41% are in need of improvement, corrective action or restructuring
Pennsylvania			
Philadelphia	77%	42%	41% of schools did not meet AYP
Expansion and Replication Areas			
California			
Los Angeles	77%	60-84%	
San Francisco	58%	48%-63%	
Michigan			
Detroit	81%	69%-77%	

Sources:

State Departments of Education
National Alliance for Public Charter Schools Dashboard
Annie E. Casey Foundation's Kid Count

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