

**U.S. Department of Education - EDCAPS
G5-Technical Review Form (New)**

Status: Submitted

Last Updated: 02/11/2010 02:04 PM

Technical Review Coversheet

Applicant: California School Finance Authority (U354A090018)

Reader #2: *****

	Points Possible	Points Scored
Questions		
Competitive Preference Priority		
Competitive preference priority- 15 points		
1. QUESTION 1	15	12
Sub Total	15	12
Selection Criterion		
Quality of project design and significance- 35 points		
1. QUESTION 2	35	30
Quality of project services- 15 points		
1. QUESTION 3	15	11
Capacity- 35 points		
1. QUESTION 4	35	32
Quality of the project personnel- 15 points		
1. QUESTION 5	15	13
Sub Total	100	86
Total	115	98

Technical Review Form

Panel #1 - Panel 1: 84.354A

Reader #2: *****

Applicant: California School Finance Authority (U354A090018)

Questions

Competitive Preference Priority - Competitive preference priority- 15 points

1. The capacity of charter schools to offer public school choice in those communities with the greatest need for school choice based on--
 - (1) The extent to which the applicant would target services to geographic areas in which a large proportion or number of public schools have been identified for improvement, corrective action, or restructuring under Title I of the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the No Child Left Behind Act of 2001;
 - (2) The extent to which the applicant would target services to geographic areas in which a large proportion of students perform below proficient on State academic assessments; and
 - (3) The extent to which the applicant would target services to communities with large proportions of students from low-income families.

Score chart for evaluating competitive priority (0-15 points):

5 Points for one factor
Excellent

4 Points for one factor
Good

3 Points for one factor
Acceptable

0-2 Points for one factor
Other

Strengths:

The applicant makes a commitment that "if program capacity is limited, preference points will be assigned to applicants based on (pg 21):

- 1) number of low-income students qualifying for Free & Reduced Price Meals;
- 2) State (API) and USED (AYP) academic assessments of students attending traditional schools in the geographic region of the applicant;
- 3) traditional schools identified for improvement, corrective action or restructuring under Title I of ESEA as amended by the NCLB Act of 2001 in the geographic region of the applicant ..."

The applicant similarly designed a 110-point preference point matrix for its State Charter Schools Facilities Incentive Grant Program (pg 10).

Weaknesses:

The applicant did not provide details of how many preference points will be allocated for the "at risk" categories or specify any target for what percentage of the CEP funding will be allocated to these categories.

Selection Criterion - Quality of project design and significance- 35 points

1. In determining the quality of project design and significance, the Secretary considers--
- (1) The extent to which the grant proposal would provide financing to charter schools at better rates and terms than they can receive absent assistance through the program;
 - (2) The extent to which the project goals, objectives, and timeline are clearly specified, measurable, and appropriate for the purpose of the program;
 - (3) The extent to which the project implementation plan and activities, including the partnerships established, are likely to achieve measurable objectives that further the purposes of the program;
 - (4) The extent to which the project is likely to produce results that are replicable;
 - (5) The extent to which the project will use appropriate criteria for selecting charter schools for assistance and for determining the type and amount of assistance to be given;
 - (6) The extent to which the proposed activities will leverage private or public-sector funding and increase the number and variety of charter schools assisted in meeting their facilities needs more than would be accomplished absent the program;
 - (7) The extent to which the project will serve charter schools in States with strong charter laws, consistent with the criteria for such laws in section 5202(e)(3) of the Elementary and Secondary Education Act of 1965; and
 - (8) The extent to which the requested grant amount and the project costs are reasonable in relation to the objectives, design, and potential significance of the project.

Score chart for evaluating general selection criteria (0-100 points):

90-100 Points

Applications that are characterized by "overall excellence" and that you would recommend for funding without reservation.

80-89 Points

Applications that are of generally very good quality that are worthy of consideration for funding, are likely to demonstrate excellence in many aspects of their program but fall short of demonstrating overall excellence.

70-79 Points

Applications with good ideas, perhaps fairly strong in some areas, but with substantial deficiencies or areas of weakness that need to be resolved before the proposed project is considered for an award.

Less than 70 Points

Applications that need substantial redesign or improvement in many or most areas of the project and therefore should not be considered for funding at this time.

Strengths:

Weaknesses:

The applicant does not specifically state any goals for the program; these can only be inferred. The applicant would have strengthened its application by devoting a section of its proposal to specific goals, measurable objectives, and appropriate timelines.

While addressing the financial strengths of the CA charter school law, the applicant does not mention how other aspects of the law regarding authorizing, governance, or academic accountability do or do not contribute to the State being regarded as having a strong law.

Reader's Score: 30

Selection Criterion - Quality of project services- 15 points

1. In determining the quality of the project services, the Secretary considers--
 - (1) The extent to which the services to be provided by the project reflect the identified needs of the charter schools to be served;
 - (2) The extent to which charter schools and chartering agencies were involved in the design of, and demonstrate support for, the project;
 - (3) The extent to which the technical assistance and other services to be provided by the proposed grant project involve the use of cost-effective strategies for increasing charter schools' access to facilities financing, including the reasonableness of fees and lending terms; and
 - (4) The extent to which the services to be provided by the proposed grant project are focused on assisting charter schools with a likelihood of success and the greatest demonstrated need for assistance under the program.

Score chart for evaluating general selection criteria (0-100 points):

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Less than 70 Points

Applications that need substantial redesign or improvement in many or most areas of the project and therefore should not be considered for funding at this time.

Strengths:

The applicant, experienced in providing low-cost capital through tax-exempt bond financings for school districts since 1985, specifically sought authority to expand its mission in 2007 as a conduit bond issuer on behalf of charter schools (pg 11 and 31). Its involvement in overseeing the State's \$900M Charter School Facilities Program and \$50M federally-funded State Charter School Facilities Incentive Grants Program, gives it the relevant experience to design a program of low-cost capital that complements these other offerings. In particular, its thorough gap analysis (pg 16) and selection criteria (pg 20-22) reflect the identified needs of the charter schools to be served.

The applicant demonstrates support from a variety of charter school support organizations and charter management organizations (attached letters of support). As a state agency, the applicant's opportunities for vetting the program come mostly in the form of regulatory comment periods. The applicant commits to hosting a number of informational and technical workshops in tandem with its rulemaking (pg 23).

The applicant projects all-inclusive funding costs of 6.89 percent under its program versus a non-rated, tax-exempt debt with a funding rate no less than 8.5 percent in the absence of its program, reflecting a reasonableness of fees and lending terms.

The applicant commits to making its CEP grant assistance available to schools with just one year of operating history and it will give preference points to charter schools serving low-income students or those in "needs improvement" communities under NCLB in greatest need of public school choice (pg 21).

Weaknesses:

While the applicant makes one brief mention of providing informational and technical workshops throughout the state (pg 23), it provides no details as to what these workshops will entail and how they will support charter schools in accessing facilities financing.

Aside from one brief mention of student proficiency performance (pg 20) as an eligibility criteria, the applicant does not discuss how its underwriting and monitoring will ensure it is assisting charter schools with a likelihood of success.

Reader's Score: 11

Selection Criterion - Capacity- 35 points

1. In determining an applicant's business and organizational capacity to carry out the project, the Secretary considers--
 - (1) The amount and quality of experience of the applicant in carrying out the activities it proposes to undertake in its application, such as enhancing the credit on debt issuances, guaranteeing leases, and facilitating financing;
 - (2) The applicant's financial stability;
 - (3) The ability of the applicant to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management;
 - (4) The applicant's expertise in education to evaluate the likelihood of success of a charter school;
 - (5) The ability of the applicant to prevent conflicts of interest, including conflicts of interest by employees and members of the board of directors in a decision-making role;
 - (6) If the applicant has co-applicants (consortium members), partners, or other grant project participants, the specific resources to be contributed by each co-applicant (consortium member), partner, or other grant project participant to the implementation and success of the grant project;
 - (7) For State governmental entities, the extent to which steps have been or will be taken to ensure that charter schools within the State receive the funding needed to obtain adequate facilities; and
 - (8) For previous grantees under the charter school facilities programs, their performance in implementing these grants.

Score chart for evaluating general selection criteria (0-100 points):

90-100 Points

Applications that are characterized by "overall excellence" and that you would recommend for funding without reservation.

80-89 Points

Applications that are of generally very good quality that are worthy of consideration for funding, are likely to demonstrate excellence in many aspects of their program but fall short of demonstrating overall excellence.

70-79 Points

Applications with good ideas, perhaps fairly strong in some areas, but with substantial deficiencies or areas of weakness that need to be resolved before the proposed project is considered for an award.

Less than 70 Points

Applications that need substantial redesign or improvement in many or most areas of the project and therefore should not be considered for funding at this time.

Strengths:

The applicant has extensive experience in carrying out the tax-exempt debt financing activities it proposes to undertake in its application.

To date, it has overseen four funding rounds of the federally-funded State Charter School Facilities Incentive Grants Program with 82 charter schools, serving 25,862 students, receiving awards totaling \$38M.

The application includes a summary of factors that will comprise its underwriting standards (pg 33). It has also identified its underwriting and bond counsel (pg 38-40). Such steps should protect against unwarranted risk.

The applicant will monitor a number of financial indicators and also consider enrollment performance, the qualifications and performance of management, charter compliance, student proficiency, and the governance structure of the school (pg 33) to evaluate the likelihood of success of a charter school.

The applicant has sound standards of conduct consistent with the State's Political Reform Act (pg 34 and Attachment) that appropriately address conflict of interest issues.

The applicant has adequately identified the roles of the State Treasurer's Office, underwriters, and bound counsel such that their roles should contribute positively to successful implementation of the CEP grant.

The applicant oversees three programs related to charter schools facility financing and has designed the CEP grant to integrate with all streams of State financing (pg 1-14) such that charter schools within the State are able to receive the funding needed to obtain adequate facilities.

Weaknesses:

As a state agency, the applicant's financial stability is tied to the credit rating of the State, which has been downgraded recently due to depressed revenues, lower property values, high unemployment, and projected budget deficits (Controller Notes). This calls into question the agency's ability to attract sufficient lending capacity to meet its leveraged target.

Reader's Score: 32

Selection Criterion - Quality of the project personnel- 15 points

1. In determining the quality of project personnel, the Secretary considers--
 - (1) The qualifications of project personnel, including relevant training and experience, of the project manager and other members of the project team, including consultants or subcontractors; and
 - (2) The staffing plan for the grant project.

Score chart for evaluating general selection criteria (0-100 points):

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Strengths:

The applicant operates on low overhead with a staff of four professional and four support personnel. The project director has 16 years of municipal financing experience and has been associated with the applicant since 2000. She has overseen the monitoring of 34 charter schools participating in the Charter Schools Facilities Program and 55 charter schools under the State Charter School Facilities Incentive Grants. Treasurer's staff that have been tasked to the project have also been associated with the applicant since 2000. Lead personnel associated with underwriters and bond counsel have extensive amount of education finance experience (pg 36-40, plus resumes).

Weaknesses:

More clarification is needed about the roles of and reporting relationships among team members and clarity about whom the charter schools interact with for technical assistance and other support. The team lacks anyone with direct operational experience with charter schools, which would be useful in terms of providing technical assistance and support. The applicant's staffing plan would be strengthened if it provided an organizational chart to visually depict the interactions between project team members and how functions will be managed.

Reader's Score: 13

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Sub Total	100	86
Total	115	98

Technical Review Form

Panel #1 - Panel 1: 84.354A

Reader #3: *****

Applicant: California School Finance Authority (U354A090018)

Questions

Competitive Preference Priority - Competitive preference priority- 15 points

1. The capacity of charter schools to offer public school choice in those communities with the greatest need for school choice based on--
 - (1) The extent to which the applicant would target services to geographic areas in which a large proportion or number of public schools have been identified for improvement, corrective action, or restructuring under Title I of the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the No Child Left Behind Act of 2001;
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Score chart for evaluating competitive priority (0-15 points):

5 Points for one factor
Excellent

4 Points for one factor
Good

3 Points for one factor
Acceptable

0-2 Points for one factor
Other

Strengths:

The applicant indicates that it will target charter schools in California that have at least seventy percent of students receiving free and reduced-price meals, charter schools that are not meeting their state assessed Academic Performance Index (API) targets, and charter schools that are not meeting the federal Annual Yearly Performance (AYP) index (page 23).

Weaknesses:

Although the applicant indicates that it would address the the three criteria, it failed to specify how.

Reader's Score: 12

Selection Criterion - Quality of project design and significance- 35 points

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 - (1) The extent to which the grant proposal would provide financing to charter schools at better rates and terms than they can receive absent assistance through the program;
 - (2) The extent to which the project goals, objectives, and timeline are clearly specified, measurable, and appropriate for the purpose of the program;

- (3) The extent to which the project implementation plan and activities, including the partnerships established, are likely to achieve measurable objectives that further the purposes of the program;
- (4) The extent to which the project is likely to produce results that are replicable;
- (5) The extent to which the project will use appropriate criteria for selecting charter schools for assistance and for determining the type and amount of assistance to be given;
- (6) The extent to which the proposed activities will leverage private or public-sector funding and increase the number and variety of charter schools assisted in meeting their facilities needs more than would be accomplished absent the program;
- (7) The extent to which the project will serve charter schools in States with strong charter laws, consistent with the criteria for such laws in section 5202(e)(3) of the Elementary and Secondary Education Act of 1965; and
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Less than 70 Points

Applications that need substantial redesign or improvement in many or most areas of the project and therefore should not be considered for funding at this time.

Strengths:

Weaknesses:

Although the applicant identified two specific types of charter school borrowers that would be the beneficiaries of its bond issues, it did not discuss or describe the mechanism it would use to determine the amount of assistance that would be provided to meet the needs of eligible charter schools.

The applicant failed to clearly articulate the factors that indicate that the State of California is a state with strong charter laws. The applicant did not provide any information about State authorizers, whether or not charter schools are given flexibility to operate, or the chartering and renewal processes.

Reader's Score: 31

Selection Criterion - Quality of project services- 15 points

In determining the quality of the project services, the Secretary considers--

- (1) The extent to which the services to be provided by the project reflect the identified needs of the

charter schools to be served;

(2) The extent to which charter schools and chartering agencies were involved in the design of, and demonstrate support for, the project;

(3) The extent to which the technical assistance and other services to be provided by the proposed grant project involve the use of cost-effective strategies for increasing charter schools' access to facilities financing, including the reasonableness of fees and lending terms; and

(4) The extent to which the services to be provided by the proposed grant project are focused on assisting charter schools with a likelihood of success and the greatest demonstrated need for assistance under the program.

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Less than 70 Points

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Strengths:

The applicant provided a clear description of services to be provided by the grant project over the next five fiscal years. Services to be provided reflect the applicant's assessment of new charter schools in the State of California. The grant project reflects the applicant's assessment of the annual estimates of the facilities needs of new charter schools to accommodate their student enrollments, up-front costs of new schools, and the unfunded costs of new charter school facilities for fiscal years 2010 through 2014 (page 16). The applicant indicates that its services would increase access to capital for charter schools that serve low-income students and students with inadequate housing, high-quality charter schools seeking low-cost capital for new facilities, and charter schools seeking to reduce the cost of their existing debt obligations (pages 1, 14-15, 27-28).

The applicant provided letters of support for its grant project from the Governor of California, the Treasurer, the Superintendent of Public Instruction, and the Director of the Department of Finance, the California Charter School Association, the Charter Schools Development Center, Green Dot Public Schools, EdVoice, and Aspire Public Schools.

The applicant will use cost-effective strategies to increase charter schools' access to facilities financing. For example, the applicant indicates that it will pay the cost of issuing the Tier One and Tier Two bonds. It will pay for the direct cost of administering the grant project with its own funds. It will seek to minimize the amount of personnel costs that are paid for out of the grant award (Budget Narrative Table B). The applicant's strategies for reducing costs and fees for bond issuances and thereby reducing the cost of borrowing for charter schools seems reasonable.

Facility financing services will be provided to charter schools that demonstrate the most need (page 10).

Weaknesses:

While the applicant provided letters of support and clearly described the assistance that it received from the Charter School Association (page 31) in working to amend state legislation that permitted state support for charter schools, it

failed to identify or otherwise demonstrate that either charter schools, chartering agencies, or charter school stakeholders were meaningfully involved in the design of its grant project.

The applicant failed to describe the type of technical assistance and other services that would be provided to charter schools in relation to the implementation of the project plan or activities.

Reader's Score: 13

Selection Criterion - Capacity- 35 points

- 1. In determining an applicant's business and organizational capacity to carry out the project, the Secretary considers--**
 - (1) The amount and quality of experience of the applicant in carrying out the activities it proposes to undertake in its application, such as enhancing the credit on debt issuances, guaranteeing leases, and facilitating financing;**
 - (2) The applicant's financial stability;**
 - (3) The ability of the applicant to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management;**
 - (4) The applicant's expertise in education to evaluate the likelihood of success of a charter school;**
 - (5) The ability of the applicant to prevent conflicts of interest, including conflicts of interest by employees and members of the board of directors in a decision-making role;**
 - (6) If the applicant has co-applicants (consortium members), partners, or other grant project participants, the specific resources to be contributed by each co-applicant (consortium member), partner, or other grant project participant to the implementation and success of the grant project;**
 - (7) For State governmental entities, the extent to which steps have been or will be taken to ensure that charter schools within the State receive the funding needed to obtain adequate facilities; and**
 - (8) For previous grantees under the charter school facilities programs, their performance in implementing these grants.**

Score chart for evaluating general selection criteria (0-100 points):

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Less than 70 Points

Applications that need substantial redesign or improvement in many or most areas of the project and therefore should not be considered for funding at this time.

Strengths:

The applicant has twenty-four years of experience in providing facility and working capital financing to California school districts and community college districts (page 30). The applicant has been involved in assisting charter schools since the adoption of charter school legislation in 1992 by the State of California (page 1).

The applicant indicates that its primary function is to administer the State of California's Charter School Facilities Program (page 31). In 2007, the applicant was authorized to serve as a conduit bond issuer on behalf of charter schools under the

California Charter School Conduit Financing Program (page 11). The applicant indicates that it has conducted six bond issuances for charter schools since 2001 (pages 14 and 31). The applicant has extensive experience in developing underwriting standards for its Charter School Facilities Program (page 33).

The applicant indicates that its Board of Directors, including Bill Lockyer, California State Treasurer; Jack O'Connell, Superintendent of Public School Instruction; and Michael C. Genest, Director of Finance, will be involved in the implementation of the Conduit Financing Program (pages 30 and 37).

The applicant indicates that in order to protect against unwarranted risk it would employ underwriting standards to determine whether charter school applicants are financially healthy and viable entities (page 33).

In order to ensure that charter schools receive needed financing for facility projects the applicant indicates that it would broaden its scope of funding for charter schools and work with charter school stakeholders (pages 28-29).

Weaknesses:

The applicant failed to provide a clear narrative discussion of its financial health and viability (page 34).

The applicant failed to provide a narrative description as to how it would use its policies and procedures to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management (page 33).

The applicant failed to demonstrate that its staff has experience in evaluating charter schools and the likelihood of success. The applicant could have strengthened its narrative by providing a brief description of the roles and responsibilities of its staff with respect to evaluating the capacity of charter schools to undertake facilities projects and to succeed as educational enterprises.

Although the applicant provided a copy the Political Reform Act of 2007 for the State of California, it provided an inadequate narrative description of its standards to prevent conflicts of interest. The applicant did not describe how it will prevent conflicts of interest by employees and members of the board of directors in a decision-making role.

The applicant did not describe specific steps that it has taken to ensure that charter schools within the State of California receive the funding needed to obtain adequate facilities.

Reader's Score: 30

Selection Criterion - Quality of the project personnel- 15 points

In determining the quality of project personnel, the Secretary considers--

- (1) The qualifications of project personnel, including relevant training and experience, of the project manager and other members of the project team, including consultants or subcontractors; and**
- (2) The staffing plan for the grant project.**

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Less than 70 Points

Applications that need substantial redesign or improvement in many or most areas of the project and therefore should not be considered for funding at this time.

Strengths:

The project grant team will be led by Katrina Johantgen, Executive Director of the California School Finance Authority (the "Authority"). Ms. Johantgen will be assisted by four individuals from the Public Finance Division of the State Treasurer's Office, including Katie Carroll, Director; Jeanne Trujillo, Assistant Director; Deanne Brown, Manager; and Vicki Au-Yeung, Assistant Manager. The applicant indicates that these individuals have expertise in finance; are knowledgeable about all aspects of charter schools, including financing, construction, and operating issues; and have been involved in the charter school movement since its inception (pages 37-38). Ms. Johantgen has over sixteen years experience in municipal finance. She has been with the Authority for over eight years in her current position. She has served school districts, cities, counties and special districts throughout California. She has overseen the development of charter school facility programs totaling \$950 million in funding to California charter schools (page 36).

Ms. Johantgen will also be assisted in her duties by a team of individuals from the office of the State Treasurer and outside consultants. The General Counsel and staff counsel to the State Treasurer will support Ms. Johantgen by ensuring that the Conduit Financing Program remains compliant with state requirements and federal laws (page 37). The firm of Orrick, Herington & Sutcliff will function as bond and tax counsel to the applicant for the grant project (page 40). First Southwest Company ("First Southwest") will be engaged by the applicant to provide underwriting and advisory services and to complete the series Tier I and Tier II bond issuances of the Conduit Financing Program (page 38). The applicant indicates that since 2004, First Southwest has served as financial advisor on fifty-eight transactions that totaled \$10.18 billion par amount. First Southwest's grant project team will be comprised of three key personnel; Michael D. Kremer, Vice President; Beth Bankhead, Vice President; and Phillip Curls, Analyst. Michael Kremer has experience in education finance and in providing investment banking and financial advisory services on nearly thirty debt issues for various agencies in California (page 39). Beth Bankhead, Vice President has experience in all aspects of bond financing for Texas charter schools and performed services as financial advisor to a charter school that utilized the Texas Credit Enhancement Program for their bond issue. Mr. Curls has experience in analysis, debt structuring, designing cash flow models, and performing credit analysis of approximately twenty charter schools and school districts (page 40).

Weaknesses:

The applicant did not provide a staffing plan for its grant project team.

The applicant failed to provide an adequate description of the experience of its staff with respect to bond issuances for charter school financing.

The applicant failed to describe the experience of the grant project team with respect to evaluating charter schools as academic institutions and educational enterprises. The applicant failed to demonstrate its commitment to evaluating the quality of academic performance of charter school borrowers as part of its proposed project.

Reader's Score: 12

Status: Submitted

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