

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

Status: Submitted

Last Updated: 04/15/2014 02:53 PM

## Technical Review Coversheet

**Applicant:** Massachusetts Development Finance Agency (U354A140008)

**Reader #1:** \*\*\*\*\*

	Points Possible	Points Scored
<b>Questions</b>		
<b>Selection Criteria</b>		
<b>Quality of Project Design</b>		
1. Project design	35	27
<b>Quality of Project Services</b>		
1. Project services	15	12
<b>Adequacy of Resources</b>		
1. Capacity	35	31
<b>Quality of Project Personnel</b>		
1. Project personnel	15	12
<b>Sub Total</b>	100	82
<b>Priority Questions</b>		
<b>Competitive Preference Priorities</b>		
<b>Competitive Preference Priorities</b>		
1. CPP 1	15	13
<b>Sub Total</b>	15	13
<b>Total</b>	115	95

# Technical Review Form

Panel #1 - 2014 CESCOF - 1: 84.354A

Reader #1: \*\*\*\*\*

Applicant: Massachusetts Development Finance Agency (U354A140008)

## Questions

### Selection Criteria - Quality of Project Design

**Quality of project design and significance. In determining the quality of project design and significance, the Secretary considers--**

**a) 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;**

**b) The extent to which the project goals, objectives, and timeline are clearly specified, measurable, and appropriate for the purpose of the program;**

**c) 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;**

**d) The extent to which the project is likely to produce results that are replicable;**

**e) 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;**

**f) 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;**

**g) 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;**

**h) 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; and**

**i) The extent to which the proposed project is supported by strong theory (as defined in 34 CFR 77.1(c)).**

### Strengths:

Charter schools will be able to have LTV rates of up to 120%, leasehold improvement loans, and guarantee fees up to 2% lower than market value. These rates/terms are significantly better than a charter school could receive without assurances from this program. Pgs. 1 - 2

The narrative clearly states that the primary goals of this proposed project are to provide debt guarantees for acquisition, construction, renovation and leasehold improvements for charter schools. Specific objectives and targets are provided that further identify where the applicant will prioritize funding and focus their work. Pgs. 2 – 3

The timeline provides exact action steps that will occur once the applicant is awarded a grant. These steps will assist the applicant in meeting their target of credit enhancing 2 charter school deals each year of the grant. Pg. 4

An implementation plan outlines activities to be completed by the grant recipient immediately following the grant award and into the following years. The applicant has a good working relationship with the MS Department of Elementary and

Secondary Education and the state charter schools association, which has been extremely beneficial during previous CE grants they have received. The applicant will continue to implement activities using the same model with heavy involvement from these two entities. Pgs. 4 – 5

The model used in the application presents a fine tuned process where the applicant, the State Charter School Office and the Massachusetts Charter School Association work well together, each providing their specific knowledge and expertise to the model. This model could be easily replicated in states with a similar programmatic design. Pg. 6

The narrative indicates priority will be given to charter schools located in areas of high poverty, where a large percentage of students do not perform well on state assessments, and geographic areas where public schools have been identified for improvement, corrective action or restructuring under Title I. Once these areas have been identified, the applicant will make their selection first by the needs of the student population and second by the needs of the charter schools. Pgs. 6 – 7

In a letter from Boston Private Bank and Trust Company, the lender states that because of the CE program already in place by the applicant, the bank has been able to loan money to charter schools that would not have been able to secure funding absent the CE. This speaks to the success of the program and the ability of the charter schools to receive funds. Appendix

The projected leverage amount for this project is 7:1 during the first five years with that ratio increasing as the grant funds recycle. Pg. 8

The applicant provides credit enhancement in the state of Massachusetts which is ranked in the upper 25% of states with strong charter law by the National Association of Charter School Authorizers. Additionally, information is provided relative to the five year renewal cycles of these charters and the requirement of that renewal. The state has a well-defined process that holds charter schools highly accountable. Pg. 9

**Weaknesses:**

There is no indication whether or not a charter school will receive better long term financing rates with this program than could be achieved outside the program.

There is very little discussion about whether early start charter schools outside of a replication model will be assisted. The underwriting criteria and the fund application indicate three years of audited financial statement are required. This is an indication that start-up charter schools will not benefit from the program. If early-start charter schools will be assisted by this program, much more discussion should have been devoted to the requirements of those charter schools to receive funding from the applicant. Pg. e104

The applicant indicates that \$1 million has been pledged from LISC and \$2.5 from the Boston Foundation. Letters of support and commitment should have been included from these two entities specifying the details of this arrangement.

The requested grant amount of \$5 million seems excessive for only providing financial assistance to 2 charter schools per year of the grant cycle. This number is not overly ambitious. Pg. 3

The theory behind this grant proposal is simply based on past experience with processes that work so the applicant intends to just keep doing the same. The logic model supporting this theory is not specific. It does not contain any inputs, outputs or end goals that will be achieved through this grant proposal. Pgs. 15 and e113

The application should have provided more detail about how this grant proposal could be replicated outside of the state.

No information is provided about the type and amount of assistance that will be given nor how that will be determined.

There is no indication that outside funds have been committed to this project. Without this additional funding it will be difficult to achieve the stated leverage of 7:1.

### Selection Criteria - Quality of Project Services

#### 1. Quality of project services. In determining the quality of project services, the Secretary considers

- a) The extent to which the services to be provided by the project reflect the identified needs of the charter schools to be served;
- b) The extent to which charter schools and chartering agencies were involved in the design of, and demonstrate support for, the project;
- c) 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
- d) 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.

#### Strengths:

The applicant has a pipeline of 20 charter schools in need of facility financing. These projects are in need of \$29.8 million in credit enhancement to obtain real estate on a permanent basis or to upgrade a leased facility. An original needs assessment was done in 2003 including the Massachusetts Charter Public Schools Association and the Massachusetts Department of Elementary and Secondary Education along with 40 charter schools. This information is updated frequently through continuing dialogue with the MCPSA and DESE. Pgs. 16 – 17

There is a significant amount of support for this project from the MCPSA and its member charter schools. Pgs. 17 – 18

The applicant is a state agency that provides a wide variety of TA that includes site engineering, architectural design, permitting and approval assistance and property management. A selection of loan products is available with zero or low interest for predevelopment activities that must be paid up front. There is in house assistance for charter schools working through a tax free bond issuance as these are very complicated and processes are difficult to manage. Pgs. 17 - 18

This grant proposal will target charter schools that are located in underperforming school districts with a high percentage of poverty. These charter schools are replication models of existing successful charter schools that will likely be successful. Pg. 21

#### Weaknesses:

Information regarding these criteria is based on historical events and data collection. While this is good information it would have been helpful to have current survey data and input to help further define the need for this program.

The applicant does not address offering funding options to start-up or independent charter schools. These charter schools often have the greatest need for assistance in locating and financing viable facilities.

### Selection Criteria - Adequacy of Resources

**Capacity. In determining an applicant's business and organizational capacity to carry out the project, the Secretary considers:**

**a) 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;**

**b) The applicant's financial stability;**

**c) The ability of the applicant to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management;**

**d) The applicant's expertise in education to evaluate the likelihood of success of a charter school;**

**e) 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;**

**f) 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;**

**g) 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**

**h) For previous grantees under the charter school facilities programs, their performance in implementing these grants.**

**Strengths:**

The applicant was established in 1998 and is the state's finance and development authority. During FY 2013 the applicant financed or managed 238 projects in 104 communities. Additionally, QZAB bonds and tax-exempt bonds have been utilized on behalf of 29 charter schools and loans have been provided to 20 charter schools. The applicant used NMTC to finance a charter school in 2011. There is a great amount of experience working with products that will assist charter schools. Pgs. 22 – 24

The applicant has received a Standard & Poor's rating of A+/stable/A-1. Financial statements indicate a good balance of assets/liabilities with \$393 million in assets. Audit information provided indicates good functions are in place and financials are accurate. Pg. 26

Policies and procedures are provided detailing risk management processes for all aspects of the entity – loan underwriting, portfolio and financial management. Each area has several levels of review documentation that keeps funds protected. There is also an outside firm that performs annual reviews of approximately 92% of the credits in the lending portfolio. The applicant currently has no charter school loans in default and has never had to make a payment on any charter school loan guarantee. Pgs. 26 – 28

A close working relationship with the MCPSA and the Massachusetts DESE allows the applicant an opportunity to discuss educational matters with groups that work directly with charter schools. The applicant has a Charter School Advisory board in place that provides advice and input to the agency on a quarterly basis. There is a charter school operator on this board. Pgs. 30 – 31 and 18

The appendix contains a copy of the state's Standards of Conduct and Ethics law. It is very explicit about how potential conflicts of interest will be handled. Pg. 31

It is clearly stated throughout the application that charter schools that meet the selection criteria as defined and are able to repay debt, will be given funding. Pg. 32

In 2003 and 2012 the applicant was awarded CE grants. The first grant, \$10 million, has supported over \$193.7 million in

loans with a leverage ratio of 19:1 with no losses paid under any guarantee. The applicant has utilized committed funds from LICs and The Boston Foundation and has enticed 15 smaller banks to loan money to charter schools. Pg. 33

**Weaknesses:**

There is inconsistent information regarding the financial stability of the applicant. The narrative provided in the Standard and Poor's rating indicates relative instability of the entity while other information provides a picture of good financial stability. The applicant should have provided some information relative to the differing presentations of financial stability.

The resources provided by the partners - MCPSA and MDESE - should have been discussed.

**Reader's Score: 31**

**Selection Criteria - Quality of Project Personnel**

**1. Quality of project personnel. In determining the quality of project personnel, the Secretary considers--**

**a) 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**

**b) The staffing plan for the grant project.**

**Strengths:**

The project manager is named and has worked in this capacity since 2003. She is well qualified to manage this program with 13 years of service to MASS development. She is the chairman of the Charter School Advisory board and works closely with them to make this program successful and seamless. The project manager is joined by a Senior VP with over 30 years experience in credit and lending. Pg. 34

The staffing plan is well outlined and is adequate for this grant program. Pg. 35 - 36

**Weaknesses:**

There is not an indication of the presence of a Board of Directors. If there is not a Board of Directors, the applicant should have discussed the entity that has oversight authority of MDFA.

**Reader's Score: 12**

**Priority Questions**

**Competitive Preference Priorities - Competitive Preference Priorities**

**1. This priority is the capacity of charter schools to offer public school choice in those communities with the greatest need for school choice based on--**

**a) 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.**

**b) 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**

c) The extent to which the applicant would target services to communities with large proportions of students from low-income families.

**Note:** In order to receive competitive preference points under this priority, applicants serving charter schools in States operating under ESEA Flexibility that have opted to waive the requirement in ESEA section 1116(b) for local educational agencies (LEAs) to identify for improvement, corrective action, or restructuring, as appropriate, their Title I schools that fail to make adequate yearly progress (AYP) for two or more consecutive years should target services to geographic areas in which a large proportion or number of public schools have been identified as priority or focus schools, or belonging to a subset of other Title I schools specifically identified as low-achieving under the State s approved ESEA flexibility request (see the June 7, 2012, ESEA Flexibility document at <http://www.ed.gov/esea/flexibility>).

**Strengths:**

The application states it will give priority to charter schools located in areas where a large percentage of schools have been targeted for improvement, corrective action or restructuring under Title I. Additionally, the narrative indicates the majority of charter schools in the pipeline have been targeted for improvement. Pgs. 6, 36 – 37

Schools located in geographic areas where a large percentage of students are below proficient on the state assessment will be targeted by this project. A table is provided that identifies the 20 lowest performing districts in the state. The table indicates that all but four of these districts are low-income. These 25 districts meet two of the three areas of the Competitive Priority. Pgs. 6, 36

Charter schools located in communities where a large percentage of students qualify for free or reduced lunch will be given priority in the selection of charter schools to receive assistance. Pgs. 6, 36

**Weaknesses:**

The applicant needs to indicate whether the state has an approved ESEA waiver.

**Reader's Score:** 13

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## Technical Review Coversheet

**Applicant:** Massachusetts Development Finance Agency (U354A140008)

**Reader #2:** \*\*\*\*\*

	Points Possible	Points Scored
<b>Questions</b>		
<b>Selection Criteria</b>		
<b>Quality of Project Design</b>		
1. Project design	35	28
<b>Quality of Project Services</b>		
1. Project services	15	13
<b>Adequacy of Resources</b>		
1. Capacity	35	32
<b>Quality of Project Personnel</b>		
1. Project personnel	15	12
<b>Sub Total</b>	100	85
<b>Priority Questions</b>		
<b>Competitive Preference Priorities</b>		
<b>Competitive Preference Priorities</b>		
1. CPP 1	15	10
<b>Sub Total</b>	15	10
<b>Total</b>	115	95

# Technical Review Form

Panel #1 - 2014 CESCO - 1: 84.354A

Reader #2: \*\*\*\*\*

Applicant: Massachusetts Development Finance Agency (U354A140008)

## Questions

### Selection Criteria - Quality of Project Design

1. Quality of project design and significance. In determining the quality of project design and significance, the Secretary considers--

a) 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;

b) The extent to which the project goals, objectives, and timeline are clearly specified, measurable, and appropriate for the purpose of the program;

c) 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;

d) The extent to which the project is likely to produce results that are replicable;

e) 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;

f) 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;

g) 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;

h) 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; and

i) The extent to which the proposed project is supported by strong theory (as defined in 34 CFR 77.1(c)).

#### Strengths:

The applicant explains how credit enhancement will allow for lower rates and better terms for schools owning property and schools leasing property. It provides the market's rates and terms for comparison (page E 14).

The goals, objectives, and measures are clear and measurable, as well as logically connected with each other (page E 15).

Timelines are presented for closing loans/guarantees by each year and the number of schools served. Additional actions for the first 120 days are detailed (page E 16).

The implementation plan and activities utilize MFDA's existing program design with which it has administered two previous CE grants. The structure includes: approved underwriting policies and procedures; on-going program marketing and communications; using transaction officers experienced with the products and services; using existing credit review and risk management procedures; and utilizing established reporting and compliance systems (page E 16).

The applicant provided a detailed table of activities to be completed and accomplished by each quarter following a grant award (page E 17).

For selecting charter schools, the applicant will use the criteria from the Competitive Preference Priority section: geographic areas in which the public schools have been identified for improvement; areas with a high percentage of students who performed below proficient on the state's academic assessments; and communities with a high percentage of students from low-income families. The applicant prioritizes schools using the criteria listed above first, and then by school need. Additional weights are added to the scoring system: size of student population, with smaller schools having a more difficult time accessing capital; and total school revenue and commitment of other public resources (page E 18).

After the projects are ranked by need, projects are scored by the school's capacity to assume debt. Finally, they are scored by the specific project's timeline for implementation (page E 19).

The applicant intends to leverage \$35 million with a \$5 million award (a 7:1 ratio). It will utilize its exiting partners and lenders from its first CE award, and will continue to work to open the market for new investors. Because the applicant is a state agency, it has its own bonding capacity and other sources of funds (page E 20).

The National Alliance for Public Charter Schools ranked Massachusetts 11th out of 43. The CER ranked Massachusetts at 20 (page E 21).

#### **Weaknesses:**

The applicant states that its past charter school activities are replicable now for other states (page E 18). While the program design works in Massachusetts, the applicant did not explain how it could work in other states.

Although the applicant established a good scoring system for need and likelihood of success, it did not explain how it would determine the type and amount of assistance to be given (page E 19).

Relative to the leverage section, the applicant did not address the variety of charter schools to be assisted, for example early-start charter schools (page E 20).

The applicant did not discuss project costs in this section, so this assessment could not be made.

The number of schools to be served each year is small (2) and the amount of the guarantees are relatively high per school (\$1.5 million / 2 = \$750,000 per school).

The Logic Model should include inputs, outputs, performance goals, and length of time for outcomes (page E 113).

**Reader's Score: 28**

#### **Selection Criteria - Quality of Project Services**

**1. Quality of project services. In determining the quality of project services, the Secretary considers**

**a) The extent to which the services to be provided by the project reflect the identified needs of the charter schools to be served;**

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

**c) 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**

**d) 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.**

**Strengths:**

The applicant explained the special type of funding charter schools require, since they do not receive facility funds from the state, and their charter periods are shorter than those of the loans they need for school facilities. A pipeline of 20 schools has been created; with \$29.5 million in guarantees required to support the \$253 million of project costs (page E 28 and 105). The need exists; the amount of funds requested is a good beginning.

The Massachusetts Charter Public School Association channeled the charter schools' request for a Charter School Loan Guarantee to MassDevelopment. The initial program included 40 charter schools, the state's charter school association, the Massachusetts Department of Elementary and Secondary Education, and MassDevelopment. Two CE rounds have been funded (page E 29).

MassDevelopment provides site engineering, architectural design, permitting, and property management consulting services in addition to the Charter School Loan Guarantee Program. Low interest loans are also available to pay for predevelopment activities. Remediation loans are available through the Brownfields Redevelopment Fund. Mass Development offers tax-exempt bonds for school facilities, 1-2% lower than the market rate. To further lower costs, MassDevelopment bids out the legal, underwriting, and trustee work. The TechDollars Program provides lower cost financing for non-profits. Altogether, these programs cover a large array of financing for charter schools' needs. These programs work for leaseholds, acquisition, and development. The terms and functions of these programs and the CE guarantee provides access to capital not otherwise available, at lower rates for longer periods of time (past the initial 5 year charter period). Page E 31.

Although the definition of "new replicable schools" is not clearly provided, because of the Department of Elementary and Secondary Education's involvement and strict quality control, the schools are more likely to be successful (page E 33).

The applicant will target schools located in underperforming districts that are targeted for improvement, and have a high percentage of low-income families (page E 33).

**Weaknesses:**

The information used for the original program design was over ten years old. The applicant should use more current data (page E 29).

The applicant intends to target new replication charter schools, which are those that use the existing model of charter schools. This needs further explanation (page E 33).

**Reader's Score: 13**

**Selection Criteria - Adequacy of Resources**

**Capacity. In determining an applicant's business and organizational capacity to carry out the project, the Secretary considers:**

**a) 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;**

**b) The applicant's financial stability;**

**c) The ability of the applicant to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management;**

**d) The applicant's expertise in education to evaluate the likelihood of success of a charter school;**

**e) 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;**

**f) 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;**

**g) 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**

**h) For previous grantees under the charter school facilities programs, their performance in implementing these grants.**

**Strengths:**

The applicant was created in 1998 to act as Massachusetts' finance and development authority. Relative to charter school, MassDevelopment issued 50 tax-exempt and Qualified Zone Academy Bonds valued at \$411 million to 29 charter schools, and made loans valued at \$17.7 million to 20 charter schools (page E 34). The applicant also provided 16 charter school loan guarantees valued at \$15.7 million (page E 35). The applicant has considerable experience financing charter schools.

The applicant was rated by Standard and Poor. Its credit rating was A+/Stable/A-1. Standard and Poor defines this as: "The obligor's capacity to meet its financial commitment on the obligation is very strong."

MassDevelopment's audited financial statements for 2013 and 2012 were provided. The statement for 2012 was unmodified. The statement for 2013 was performed by a new auditor in accordance with accounting principles generally accepted in the U.S. In 2013 it held assets of \$589 million, which exceed liabilities by \$393.7 million. The applicant demonstrates strong financial stability.

The applicant provided its Charter School Loan Underwriting Policy and Reporting Procedures (page E 86) for loans and guarantees. It is a basic and simple policy covering items such as: terms of loans and guarantees, amortization requirements, debts service coverage ratios, collateral, fees, and other information as required.

Between 2009 and 2013 portfolio losses ranged between .27% and 2.12% averaging .9%/year over the past 5 years. These are very low by industry standards. No charter schools are in default (page E 41).

The applicant partnered with the Massachusetts Charter Public School Association and the Massachusetts Department of Primary and Secondary Education to obtain expertise in education (page E 42).

The applicant, as a state entity, is required to follow state law from the State Ethics Commission. The law is entitled "The Conflict of Interest Law." It provides definitions and details scenarios and situations of conflicts, and provides directives for behavior (Attachment 12, Page E 114).

Mass Development manages numerous funding sources, and can issue bonds and make loans. Tax-exempt bonds, New Markets Tax Credits funds, and Qualified Zone Academy Bonds are under its purview (page E 44).

Information provided on the Performance Report Summary Sheet (page E 57) demonstrates: \$179 million of financing has been leveraged since the inception of the grant project; \$157 million has been directly credit enhanced; a very small amount is open or available to serve additional charter schools; 19 schools and 26 transactions have occurred since the beginning of the program. Overall, the leverage ratio from the original 2003 grant is 19:1. This represents a solid credit enhancement program.

**Weaknesses:**

Lease guarantees were not discussed (page E 35).

The applicant mentions delinquencies on loans due over 90 days totaling approximately \$2.7 million. The loans are being renewed, but the applicant did not explain what it will do to prevent this from happening in the future (page E 40).

Although the partners are experienced with education, the applicant did not explain how their services would determine the likelihood of success of a charter school (page E 42).

The applicant does not appear to maintain any in-house expertise in education. The applicant does not provide any information about its Board.

The applicant states there are no co-applicants, which is correct; however, partners and grant project participants are to be included in this section. The Massachusetts Department of Primary and Secondary Education, Massachusetts Charter Public School Association (MCPA), and DESE are partners, and their resources should be specified (page E 42).

**Reader's Score: 32**

**Selection Criteria - Quality of Project Personnel**

**1. Quality of project personnel. In determining the quality of project personnel, the Secretary considers--**

**a) 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**

**b) The staffing plan for the grant project.**

**Strengths:**

Three partners including LISC, the Massachusetts Department of Primary and Secondary Education, and the Massachusetts Charter Public School Association advise the applicant (page E 47).

A lead in MassDevelopment was identified for the program, an expert in tax-exempt bonds and QZABs was identified, and a director of five personnel who will monitor the loans and lease guarantees was identified. Leads for maintaining financial records and for providing legal advice were also identified (page E 47).

**Weaknesses:**

While the staffing plan was outlined, only three resumes were provided for the applicant's staff, and not were provided for its partners (page E 107).

No information on the Board was provided. Boards general provide oversight and make the decisions for the organizations.

Write out acronyms such as BESE. No points deducted.

**Reader's Score: 12**

**Priority Questions**

**Competitive Preference Priorities - Competitive Preference Priorities**

1. This priority is the capacity of charter schools to offer public school choice in those communities with the greatest need for school choice based on--

a) 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.

b) 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

c) The extent to which the applicant would target services to communities with large proportions of students from low-income families.

**Note:** In order to receive competitive preference points under this priority, applicants serving charter schools in States operating under ESEA Flexibility that have opted to waive the requirement in ESEA section 1116(b) for local educational agencies (LEAs) to identify for improvement, corrective action, or restructuring, as appropriate, their Title I schools that fail to make adequate yearly progress (AYP) for two or more consecutive years should target services to geographic areas in which a large proportion or number of public schools have been identified as priority or focus schools, or belonging to a subset of other Title I schools specifically identified as low-achieving under the State s approved ESEA flexibility request (see the June 7, 2012, ESEA Flexibility document at <http://www.ed.gov/esea/flexibility>).

**Strengths:**

The applicant stated it would give priority to charter schools using the three criteria listed in the Competitive Preference Priority (page E 48).

**Weaknesses:**

The applicant did not identify the number or percentage of charter schools in connection with the Competitive Preference Priorities.

The applicant should identify if ESEA waivers are involved in its program.

**Reader's Score:** 10

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**Status:** Submitted  
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## Technical Review Coversheet

**Applicant:** Massachusetts Development Finance Agency (U354A140008)

**Reader #4:** \*\*\*\*\*

	Points Possible	Points Scored
<b>Questions</b>		
<b>Selection Criteria</b>		
<b>Quality of Project Design</b>		
1. Project design	35	27
<b>Quality of Project Services</b>		
1. Project services	15	15
<b>Adequacy of Resources</b>		
1. Capacity	35	30
<b>Quality of Project Personnel</b>		
1. Project personnel	15	13
<b>Sub Total</b>	100	85
<b>Priority Questions</b>		
<b>Competitive Preference Priorities</b>		
<b>Competitive Preference Priorities</b>		
1. CPP 1	15	12
<b>Sub Total</b>	15	12
<b>Total</b>	115	97

# Technical Review Form

Panel #1 - 2014 CESCO - 1: 84.354A

Reader #4: \*\*\*\*\*

Applicant: Massachusetts Development Finance Agency (U354A140008)

## Questions

### Selection Criteria - Quality of Project Design

**1. Quality of project design and significance. In determining the quality of project design and significance, the Secretary considers--**

**a) 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;**

**b) The extent to which the project goals, objectives, and timeline are clearly specified, measurable, and appropriate for the purpose of the program;**

**c) 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;**

**d) The extent to which the project is likely to produce results that are replicable;**

**e) 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;**

**f) 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;**

**g) 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;**

**h) 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; and**

**i) The extent to which the proposed project is supported by strong theory (as defined in 34 CFR 77.1(c)).**

### Strengths:

(a) The applicant has asked for a CEP grant to support the Agency's Charter School Loan Guarantee Fund to provide funding options for a pipeline of 20 school facility projects with a total cost exceeding \$253.3M. The guarantee will provide these schools with a reduced cost of funds with below market guarantee fees. They will also do leasehold improvements and lend up to 120 % LTV. See page e13-e14

(b) The project goals are clear, measurable and target areas where the applicant will target their efforts. The applicant has a strong history in meeting similar goals having received two CEP grants in the recent past.

(c) The applicant will utilize the same program design, structure and system to distribute grant funds for this project as it did for two previous successful CEP grants received from the Department of Education. See page E16-17

(d) The applicant has developed a service delivery model with other stakeholders in the state that has been presented as an example of best practice in a credit enhancement model at peer gatherings and conferences. Page e21

(e) The applicant will utilize the competitive preference criteria in the charter school selection process. Specifically, that will include schools that have been identified for improvement, corrective action, or restricting under Title 1, geographic

areas in which a high percentage of students performed below proficient on the state's academic assessments and, communities with a high percentage of students from low income families as measured by the percentage of students receiving free or reduced lunch. See page 6

(f) Building on the original CEP grant of \$10.025mm received by the applicant, they have successfully leveraged additional private sector funds at a 19:1 ratio for a total of \$193.7 million. They have also leveraged additional private sector funds from LISC, the Boston Foundation and made a personal contribution to the Charter Guarantee fund of \$1mm.

(g) Massachusetts has one of the strongest charter school laws in the country (11 out of 43) See page 9-12. This is where the applicant plans to continue credit enhancement work they began with the two previous DOE grants. The DESE Criteria articulates performance standards for charter school accountability. The Massachusetts Charter School Accountability Guide details the systems and structures used to evaluate each charter in relation to the criteria and the applicant addresses, tracks and evaluate its pipeline to ensure accountability.

(h) A review of the 5 year cash pro forma, dollar amounts and number of guarantees appear reasonable. See E 134

(i) The Logic Model is appended at page E113 and summarizes stakeholder roles and responsibilities. It is the same model the applicant has utilized in successfully disbursing two other CEP grant awards.

#### **Weaknesses:**

(a) No benchmarks or market rates are presented.

(c) Specific state program guidelines and features make it unlikely that this program can be replicated.

(e) No information is presented on what the applicant will do going forward to leverage funds. Amounts and commitments from private sector are current.

(i) The logic model lacks inputs, outputs and milestones.

**Reader's Score: 27**

#### **Selection Criteria - Quality of Project Services**

##### **1. Quality of project services. In determining the quality of project services, the Secretary considers**

**a) The extent to which the services to be provided by the project reflect the identified needs of the charter schools to be served;**

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

**c) 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**

**d) 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.**

#### **Strengths:**

Strengths:

(a) The applicant has an existing pipeline of 20 charter schools with financing needs in excess of \$225 mm requiring an estimated dollar amount of \$29.8 mm. in loan guarantees. Due to the unique charter school funding process in Massachusetts which does not allow charters to access revenue by the state building authority or property tax revenues, this CEP grant is critical to providing adequate funding for their expansion or facility financing needs.

(b) The Massachusetts Charter School Public Association provided key input into the loan guarantee program design. Other stakeholders providing input included 40 charter schools, the Massachusetts DESE and a Charter School Advisory Board. See pages E29-30.

(c) The technical assistance offered by the applicant will be offered from internal resources. Site assessment and financial remediation assistance will be made available at zero interest through a state fund managed by the applicant. Tax exempt bond market access will be provided at below market interest rates and other soft costs such as attorney, underwriter and bond counsel are bid out by the applicant. The net effect of these services is to provide cost effective strategies for utilizing these services thereby reducing issuance costs.

(d) The applicant will focus its assistance on new replication charter schools that have already received approval from the state's BESE. These schools are located in underperforming school districts and fully meet title 1 criteria. The state implementation of strict quality control regarding the academic success of these schools along with the Title 1 requirements concerning need will ensure that the applicant serves schools with the highest need and most likelihood of success.

**Weaknesses:**

**Reader's Score: 15**

**Selection Criteria - Adequacy of Resources**

**1. Capacity. In determining an applicant's business and organizational capacity to carry out the project, the Secretary considers:**

**a) 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;**

**b) The applicant's financial stability;**

**c) The ability of the applicant to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management;**

**d) The applicant's expertise in education to evaluate the likelihood of success of a charter school;**

**e) 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;**

**f) 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;**

**g) 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**

**h) For previous grantees under the charter school facilities programs, their performance in implementing these grants.**

**Strengths:**

- (a) The applicant has a strong history on its own and before it was created through its predecessor organizations issuing tax exempt bonds. Since 1995 it has issued 50 tax exempt facility financing bonds totaling \$411.3 mm on behalf of 29 charter schools and made loans to charter schools totaling \$17.7mm. During its last 5 fiscal years the applicant closed 147 loans totaling \$143 mm and 76 guarantees totaling \$34 mm. Page
- (b) A review of attachments 7&8 as well as the S&P Ratings evaluation reveals a financial stable organization. Their counterparty credit risk rating is A+/Stable/A1. Their strengths are financial and operational support from the Commonwealth, a strong capital and liquidity position and the presence of diversified business lines.
- (c)The applicant has written underwriting and risk management criteria.
- (d)The applicant has strong expertise and cooperative working relationships through the Mass Charter School Public School Association and the Mass Department of Elementary and Secondary Education. They also meet quarterly with the Charter School Advisory committee. Page 30-31
- (e) The applicant has a written conflict of interest policy in place.
- (f) There are no co-applicants to this request so this question is not applicable.
- (g) The applicant works to ensure that charter schools within the state receive adequate funding by issuing tax exempt bonds on behalf of charter schools and managing the Charter School Loan guarantee program.
- (h) Previous grant performance has been outstanding. See E57 They received two previous awards and have issues guarantees of at least \$30.8 mm which have supported loan amounts in excess of \$193.7mm. There have been no losses paid under any guarantee. Additionally, the applicant leverages funds from LISC and the Boston Foundation.

**Weaknesses:**

- (a) Lease guarantees are mentioned but not discussed in detail.
- (b) According to the S&P ratings, the applicant shows volatile financial performance and a geographic concentration of risk that exposes the agency to weak conditions in the Massachusetts real estate market. The applicant's restatement of 2012 earnings does not appear to be the result of a material finding but rather a misclassification due to a change in accounting standards due to the implementation of GASB 65. See page 60. The applicant does however have severe portfolio delinquency issues. See page 28. Notwithstanding this fact the applicant has received a satisfactory review from its loan portfolio review contractor for the past 10 years. This is inconsistent.
- (c) Although the applicant has a diverse array of business lines, its financial status is closely tied to its reliance on state capital and grant contributions. It has fluctuating earnings and has reported losses in every year since 2002 except one. Given the cyclical nature of the real estate market however and the reliance on government incentive to complete economic development projects through less than ideal underwriting findings this is not a fatal finding for the CEP program.

**Reader's Score:      30**

**Selection Criteria - Quality of Project Personnel****1. Quality of project personnel. In determining the quality of project personnel, the Secretary considers--**

- a) 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**

**b) The staffing plan for the grant project.**

**Strengths:**

- (a) The applicant has a strong financing expertise in place to administer the CEP grant. The program manager named is responsible for the management of two previous CEP grants. See page E46.
- (b) The staffing plan, appended at page 35 is reasonable and fully addresses organizational program delivery.

**Weaknesses:**

- (a) No information is presented on the Board of directors who generally have oversight responsibility. this is a structural program feature that limits replicability.

**Reader's Score: 13**

**Priority Questions**

**Competitive Preference Priorities - Competitive Preference Priorities**

**1. This priority is the capacity of charter schools to offer public school choice in those communities with the greatest need for school choice based on--**

- a) 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.**
- b) 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**
- c) The extent to which the applicant would target services to communities with large proportions of students from low-income families.**

**Note: In order to receive competitive preference points under this priority, applicants serving charter schools in States operating under ESEA Flexibility that have opted to waive the requirement in ESEA section 1116(b) for local educational agencies (LEAs) to identify for improvement, corrective action, or restructuring, as appropriate, their Title I schools that fail to make adequate yearly progress (AYP) for two or more consecutive years should target services to geographic areas in which a large proportion or number of public schools have been identified as priority or focus schools, or belonging to a subset of other Title I schools specifically identified as low-achieving under the State s approved ESEA flexibility request (see the June 7, 2012, ESEA Flexibility document at <http://www.ed.gov/esea/flexibility>).**

**Strengths:**

- (a) The applicant will give priority to charter schools based upon the above referenced criterion in subsection A. Schools are identified in two ways, through the state Department of Elementary and Secondary Education which maintains a repository of data for this criterion as well as through application funding which will ask whether the school will serve students that met this criteria. See page 36
- (b) The applicant will also give priority to schools located in geographic areas where a large proportion of students perform below proficient on the state academic assessments. See page 36. It will also focus on areas in which the public schools have been identified for improvement, corrective action or restricting under Title 1.
- (c) The applicant has similarly decided to focus on charter schools located in neighborhoods with large proportions of students from low income families as measured by the percentage of students receiving free or reduced cost lunch. See page 36

**Weaknesses:**

- (a) The applicant does not address the ESEA waiver.
- (b) The applicant does not include the number and percentage of schools to be served.

**Reader's Score:** 12

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**Status:** Submitted  
**Last Updated:** 04/15/2014 03:32 PM

Status: Submitted

Last Updated: 04/15/2014 12:23 PM

## Technical Review Coversheet

Applicant: Hope Enterprise Corporation (U354A140011)

Reader #1: \*\*\*\*\*

	Points Possible	Points Scored
<b>Questions</b>		
<b>Selection Criteria</b>		
<b>Quality of Project Design</b>		
1. Project design	35	29
<b>Quality of Project Services</b>		
1. Project services	15	13
<b>Adequacy of Resources</b>		
1. Capacity	35	33
<b>Quality of Project Personnel</b>		
1. Project personnel	15	12
<b>Sub Total</b>	100	87
<b>Priority Questions</b>		
<b>Competitive Preference Priorities</b>		
<b>Competitive Preference Priorities</b>		
1. CPP 1	15	9
<b>Sub Total</b>	15	9
<b>Total</b>	115	96

# Technical Review Form

Panel #1 - 2014 CESCOF - 1: 84.354A

Reader #1: \*\*\*\*\*

Applicant: Hope Enterprise Corporation (U354A140011)

## Questions

### Selection Criteria - Quality of Project Design

**Quality of project design and significance. In determining the quality of project design and significance, the Secretary considers--**

**a) 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;**

**b) The extent to which the project goals, objectives, and timeline are clearly specified, measurable, and appropriate for the purpose of the program;**

**c) 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;**

**d) The extent to which the project is likely to produce results that are replicable;**

**e) 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;**

**f) 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;**

**g) 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;**

**h) 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; and**

**i) The extent to which the proposed project is supported by strong theory (as defined in 34 CFR 77.1(c)).**

### Strengths:

Outlined in the goals and objectives are the rates and terms the applicant will provide to charter schools. Rates are quoted as 2% – 4% savings from commercial loans with a higher LTV ratio than is usually available in the marketplace. There is a 1% guarantee fee, which is standard. Pgs. e26 & e31

The goals are clearly outlined with detailed and measurable objectives. Additionally, the artifacts that will be collected to document each objective are listed. A timeline indicating the number of charter schools to be assisted each year of the grant is provided. The number of charter schools to be assisted each year of the grant program seem reasonable. Pgs. e 20 – e28

The applicant has been successful in the past promoting their programs and has had input on the national and regional stage into the development of financial programs such as NMTC for their region. They will approach this new endeavor with the same tactics that have brought them success – establishing partnerships with relevant entities and advocating for changes in laws or policies that affect the markets they are attempting to enter and assist. Pgs. e31 – e32

Public Impact and Edtec, inc., are both charter school management and support companies. The applicant will partner with these two companies to provide a thorough appraisal of a charter school's financial and organizational capacity to take on a building project. The applicant and partners will consider the following criteria when evaluating a charter school for funding: project viability, strength and experience of the management team, financial stability and strength, schools academic performance and location and service to communities with a large concentration of Priority and Focus schools. Each charter school applicant, if selected for assistance, will be given a financing package that will meet its individual needs. Pgs. e22 – e23 and e31

Through the development of this financing program utilizing regional banks and credit unions, the applicant will have a process that can be shared and replicated to other geographic areas with similar circumstances. Pg. e31

The selection criteria listed in the application provides a good outline of the qualities needed for a successful charter school. Additionally, information gathered from Public Impact will provide a more in-depth look at the charter school's academic performance. Because this region of the country has such high poverty rates and low school performance rates, any charter schools chosen for assistance can be considered to be in great need. Pgs. e32 & e36

The narrative indicates that through the use of private and public funding the applicant will achieve a 9:1 leverage ratio for the grant project. There are letters of commitment from Capital One Bank, US Bank, and Hope Credit Union. The pipeline of charter schools needing facilities financing is great and according to the narrative, cannot be fulfilled without additional credit enhancement funds. Pg. 32

According to the table provided listing the characteristics of strong charter laws as defined by the ESEA of 1965, each of the states targeted in this grant proposal has a strong charter law. Pg. e33

The targeted geographic area for this proposal is comprised of four states that have relatively new or just approved charter laws. Because charter schools are not very well established in these states, it is more difficult for these charter schools to obtain financial assistance. Additionally, this region of the country is not home to large national banks making it difficult to secure the type of financing that new charter schools need. Because of these reasons the project holds great significance to the future of charter schools in this geographic area. The need to entice regional lenders into this market is overwhelming as most still see charter schools as risky investments.

The requested grant amount will allow the applicant to offer credit enhancement to the charter schools in their pipeline and by doing so, demonstrate that charter schools can be a good investment for regional banks. The guarantee fees associated with this project are reasonable. Pgs. e22 – e23

A logic model is presented in the Appendix that aligns to the stated goals and objectives.

#### **Weaknesses:**

The applicant did not provide market rates for comparison. It is difficult to determine if the rates quoted in the application are better than charter schools can receive absent the program.

The timeline should be more specific indicating the majority of activities that will be implemented for the proposed project. i.e. marketing, press releases, meetings with groups to promote the project.

There is some discussion as to how the goals and objectives will be met, but this is in broad terms and mostly discusses documents that will be collected to measure success. The project needs a formalized written implementation plan that can be referenced by all members of the project team. This will help keep the program on track and keep all team members accountable. Pg. e31

More information regarding the funds from private foundations that will be used exclusively for this grant project is needed. As evidenced by the form 990, the applicant receives a significant amount of monies from private foundations. The narrative needs to be much more specific in this area.

There is no discussion in the application regarding the theory on which this proposal is based. Additionally, the logic model does not provide enough specificity. The model should have inputs that will lead to the mentioned outputs.

**Reader's Score: 29**

### **Selection Criteria - Quality of Project Services**

#### **1. Quality of project services. In determining the quality of project services, the Secretary considers**

- a) The extent to which the services to be provided by the project reflect the identified needs of the charter schools to be served;**
- b) The extent to which charter schools and chartering agencies were involved in the design of, and demonstrate support for, the project;**
- c) 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**
- d) 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.**

#### **Strengths:**

The applicant is hoping to provide facility financing in an area of the country that does not have access to much capital due to the depressed economic environment and lack of national bank presence. Additionally, charter schools are relatively new to this region so there is an overall lack of lending history to assure the region banks that charter schools can be a secure investment. Given this perspective, all charter schools in the targeted area are in need of facility financing, whether it be a new charter school looking for fund to renovate a building or an existing charter school needing to build a larger facility to accommodate growth. Pg. e34

Through in-depth interviews with charter school authorizers, charter school state associations and charter management organizations the applicant came to a clear understanding of the facility needs in their geographic region. With input from these organizations the applicant was able to design loan products and financing options to meet the needs of charter schools. Pg. e35

Technical assistance will be provided to all charter school applicants in the areas of finance, organization and project development. By working with partner organizations the applicant will be able to determine if a charter school is fiscally and organizationally sound to take on a building project and the financial obligations involved with that endeavor. All technical assistance activities will be funded through the guarantee fee and NMTC fee paid by charter schools. Pg. e35

The selection criteria listed in the application provide a good outline of the qualities needed for a successful charter school. Additionally, information gathered from Public Impact will provide a more in-depth look at the charter school's academic performance. Because this region of the country has such high poverty rates and low school performance rates, any charter schools chosen for assistance can be considered to be in great need. Pgs. e32 & e36

#### **Weaknesses:**

There does not appear to have been any charter schools involved in the design of this project.

### Selection Criteria - Adequacy of Resources

**1. Capacity. In determining an applicant's business and organizational capacity to carry out the project, the Secretary considers:**

**a) 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;**

**b) The applicant's financial stability;**

**c) The ability of the applicant to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management;**

**d) The applicant's expertise in education to evaluate the likelihood of success of a charter school;**

**e) 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;**

**f) 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;**

**g) 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**

**h) For previous grantees under the charter school facilities programs, their performance in implementing these grants.**

**Strengths:**

The applicant is a CDFI with 20 years of experience in the Mid-South region. In their operating history they have generated \$1.8 billion in loans and financing to serve low-income and distressed communities. They have experience with NMTC financing and have a significant amount of funding from private foundations. They will bring all of these experiences into play in their newly developed Charter Schools Facilities fund. Pgs. e37 – e38

With \$87 million in net assets and strong financial and managerial guidelines the applicant is able to maintain financial stability. The applicant is also the sponsor of Hope Credit Union which on its own has \$185 million in assets. Along with interest earnings and service fees charged, the applicant receives money from regional and national foundations to support its efforts and help keep the company financially sound. The audits presented contained no material findings and the applicant has included unaudited financial statements for 2013. Pg. e37 – e38

Through the 20 offices located throughout the Mid-South region, the applicant has the capability to know the communities/entities that are asking for assistance. Together with strong policies and procedures regarding underwriting and portfolio and financial management, the local presence of the applicant provides an environment where loan officers are connected to the community and can make informed decisions about an applicant's ability to repay loans. Pgs. e43 – e44

The applicant has formed a much needed partnership with Public Impact to help determine the possible academic success of a charter school applying for financial assistance. Even though the Board of Directors has several individuals with experience in education, the staff has little experience making the partnership with Public Impact even more important. There is also a good working relationship with the charter school state associations which provided information

to the applicant regarding the needs of the charter schools and trends within each state that are important to the project goals. Pgs. e48

A conflict of interest statement and a Code of Business Conduct and Ethics policy are included in the Appendix. All employees and Directors must sign this statement. This statement includes a process that employees must follow when a conflict is present and steps to be followed in the event a conflict is discovered. Appendix

Throughout the narrative the applicant discusses two partners – Public Impact and Edtec. The duties and responsibilities of each organization are outlined in detail. There are resumes included of the individuals from each company that will be working with the applicant. Each of these partners has significant experience with charter organization and management. Public Impact will also provide additional information relating to research in the charter school field. Pg. e48

**Weaknesses:**

The applicant does not have a credit rating from an outside agency.

**Reader's Score: 33**

**Selection Criteria - Quality of Project Personnel**

**1. Quality of project personnel. In determining the quality of project personnel, the Secretary considers--**

**a) 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**

**b) The staffing plan for the grant project.**

**Strengths:**

Project personnel are well qualified with many years of experience providing financial products to their customers. The person in charge of the day-to-day implementation of the project has been associated with the applicant since 1994. pg. e51

Even though the applicant does not have education experience they have formed partnerships with two organizations that will provide the much needed educational experience. Pg. e51 and e152

**Weaknesses:**

Other than naming individuals that will monitor and administer specific aspects of the grant proposal, there is not a staff plan provided. It would be helpful to provide an organizational chart outlining the levels of responsibility.

**Reader's Score: 12**

**Priority Questions**

**Competitive Preference Priorities - Competitive Preference Priorities**

**1. This priority is the capacity of charter schools to offer public school choice in those communities with the greatest need for school choice based on--**

**a) 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.

b) 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

c) The extent to which the applicant would target services to communities with large proportions of students from low-income families.

**Note:** In order to receive competitive preference points under this priority, applicants serving charter schools in States operating under ESEA Flexibility that have opted to waive the requirement in ESEA section 1116(b) for local educational agencies (LEAs) to identify for improvement, corrective action, or restructuring, as appropriate, their Title I schools that fail to make adequate yearly progress (AYP) for two or more consecutive years should target services to geographic areas in which a large proportion or number of public schools have been identified as priority or focus schools, or belonging to a subset of other Title I schools specifically identified as low-achieving under the State s approved ESEA flexibility request (see the June 7, 2012, ESEA Flexibility document at <http://www.ed.gov/esea/flexibility>).

**Strengths:**

Identified states for inclusion in this project have ESEA waivers. The applicant will prioritize loan guarantees for charter schools located where a large percentage of district schools are labeled priority (lowest performing 5% of schools) and focus (10% of schools that have the largest discrepancy in sub group scores). The applicant included the total number of focus and priority schools for each state involved in the project. Pgs. e18 – e20

Good information was provided on the percentage of students that qualify for FRL by state. Pg. e21

**Weaknesses:**

The applicant presents good data on overall state comparison of student performance on a national test but, there is no data presented that discusses how students in the targeted area perform on a state level assessment. This data could help further define the geographic areas that need the most school choice. Pg. e20

The applicant should have broken down each set of state level data relative to free and reduced lunch eligibility by county or by large metropolitan areas. This information would have helped further define the grant project and the communities that will be served.

**Reader's Score:** 9

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**Status:** Submitted  
**Last Updated:** 04/15/2014 12:23 PM

Status: Submitted

Last Updated: 04/15/2014 02:48 PM

## Technical Review Coversheet

Applicant: Hope Enterprise Corporation (U354A140011)

Reader #3: \*\*\*\*\*

	Points Possible	Points Scored
<b>Questions</b>		
<b>Selection Criteria</b>		
<b>Quality of Project Design</b>		
1. Project design	35	28
<b>Quality of Project Services</b>		
1. Project services	15	12
<b>Adequacy of Resources</b>		
1. Capacity	35	29
<b>Quality of Project Personnel</b>		
1. Project personnel	15	12
<b>Sub Total</b>	100	81
<b>Priority Questions</b>		
<b>Competitive Preference Priorities</b>		
<b>Competitive Preference Priorities</b>		
1. CPP 1	15	10
<b>Sub Total</b>	15	10
<b>Total</b>	115	91

# Technical Review Form

Panel #1 - 2014 CESCO - 1: 84.354A

Reader #3: \*\*\*\*\*

Applicant: Hope Enterprise Corporation (U354A140011)

## Questions

### Selection Criteria - Quality of Project Design

**Quality of project design and significance. In determining the quality of project design and significance, the Secretary considers--**

**a) 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;**

**b) The extent to which the project goals, objectives, and timeline are clearly specified, measurable, and appropriate for the purpose of the program;**

**c) 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;**

**d) The extent to which the project is likely to produce results that are replicable;**

**e) 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;**

**f) 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;**

**g) 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;**

**h) 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; and**

**i) The extent to which the proposed project is supported by strong theory (as defined in 34 CFR 77.1(c)).**

### Strengths:

HOPE's anticipated leveraging of NMTC; portfolio of financing products; and provision of both financing services and technical assistance, combine to help support the likelihood of the program's success (pp. 8-9) and support criteria a and f.

The proposed timeline of guaranteeing forty-two loans within five years, especially given HOPE's broad and deep experience with other categories of lending assistance, appears achievable. (p. 14) Again, a target of serving only three schools within the first program year seems realistic, supporting criterion b.

HOPE's identified and varied project sizes, ranging from leasehold improvements of \$250,000 to NMTC financings of up to \$20 million, also help to ensure both that the program meets a variety of community needs as well as achieves its objective of fully deploying grant funds within a five-year time horizon (p. 14) ensuring HOPE's ability to meet factors included in criterion c.

An anticipated leverage ratio of 9:1 appears aggressive but achievable given HOPE's experience in other lending programs, and an average project cost of \$1.7 million is also realistic (p. 17) addressing criteria f and h.

The fact that HOPE's model accommodates an allowance for up to a 1% loss rate again demonstrates HOPE's level of experience and sophistication and helps enhance the likelihood that the program is replicable across differing areas and experiences (p. e336) as required by criterion d.

HOPE's incorporation of measurable objectives, especially those associated with charter school student performance data, provides a critical component of ensuring that the program is able to achieve concrete and meaningful outcomes (p. 16) supporting criterion e.

HOPE will target schools within states that demonstrate generally strong charter school laws (p. 18) supporting criterion g.

The application provides a Logic Model on p. e333, and includes a detailed, multi-year cash flow model beginning on p. e335 that is consistent with the Logic Model, supporting criterion g.

HOPE's experience and focus on providing financing in areas in which depressed property values impede private sector financing are also critically important and could provide meaningful, replicable examples (p. 23) addressing the requirements of both criteria c and d.

HOPE's reporting and performance measurement infrastructure to evaluate the impact of financed projects represents a critical factor in ensuring that the projects are replicable across different areas. This evaluation infrastructure allows for the possibility for early intervention should project performance fail to meet desired objectives (p. 39) and supports criteria c and d.

#### **Weaknesses:**

Because the state of Mississippi is currently in the process of implementing a new charter school law, with the first schools expected to open in 2015, HOPE's ability to have immediate impact in the state may be delayed, raising questions about the timeline within this state as required under criterion b.

Clearly absent in this application is any objective historical proof or projections to support HOPE's assertion that this grant will enable the organization to provide below-market rates or financing at rates that are more favorable than they would be absent the program. The application states that the grant program will enable HOPE to reduce interest rates by 2-4 percentage points and increase LTV ratios to between 75-80% (p. 16), but absolutely no data is provided demonstrating that this has historically been the case or that it is reasonable to expect that this will be the case in the future. Indeed outside of a 4% rate on NMTC loans included in the cash flow model, no information is provided at all on the loan rates that HOPE expects to be able to make available assuming receipt of this grant. While loan rates are obviously variable, the application could have been strengthened by at least providing this rate in terms of a spread to a specific index. In combination, these factors erode HOPE's demonstrated ability to meet the requirements of criterion a.

HOPE's plan to begin the provision of technical assistance in October, with three schools provided with financial guarantees two months later, may prove unrealistic. Ideally, the provision of technical assistance should begin much earlier within their timeline (p. 13) weakening support of criterion b.

The application states that HOPE will implement a rigorous application and selection process, and yet no sample application or specific scoring or ranking criteria is included. General selection criteria such as a school's academic performance would be enhanced by listing specific evaluation measurements or providing a prototype application. (p. 17) These omissions, in combination, fail to demonstrate that HOPE will use appropriate criteria for selecting charter schools for assistance as required under criterion e.

Since HOPE only recently began assisting charter schools in 2013, the application provides no data to demonstrate a proven track record that HOPE's ability to use appropriate criteria for selecting charter schools as required by criterion e.

The NMTC figures provided in HOPE's logic model are inconsistent with the three \$20 million projects laid out on p. 14., weakening HOPE's strong theory. Additional details on precise inputs and outputs might have been included. In combination, these factors fail to fully support criterion i.

Specific information on how HOPE's cost structure and how it will deliver on its promise of providing charter schools with financings and technical assistance at below-market rates is missing from the application, falling short of providing robust support for criterion a.

**Reader's Score: 28**

### **Selection Criteria - Quality of Project Services**

#### **1. Quality of project services. In determining the quality of project services, the Secretary considers**

- a) The extent to which the services to be provided by the project reflect the identified needs of the charter schools to be served;**
- b) The extent to which charter schools and chartering agencies were involved in the design of, and demonstrate support for, the project;**
- c) 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**
- d) 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.**

#### **Strengths:**

Clearly, as indicated by the application itself (p. 20) and by the comprehensive letters of recommendation from all four targeted states, HOPE has taken the necessary time to fully understand the services that charter schools within their targeted areas most need. Importantly, the application also provides names of specific charter schools with which HOPE has held discussions to identify their needs (p. 19) supporting both criteria a and b.

HOPE's financing strategies will assist schools that own their facilities, are currently in leased space, or those that intend to construct new school buildings, addressing criterion a.

The application includes letters of support from a number of CMOs (pp. e346 - e352)

#### **Weaknesses:**

HOPE's cost structure may not be as low as possible with multiple office locations even within the same city and the intended utilization of two outside consultants, Public Impact and EdTec, to provide additional expertise. While these outside organizations provide important expertise, it could elevate the costs associated with HOPE's services and reduce the differential from market rates. HOPE indicates that they intend to utilize the full grant as reserves for loan guarantees (p.21) and that all technical assistance and program operations charges will be paid from a 1% guarantee fee and NMTC. (pp. 21 & e335.)

However, HOPE indicates that they are still in the process of applying for NMTC allocations, (p. 8) leaving open the question of how these expenses should there be delays in this approval. These factors in combination erode evidence that HOPE is able to meet all of the requirements of criterion c.

### Selection Criteria - Adequacy of Resources

**Capacity.** In determining an applicant's business and organizational capacity to carry out the project, the Secretary considers:

- a) 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;
- b) The applicant's financial stability;
- c) The ability of the applicant to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management;
- d) The applicant's expertise in education to evaluate the likelihood of success of a charter school;
- e) 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;
- f) 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;
- g) 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
- h) For previous grantees under the charter school facilities programs, their performance in implementing these grants.

#### **Strengths:**

Clearly, one of HOPE's central strengths is its history as a 20-year old nonprofit Community Development Financial Institution (CDFI) and its robust lending history totaling \$1.8 billion in financings. HOPE is also the sponsor of HOPE Credit Union. (p. e16) HOPE's lending experience is diversified and plentiful with more than 800 loans originated since its establishment in 1994, and closings averaging 50-60 loans each year (p.22 & 24) supporting criterion a.

The organization's extensive experience originating, monitoring and servicing a variety of loans should allow them to achieve their targeted objective of maintaining a loan loss rate of less than 2% (p. 11) providing evidence of HOPE's ability to meet criterion c.

HOPE's record of successful fundraising from a diverse group of foundations and individuals also represents a strength (p. 26) supporting criterion f.

HOPE has an adopted Commercial Loan Policy dated as of 5/1/2013. Quarterly internal audits conducted by an outside auditor are a strength (p. 29) as are monthly meetings of HOPE's internal loan review committee. Established loan monitoring and servicing software and capabilities also represent a positive attribute. (p. 31)

HOPE's Investment and Audit Committees meet quarterly and have adopted Policies and Procedures and Investment Policies as well as Conflict of Interest Policies. (p. 32 & policy attachments.) HOPE has also adopted a Code of Business Conduct and Ethics Policy (p. 36 & attachments 13,17 and 18) Robust policies and procedures help to ensure that HOPE meets criteria c and e.

HOPE's practice of maintaining a direct relationship between each borrower and their loan officer (p. 38) and conducting field audits (p. 39) are also strengths and could result in lower default rates, supporting criterion c.

Projected donation levels as presented in Table 1 appear reasonable and conservative, especially given HOPE's impressive fundraising track record, and provide evidence for HOPE's ability to meet criterion f.

HOPE's inclusion of unaudited 2013 financials supports their assertion that financials are monitored and evaluated on a regular basis (p.e61) supporting criterion b.

Audited financials reflect stable finances with satisfactory cash levels. The allowance for loan losses as presented in HOPE's audited financials is also a strength, enhancing HOPE's ability to meet criterion b.

HOPE's previous in-depth experience managing a variety of loan programs and products with a low overall default rate below 2% is also a strength, addressing criterion c.

**Weaknesses:**

The cash flow model allows for only a 1% default rate. (p. e336). This is lower than the performance of HOPE's loan portfolio historically, and as HOPE extends lending to a new sector in which it has limited prior experience, the potential exists for loan default rates to actually exceed HOPE's prior record, raising questions about HOPE's ability to fully address criterion c.

The scope of HOPE's capabilities is broad and deep, however their reliance on outside consultants raises some questions as to the efficiency of their cost structure, eroding support for criterion f.

Specific criteria and measurements for the identified selection criteria are missing, and the application leaves open the question of who will be responsible for developing these. HOPE's anticipated reliance on EdTec to further enhance their charter school lending, underwriting and due diligence practices, while providing additional capabilities, also calls into question their internal resources and control over these practices (p. 30) and calls into question HOPE's capacity to comply with criterion d.

Another concern is the significant increase in charge-offs in 2013, with a loss of over \$1.1 million associated with a single borrower; essentially one-half of the original loan amount, raising concerns about HOPE's ability to meet criterion b.

While the application includes HOPE's adopted Policies and Procedures, it is clear that some of these will need to be adjusted to more readily accommodate typical charter school loan portfolios; work that it does not appear the organization has undertaken, generating questions regarding HOPE's compliance with criterion a.

The application refers to a survey for charter school borrowers that captures important data on operations and academic performance (p.35), however the application would have been strengthened were this actual survey included. This weakness impedes HOPE's ability to fully address criterion d.

While HOPE's audited financials are reasonably stable, they do raise a few concerns. Most notable are the sizeable operating deficits of approximately \$3.5 million in each of the last two fiscal years. This calls into question the sustainability of operations if HOPE is not successful in restoring budgetary balance. Moreover, HOPE's general and administrative expenses, exceeding \$1.7 million in fiscal 2012, have consistently constituted a relatively high percentage of total expenses, approaching 15%. Again, this demonstrates the challenge confronting HOPE as it attempts to control administrative costs and provide loans and technical services at below-market rates. Recent audits also reflect impaired loans totaling approximately \$1.6 million in fiscal 2012 and \$2.55 million in 2011, with only \$121,000 and \$290,000 (FY 2011 and 2012, respectively) accrued in the allowance for loan losses. The average balance for impaired loans in 2012 and 2011 were \$2,081,000 and \$3,466,000, respectively. As a less significant note, the cash position of Home Again, Inc., a HOPE subsidiary, appears very weak. Each of these factors raises concerns about HOPE's ability to meet criterion b.

The applicant's past year activity table (p. e285) does not distinguish between charter school financings and other loan

products. Charter school loan performance may differ significantly from HOPE's existing loan portfolio, and the application should have included this breakout. This omission generates questions regarding HOPE's ability to comply with criterion c.

The application leaves open the question of how supplemental services, especially any extensive use of outside consultants, will be adequately supported by operations or grant funding, raising questions on HOPE's ability to fully address criterion f.

HOPE's Investment Policies (pp. e261-e265). which allow for AA or higher commercial bonds and U.S. equity securities (p. e263) do not comply with the investment practices required under the program, raising concerns regarding criterion c.

**Reader's Score: 29**

### **Selection Criteria - Quality of Project Personnel**

#### **1. Quality of project personnel. In determining the quality of project personnel, the Secretary considers--**

**a) 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**

**b) The staffing plan for the grant project.**

#### **Strengths:**

The backgrounds and expertise of HOPE's management team are broad and deep. In addition, the fact that the organization's credit committee is directly approved by the Board of Directors represents a key strength and measure of oversight and control. (p. 30) The underwriting team includes analysts with extensive lending experience (pp. 36 – 39) further supporting criterion a.

HOPE's management team also has clearly defined roles and responsibilities as participants on the lending, loan servicing and monitoring and reporting and performance measurement teams, addressing criterion b.

HOPE's Board of Directors also brings diverse experience and meaningful knowledge, supporting criterion a.

The application identifies outside consultants in Public Impact and EdTec, which in combination will offset the applicant's lack of specific experience in education, enhancing support for criterion a.

#### **Weaknesses:**

As mentioned previously, the central weakness in this application is HOPE's reliance on outside partners to provide expertise in the areas of educational performance and selection criteria. While the experience levels of these consultants is impressive and addresses gaps in HOPE's areas of expertise, HOPE would surrender direct control over some of the responsibilities, costs and outcomes associated with these functions, raising concerns about HOPE's ability to meet criterion a.

Aside from a partnership, the application fails to provide details on the exact mechanisms in place to ensure effective communication across these organizations. For example, the HOPE staff members charged with identifying and underwriting charter school facilities projects, while offering experience in commercial lending, do not have backgrounds in education. (pp. 37 & e301, e302, e318, e319) eroding support for HOPE's ability to meet criterion b.

The CEO has been identified as the only Board member who will work on the Charter Schools Facilities Fund (p. e55),

weakening HOPE's strength in reference to meeting criterion a.

Reader's Score: 12

## Priority Questions

### Competitive Preference Priorities - Competitive Preference Priorities

1. This priority is the capacity of charter schools to offer public school choice in those communities with the greatest need for school choice based on--

a) 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.

b) 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

c) The extent to which the applicant would target services to communities with large proportions of students from low-income families.

**Note:** In order to receive competitive preference points under this priority, applicants serving charter schools in States operating under ESEA Flexibility that have opted to waive the requirement in ESEA section 1116(b) for local educational agencies (LEAs) to identify for improvement, corrective action, or restructuring, as appropriate, their Title I schools that fail to make adequate yearly progress (AYP) for two or more consecutive years should target services to geographic areas in which a large proportion or number of public schools have been identified as priority or focus schools, or belonging to a subset of other Title I schools specifically identified as low-achieving under the State's approved ESEA flexibility request (see the June 7, 2012, ESEA Flexibility document at <http://www.ed.gov/esea/flexibility>).

#### Strengths:

HOPE states that they will focus their efforts on those charter schools within areas served by schools that are designated as either "Priority" or "Focus" schools (p. 4) addressing criterion a.

Student performance levels in HOPE's four targeted states also lag national averages (p. 5), with the overwhelming majority of 8th grade students scoring below proficiency levels in both reading and math, addressing criterion b.

HOPE's focus on the states of Mississippi, Arkansas, Tennessee and Louisiana include areas with among the highest poverty rates in the nation, and the states are respectively ranked 50th, 49th, 48th and 46th, in median household income (pp. 2-6) addressing criterion c.

HOPE's targeted metrics of schools in which the majority of students qualify for free or reduced lunch, with 85% of schools located in distressed census tracts and 80% located in areas in which schools have been identified for improvement (p. 12) help to ensure that the program will focus on schools meeting the desired Competitive Preference Priority, as defined in criteria a and c.

#### Weaknesses:

The application does not identify specific census tracts or school districts in which HOPE will focus its efforts, failing to fully support criteria a – c.

**Reader's Score:** 10

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**Status:** Submitted

**Last Updated:** 04/15/2014 02:48 PM

Status: Submitted

Last Updated: 04/15/2014 03:34 PM

## Technical Review Coversheet

Applicant: Hope Enterprise Corporation (U354A140011)

Reader #4: \*\*\*\*\*

	Points Possible	Points Scored
<b>Questions</b>		
<b>Selection Criteria</b>		
<b>Quality of Project Design</b>		
1. Project design	35	33
<b>Quality of Project Services</b>		
1. Project services	15	13
<b>Adequacy of Resources</b>		
1. Capacity	35	33
<b>Quality of Project Personnel</b>		
1. Project personnel	15	13
<b>Sub Total</b>	100	92
<b>Priority Questions</b>		
<b>Competitive Preference Priorities</b>		
<b>Competitive Preference Priorities</b>		
1. CPP 1	15	13
<b>Sub Total</b>	15	13
<b>Total</b>	115	105

# Technical Review Form

Panel #1 - 2014 CESCOF - 1: 84.354A

Reader #4: \*\*\*\*\*

Applicant: Hope Enterprise Corporation (U354A140011)

## Questions

### Selection Criteria - Quality of Project Design

1. Quality of project design and significance. In determining the quality of project design and significance, the Secretary considers--

a) 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;

b) The extent to which the project goals, objectives, and timeline are clearly specified, measurable, and appropriate for the purpose of the program;

c) 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;

d) The extent to which the project is likely to produce results that are replicable;

e) 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;

f) 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;

g) 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;

h) 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; and

i) The extent to which the proposed project is supported by strong theory (as defined in 34 CFR 77.1(c)).

### Strengths:

#### Strengths

(a) The applicant plans to utilize the CEP grant award to capitalize its Charter School Facilities Fund to leverage private and other non-federal funds for renovation, new construction and permanent financing of charter school facilities. They plan to provide guarantees for 42 schools over 5 years leveraging \$73 mm in financing and concurrently provide customized technical assistance. They plan to offer interest rate savings of up to 4% and provide higher loan to value ratios than are available in the conventional marketplace. They also offer a 1% guarantee fee.

(b) The project's goals and objectives are quantitative in nature and are specific, measurable and aligned with the program intent and purpose. See Page 11

(c) The applicant has a great deal of experience in facilities financing including community health centers, rural hospitals, child care centers, and nonprofit service organizations. Given this experience and their lending activity as a CDFI, they are highly likely to achieve their program objectives.

(d) The applicant's expertise in lending as well as their ability to provide real estate development and financing technical and operational assistance makes it highly likely that their development model will be successful as well as replicable.

See page 16. The applicant plans to disseminate program results through partnerships, education and policy advocacy. (e) The applicant plans to utilize Title 1 criteria as well as the results of an outreach effort that will focus on communities with high need. The applicant will also base its decision on the findings of its lending and underwriting team to build the business case for operational and technical assistance.

(f) The applicant will leverage private and other non-federal funds at a ratio of 9:1 providing financing to 42 schools for acquisition, renovation, and/or the construction of school facilities. The financing to be leveraged will include NMTC financing, leasehold improvement loans, senior loans and subordinate loans.

(g) Strong charter laws are defined by Section 5202(e)(3) of the ESEA of 1965. Based upon a reading of that statute, the 4 states in the applicant's target market have strong charter laws. See chart on Page 18

(h) The grant amount is reasonable when viewed in light of an average project cost of \$1.7mm per school.

(i) The applicant's logic model is contained on page E333 and E334. It is fully explanatory and contains required goals and outcomes.

#### **Weaknesses:**

(b) The timeline was not very specific and should include additional detail on project milestones.

**Reader's Score: 33**

#### **Selection Criteria - Quality of Project Services**

##### **1. Quality of project services. In determining the quality of project services, the Secretary considers**

**a) The extent to which the services to be provided by the project reflect the identified needs of the charter schools to be served;**

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

**c) 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**

**d) 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.**

#### **Strengths:**

(a) Based upon market research and outreach to stakeholders, the applicant has identified a significant need for charter school facilities financing in their target market.

(b) The applicant has reached out to charter authorizers, charter school membership associations, and charter school management organizations in each of the four target markets. They have also included support letters from all of the states in the target market demonstrating program need and support.

(c) The applicant plans to maximize the cost effective impact of the grant funds by utilizing their existing infrastructure, their community resources, and joint facilities with the HOPE FCU to avoid unnecessary administrative fees.

(d) The applicant plans to conduct a thorough academic appraisal of each school during the due diligence phase of the process as well as conduct in depth underwriting to ensure the success of each facilities financing project.

**Weaknesses:**

- (b) There were no letters of support from charter schools received.

**Reader's Score: 13**

**Selection Criteria - Adequacy of Resources**

**1. Capacity. In determining an applicant's business and organizational capacity to carry out the project, the Secretary considers:**

**a) 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;**

**b) The applicant's financial stability;**

**c) The ability of the applicant to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management;**

**d) The applicant's expertise in education to evaluate the likelihood of success of a charter school;**

**e) 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;**

**f) 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;**

**g) 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**

**h) For previous grantees under the charter school facilities programs, their performance in implementing these grants.**

**Strengths:**

Strengths:

(a) The applicant has a strong history of providing facilities financing activity for community health centers, hospitals, child care centers as well as nonprofit organizations. This includes 139 community facility loans for over \$78 mm. They also have extensive experience with credit enhancement and guarantee programs having closed 178 community facility, small business and commercial loans through a guarantee program totaling \$32.2mm.

(b) The applicant is a CDFI and does not have a credit rating. Unaudited financial statements for 2013 are attached as well as audited financial statements for 2010, 2011, and 2012. There are no material findings contained in these statements. Outside philanthropic support is strong for the applicant evidenced by strong funding commitments from

individuals and foundations.

- (c) The applicant has strong, underwriting, portfolio monitoring and compliance policies in place. All policies and procedures are reviewed annually by their risk management team. They also contract with an outside accountant that conducts quarterly audits to ensure regulatory compliance with auditing standards. See pages 28-32
- (d) The applicant has partnered with Public Impact, a national education policy and management consulting firm to provide input to augment their expertise in education. They also reach out to charter school associations and resource centers in each of their target markets to ensure that their input on strengths and weaknesses of charter schools in their markets will be utilized in evaluating the likelihood of success. See page 33-34.
- (e) The applicant has a conflict of interest policy in place as well as Code of Business conduct and Ethics which are appended to the application at Attachment 17 and 18 respectively. See page 36

**Weaknesses:**

Weaknesses:

- (b) The applicant does not have a CARS rating, which is a CDFI “program sufficiency” rating offered by the Opportunity Finance Network.

**Reader's Score: 33**

**Selection Criteria - Quality of Project Personnel**

**1. Quality of project personnel. In determining the quality of project personnel, the Secretary considers--**

- a) 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**
- b) The staffing plan for the grant project.**

**Strengths:**

- (a) The applicant has a strong and deeply experienced financial project team in place for this project. Any possible gaps in education knowledge and policy are offset by retained consultants.
- (b) Information on project staffing is presented in a narrative format.

**Weaknesses:**

- (b) The applicant has not included an organization chart, milestones, inputs or outputs.

**Reader's Score: 13**

## Priority Questions

### Competitive Preference Priorities - Competitive Preference Priorities

1. This priority is the capacity of charter schools to offer public school choice in those communities with the greatest need for school choice based on--

a) 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.

b) 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

c) The extent to which the applicant would target services to communities with large proportions of students from low-income families.

**Note:** In order to receive competitive preference points under this priority, applicants serving charter schools in States operating under ESEA Flexibility that have opted to waive the requirement in ESEA section 1116(b) for local educational agencies (LEAs) to identify for improvement, corrective action, or restructuring, as appropriate, their Title I schools that fail to make adequate yearly progress (AYP) for two or more consecutive years should target services to geographic areas in which a large proportion or number of public schools have been identified as priority or focus schools, or belonging to a subset of other Title I schools specifically identified as low-achieving under the State s approved ESEA flexibility request (see the June 7, 2012, ESEA Flexibility document at <http://www.ed.gov/esea/flexibility>).

#### Strengths:

Strengths:

- (a) The applicant targets schools for assistance in 4 target areas of LA, MS, TN and AR. All of these states that received an ESEA waiver and transitioned their school accountability model to designate "priority", "Focus" and "Reward" schools. Priority schools are in the lowest performing 5% of schools in terms of academic achievement.
- (b) The state markets targeted are areas where a large proportion of students are found to be below proficiency measures for state academic assessments. See page 1-2 In 2013, 70% of the 8th grade students in Arkansas, 76% in Louisiana, 80% in Mississippi, and 65% in Tennessee scored below proficient in reading achievement; and 72% of 8th graders in AR, 79% in LA, 79% in MS and 72% in TN scored below proficient in Mat achievement.
- (c) The applicant's target market consistently ranks last or close to last in median household income. See page 2

#### Weaknesses:

- (a) The applicant would have been improved by providing census tract level daata for state assessment criteria.

**Reader's Score:** 13

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**Status:** Submitted  
**Last Updated:** 04/15/2014 03:34 PM