

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

Status: Submitted

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

Technical Review Coversheet

Applicant: Local Initiatives Support Corporation (U354A090001)

Reader #2: *****

	Points Possible	Points Scored
Questions		
Competitive Preference Priority		
Competitive preference priority- 15 points		
1. QUESTION 1	15	13
Sub Total	15	13
Selection Criterion		
Quality of project design and significance- 35 points		
1. QUESTION 2	35	30
Quality of project services- 15 points		
1. QUESTION 3	15	12
Capacity- 35 points		
1. QUESTION 4	35	31
Quality of the project personnel- 15 points		
1. QUESTION 5	15	13
Sub Total	100	86
Total	115	99

Technical Review Form

Panel #1 - Panel 1: 84.354A

Reader #2: *****

Applicant: Local Initiatives Support Corporation (U354A090001)

Questions

Competitive Preference Priority - Competitive preference priority- 15 points

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

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

5 Points for one factor
Excellent

4 Points for one factor
Good

3 Points for one factor
Acceptable

0-2 Points for one factor
Other

Strengths:

The applicant's entire mission is dedicated to transforming distressed communities. Under two prior CEP grants, 87 percent of schools it supported with facilities financing are in "communities with the greatest need for public school choice as mandated by NCLB" (pg e1 + Attachment 8).

The applicant uses an Eligibility Criteria Worksheet (Attachment 7) in which out of a maximum of 230 points, school facility applicants can receive up to 45 points based on eligibility for free or reduced-price meals, up to 15 points for being in areas in which students perform poorly on state assessments, and up to 15 points for being within districts identified for improvement under NCLB. Furthermore, the applicant's goal under this new grant application would be for at least 90% of the charter schools it supports to meet this competitive priority (pg e8).

The applicant says it would continue to target many of the same districts supported under the previous CEP grants (and the identity of such districts can be gleaned from lists such as that found in Attachment 8).

Weaknesses:

The application could have been strengthened by 1) more clearly designating the geographic targets and/or the types of schools expected to be in the pipeline for funding under the proposed grant; and 2) discussing its outreach approaches to securing both eligible schools and the lenders to support facilities funding in these "at risk" communities.

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

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

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

90-100 Points

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

80-89 Points

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

70-79 Points

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

Less than 70 Points

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

Strengths:

The applicant proposes both a loan and a bond financing mechanism, which would enable funding to flow to school facilities projects even at 90 percent LTV (pg e5-8) at interest rates in the 6-7 percent range and with a 1 percent origination or guarantee fee (pg e16). These seem at least on par if not better rates and terms than credit-worthy borrowers can earn. When considering the applicant is often supporting start-up or small enrollment schools and projects (leasehold improvements or modular classrooms) with little or no opportunity for collateral (pg e7), the loan rate and fee structure are reasonable and better than what such "high risk" borrowers can receive absent assistance through this program.

The applicant's five goals are specific and appropriate and accompanied by measurable objectives and timelines.

The applicant has extensive partnerships with lenders, investment firms and foundations, including a three-year \$2.5M commitment from Walton Family Foundation to support staffing (Attachment 14) and preliminary expressions of interest from Prudential and Walton (Attachment 16) in helping finance loans should this grant be awarded. The applicant would assist 12-13 charter school financing projects yearly in a variety of chartering situations for which funding would not be available absent the program.

The applicant has well-honed criteria targeted at "risky" schools due to their "location in low-income communities, newness or [small] enrollments" (pg e13). The applicant intends to serve a variety of facility needs, including leasehold improvements, acquisition, renovation and construction. The uses and types of assistance are flexible and appropriate for the market.

The applicant will target states with strong accountability measures, multiple authorizers and a high degree of fiscal autonomy (pg e13) and conducts a market analysis that examines the operational and political climate through a number of key indicators, such as the quality of the charter monitoring and oversight (pg e14).

Overall, the project will support 114 schools, which compares favorably to the 42 schools it supports today (pg e32 + Attachment 6), and the applicant projects a private-to-Fed ratio of 10:1 on loans and 26:1 on bonds (pg e13 + assumptions in Attachment 15). The applicant also has a current loan loss rate of less than 1 percent (pg e16).

The number of schools it seeks to support, its leveraging ratios, and the level of staffing and technical assistance supported from non-federal sources all point to project costs that are reasonable in relation to the objectives, design and potential significance of the project.

Weaknesses:

The applicant does not clearly identify its target states (under the criteria it articulates on pg e13), but leaves it up to the reviewer to infer what states it will favor by piecing together evidence from various attachments that document its performance under prior CEP grants. For example, the applicant mentions that it has "identified 43 projects totaling almost \$275 million in 16 states that are in need of financing (pg e3)," but does not go into any more detail about these prospects.

The mechanisms this applicant proposes seem uniquely situated to them and most likely hard to replicate for any organization not possessing such advantages. For example, the applicant is structured rather uniquely with over 30 local program offices and monitoring regimens that are subsidized by external philanthropies. It effectively serves a high-risk, high-need sector, has a sizable NMTC portfolio with a small loan loss rate, and all of these factors make it difficult for replication.

In discussing its program design, the applicant does not provide many details about Part B, bond issuances, including its assumptions about 1) the threshold amount of capital needed to make the bond financing viable; 2) sample characteristic of a series, such as the number of schools it would package in an issuance; or 3) what state or local bond authority vehicle it would use for issuances.

Reader's Score: 30

Selection Criterion - Quality of project services- 15 points

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

- (1) The extent to which the services to be provided by the project reflect the identified needs of the charter schools to be served;**
- (2) The extent to which charter schools and chartering agencies were involved in the design of, and demonstrate support for, the project;**
- (3) The extent to which the technical assistance and other services to be provided by the proposed**

grant project involve the use of cost-effective strategies for increasing charter schools' access to facilities financing, including the reasonableness of fees and lending terms; and

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

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

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80-89 Points

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70-79 Points

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

Less than 70 Points

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

Strengths:

The applicant does a credible job discussing current market uncertainties and the lending characteristics that would most benefit charter schools, such as higher LTVs and longer amortizations (pg e17-18).

It cites research it has conducted to better understand and reflect the identified needs of charter schools (pg e18) and demonstrates support from a variety of charter schools and support organizations (Attachments).

The applicant notes that it has a fully functioning educational facilities center with 30 local offices and that it will dedicate unspecified portions of its \$4.1 million Seed Fund to provide schools with no-cost technical assistance, including giving schools the ability to hire owners representatives to support them through the real estate development process (pg e19).

The applicant uses a 230-point Eligibility Criteria Worksheet (Attachment 7), which gives preference points to charter schools from "at risk" categories with the greatest demonstrated need for assistance. In its underwriting, the applicant examines a multitude of indicators that point to the likelihood of success, including academic performance, the qualifications of the leadership team, financial management and an acceptable level of debt burden.

Weaknesses:

While the applicant references prior published research (pg e18), it could have more clearly discussed what elements from this research and its prior experience contributed to the design of the proposed grant.

In this section, the applicant emphasizes tax-exempt bond financings as being the favorable instrument for charter schools under current market conditions, but it does not detail how it expects these bond deals will come together. Given that this is a new emphasis for the applicant that was not part of past CEP grants, history cannot be the applicant's guide; thus, more specificity is warranted.

The technical assistance that the applicant proposes could be better defined, including what portion of its \$4.1 million Seed Fund will go to support the hiring of owner's representatives and what criteria it will use for what charter schools will be eligible for this support.

Reader's Score: 12

Selection Criterion - Capacity- 35 points

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

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

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

90-100 Points

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

80-89 Points

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

70-79 Points

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

Less than 70 Points

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

Strengths:

The applicant has extensive experience in community development since 1979 and chartering since 1997. It has committed over \$90 million in grants, loans and loan guarantees for charter school facilities in 15 states and DC (pg e21).

It is financially stable with a \$5.6M operating surplus (pg e22). Its risk management is solid with currently only one charter school delinquency and only two charter-related defaults in its history (pg 23-24). Its allowances for loss (6.5%) far exceed its actual loss record (1.9%). Its underwriting guidance is sound (pg e25-26, Attachments 21-23). Its conflict of interest policies are appropriate for directors and all personnel (Attachment 31).

Its educational facilities center staffing are supported by a Walton grant and if granted the \$15M, the applicant would supply \$5M to increase the total capitalization of its charter lending fund to \$50M. Of \$508M in NMTC, the applicant has \$180M remaining to invest. These commitments seem well aligned to contribute to the implementation and success of the grant project.

The applicant has underwritten 14 Local Funds dedicated to charter school facilities, partnering with other grantees on at least 27 charter school projects to date (pg e29 + Attachment 6). It has also provided technical assistance in 35 individual charter school transactions. The applicant uses a number of indicators, including school report cards and AYP data and triangulates the data by examining absolute performance, improvement in performance over time, and performance in comparison to district and state averages. Such sophistication in its monitoring enhances its likelihood of supporting successful charter schools.

Weaknesses:

While the applicant notes that its two prior CEP grants are fully capitalized (pg e32), its performance reports for the period ending September 20, 2008, show uncommitted funds of approximately \$3.7M from its 2006 allocation. The applicant did not address this discrepancy, putting in question some of its rationale for a new grant allocation.

The applicant also does not address how its current investments leveraging facilities for 42 charter schools to date (pg e32) will ultimately yield support for 144 charter schools (pg e22, table with projections) and under what timetable this will be accomplished. The applicant intends to be a minor funder in some large funds to achieve this new leap in leveraging, which calls into question whether this relatively low-risk strategy will result in these funds having the strongest impact for enhancing the availability of charter school facilities.

Reader's Score: 31

Selection Criterion - Quality of the project personnel- 15 points

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

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

90-100 Points

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

80-89 Points

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

70-79 Points

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

Less than 70 Points

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

Strengths:

The project team is capable with diverse and relevant skill sets. While the project manager is relatively new in her post with the applicant, she has an extensive finance background and prior urban education managerial experience.

The deputy has been in her current post for more than three years with seven years total in the educational nonprofit field. The rest of the team is similarly well qualified in real estate investment and underwriting (pg e33-34 + Attachment 33).

A national advisory board supports the applicant, as well as a deep bench of central office staff and program officers in 30 locales across the country. The roles of the staff are clearly differentiated and appropriate.

Weaknesses:

With applicant's emphasis on its 30 local program offices to support its financing of charter school facilities, some discussion of how charter school expertise is demonstrated at this level or how such field staff are trained or supported would have strengthened applicant's case regarding its staffing plan.

Reader's Score: 13

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Technical Review Coversheet

Applicant: Local Initiatives Support Corporation (U354A090001)

Reader #3: *****

	Points Possible	Points Scored
Questions		
Competitive Preference Priority		
Competitive preference priority- 15 points		
1. QUESTION 1	15	12
Sub Total	15	12
Selection Criterion		
Quality of project design and significance- 35 points		
1. QUESTION 2	35	32
Quality of project services- 15 points		
1. QUESTION 3	15	10
Capacity- 35 points		
1. QUESTION 4	35	31
Quality of the project personnel- 15 points		
1. QUESTION 5	15	12
Sub Total	100	85
Total	115	97

Technical Review Form

Panel #1 - Panel 1: 84.354A

Reader #3: *****

Applicant: Local Initiatives Support Corporation (U354A090001)

Questions

Competitive Preference Priority - Competitive preference priority- 15 points

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

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

5 Points for one factor
Excellent

4 Points for one factor
Good

3 Points for one factor
Acceptable

0-2 Points for one factor
Other

Strengths:

The Local Initiatives Support Corporation (LISC) operates on a nationwide basis to help non-profit community-based organizations transform and stabilize distressed communities all across the nation.

The applicant indicates that it has provided financing to charter schools since 1997 (Attachment 3), and in 2003, it established the Educational Facilities Financing Center ("EFFC") to provide capital needed to build and/or renovate facilities, acquire land for facilities development and/or purchase, or lease portable classrooms (page 1 and Attachment 3). In 2003, the applicant was awarded a grant in the amount of \$10 million from the U.S. Education Department's Credit Enhancement for Charter School Facilities Program ("Credit Enhancement Program") and it received an additional \$8.2 million from the Credit Enhancement Program in 2006. EFFC used its two grant funds to capitalize the applicant's National Educational Loan Fund ("NELF") or Credit Enhancement Program I ("CEP I"), and the National Credit Enhancement Fund ("NCEF") or Credit Enhancement Program II ("CEP II") (pages 1-3).

The applicant proposed a grant project that will enable charter schools to meet the purpose of the Credit Enhancement for Charter School Facilities Program by enabling schools to gain access to financing through Local Funds (Attachment 31 (a)).

The applicant will focus activities in geographic regions with a high proportion of students that are offered or projected to be offer choice under NCLB.

The applicant will target local districts and/or individual schools within districts identified for improvement or corrective

action, communities with large proportions of low-income students, and students who perform poorly on state academic assessments (page 2).

Weaknesses:

The applicant did not clearly describe the extent to which CEP III will target communities with large proportions of students from low-income families.

The applicant failed to describe the geographic areas that CEP III will serve. Although the applicant operates nationwide with offices in urban and rural areas of the country, its program narrative does not describe the geographic states and/or school districts within the states in which its proposed grant project will target.

The applicant did not provide enough information about the geographic areas with respect to the number of communities its National and Local Funds either have targeted or will target. It failed to describe the overall benefits to the schools that were assisted in terms of their ability to ameliorate overcrowding and school choice.

The applicant did not provide sufficient information about how, in meeting its goals and objectives under CEP I and CEP II financing activities, it has helped schools meet their facilities needs by easing/eliminating school crowding or lack of seating capacity.

The applicant failed to describe how its earlier CEP I and CEP II activities addressed the issue of school choice (see Title I of the Elementary and Secondary Act as amended by the No Child Left Behind (NCLB) Act). The applicant did not describe how its activities contributed to improving conditions and the educational environment in school districts that failed to make adequate yearly progress for two years. It failed to cite specific examples of how CEP I and CEP II helped school districts indicate where issues of adequate/sufficient space were the driving factors that formed the basis of need for financing.

Reader's Score: 12

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

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

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

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

90-100 Points

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

80-89 Points

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

70-79 Points

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

Less than 70 Points

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

Strengths:

The applicant is requesting a grant in the amount of \$15 million to create two independent investment models the National Credit Enhancement Fund ("Plan A" or "NCLF") and the Bond Credit Enhancement Fund ("Plan B" or "BCEF")(page 3).

The applicant refers to the investments models as CEP III. The goals of CEP III are specific and measurable and appear to be appropriate for the program (pages 8-11).

Under the Plan A/NCLF investment model, the applicant would provide facilities financing to 63 charter schools over a period of five years. It indicates that it would focus riskier projects to reflect the need in the current market and to meet the demand for subordinated debt for owned facilities and for leasehold improvement (page 5).

Plan A/NCLF would guarantee 30% of subordinated leasehold improvements loans. Plan B/BCEF would provide financing to 51 schools and would serve a second debt service reserve fund that would be available on a cross-collateralized basis to secure debt issued through the program (page 8).

The applicant indicates Plan B/BCEF investment model would allow borrowers to secure 100% of the cost of their facilities projects (page 6).

The applicant presents a timeline for implementing Plan A and Plan B for its grant project (page 11).

With respect to criteria for selecting charter schools, the applicant indicates that CEP III will provide financing for start-ups schools, schools with small enrollments, schools with little or no collateral, schools that meet the definition as defined in ESEA, as amended by NCLB, and network or management organizations that establish and manage charter schools (pages 13-14).

The applicant indicates that its projects would be prioritized based on: (1) the percent of students eligible for free or reduced-price meals, (2) schools located in a district identified for improvement under NCLB areas in which students perform poorly on state exams, economically distressed areas and (3) academic quality of schools (page 13).

The applicant has a track record of leveraging capital for charter school facility financing projects. Under the current grant project the applicant would leverage private or public-sector funding and increase the number and variety of charter schools assisted in meeting their facilities. The applicant indicates that it has the ability to offer additional funding that would include, but would not be limited to, LISC's balance sheet, new investments, Foundation PRIs, New Market Tax Credits/Qualified Equity Investments, and early-stage recoverable grants (page 1).

The applicant expects a leverage ratio of 10:1 for Plan A/NCLF and a leverage ratio of 26:1 for Plan B/BCEF (page 10).

The applicant indicates that it examines School Report Cards, Adequate Yearly Progress data, the improvement status of charter schools, and other state-mandated assessments. It uses three indicators to evaluate school academic performance: (1) absolute performance; (2) improvement in performance over time; and (3) performance in comparison to district and state averages. The applicant recommends financing for schools that show positive results on at least two indicators (page 30).

The applicant adequately addressed the extent to which it would serve states with strong charter laws. The applicant indicates that in carrying out the objectives of its grant project it will target states that ensure charter schools accountability for reaching clear and measurable objectives, have multiple authorizers, and give schools a high degree of fiscal autonomy (page 14).

The applicant's requested grant amount and proposed project cost seem reasonable in relation to the goals, objectives, and design of its proposed investment models.

Weaknesses:

The applicant failed to provide a list of proposed projects and did not describe how it will generate a pipeline of projects that conform to its selection criteria.

The applicant indicates that under Plan A/NCLF, credit enhancement would not translate into an interest rate reduction, but rather would provide charter schools with access to capital. While the grant project may assist more well-established charter schools to gain access to capital, the applicant did not clearly explain how it would help improve the cost of capital, particularly for start-up charter schools with urgent need to make leasehold or other improvements but have little or no tangible assets and generally unsteady income.

The applicant did not clearly explain whether or not charter schools would be required to put equity into a facilities financing under its proposed Plan A/NCLF investment model.

The applicant failed to describe the risks that may be inherent in facilities financing, particularly for riskier and/or start-up charter schools and how, under the Plan A/NCLF investment model, it intends to structure financing to mitigate those risks.

The applicant failed to clearly describe the threshold amount of capital needed for a facilities project and/or size of a proposed project that would make a bond issue feasible based on its stated assumptions.

The applicant failed to provide any information about the municipal entities that will be involved in the issuance of charter school tax-exempt bonds on its behalf. With respect to the proposed timing of BCEF facilities activities, the applicant's narrative did not clearly describe how long it will take to issue bonds to ensure a fit with the needs of charter schools.

The applicant could have strengthened its narrative discussion of selection criteria by including identifying specific states, schools districts, and types of charter schools that will be targeted for CEP III grant project, under either the NCLF or BCEF investment scenario.

The likelihood that the applicant's project will produce replicable results is limited because in order to replicate the applicant's project, other entities would have to demonstrate the organizational size, capacity and understanding of the New Markets Tax Credit Program similar to the applicant.

The applicant did not adequately describe the type of charter schools that typically purchase facilities, based on its knowledge gained with CEP I and CEP II, and whether or not it anticipates that CEP III will target those schools as a result of the grant project.

The applicant indicates that Plan A/NCLF in some cases, will not offer below-market rates (page 8) This weakness in the design of proposed grant project is especially critical given that below-market financing is the central focus of the applicant's financing activities.

Although the applicant presents what appear to be two viable investment models, CEP III seems limited with respect to being replicable as a national model. CEP III seems to be a departure from the kind of financing activities in which the applicant engaged for its CEP I and CEP II investment models. While the applicant indicates that CEP III was designed as a result of lessons learned from implementation of CEP I and CEP II, it described what it specially learned and how CEP III will structure financing that will improve facilities financing for the charter schools that it intends to target moving forward.

Reader's Score: 32

Selection Criterion - Quality of project services- 15 points

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

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

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

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70-79 Points

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Less than 70 Points

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

Strengths:

The applicant indicates that approximately 90% of schools targeted will be in districts in which a high proportion of students are offered choice under NCLB (page 9). Additionally, it indicates that approximately 87% of the schools financed to date as well as those in its current pipeline are in communities with the greatest need for public choice as mandated by NCLB (page 1). Attachment 3 depicts a list of projects financed under previous grant awards for CEP I and CEP II. The applicant indicates that CEP III will complement activities of CEP I and II.

The applicant indicates that it will facilitate or credit-enhance financing to approximately 63 schools (approximately 12 per year) through Plan A/NCLF. Financing will focus on riskier projects such as subordinated debt for facilities owned by charter schools and leasehold improvement loans (page 6).

The applicant provided many letters of support for CEP III from; organizations, that include, but not limited to: Achievement First, Women in Support of the Million Man March, Inc., Alliance College-Ready Public Schools, Arizona Charter Schools Association, The Brighter Choice Foundation, California Charter Association, Charter School Growth Fund, Colorado League of Charter Schools, CDT, ExEd, Green Dot Public School, etc.(attachment 16).

The applicant indicates that in order to ensure that financing services and technical assistance are cost effective, CEP III will be supported by the infrastructure, including field staff underwriters, credit committee, loan servicing and monitoring, and legal departments of LISC (page 20). Technical assistance will also include grants to charter schools for predevelopment costs and assistance through the underwriting process (page 20).

The applicant will target high-quality and high-need charter schools. For example, the applicant indicates that schools will be selected based on: (i) percent of students eligible for free or reduced-price meals; (ii) schools in districts identified for improvement under NCLB; and (iii) academic quality of schools (page 21).

The applicant indicates that administrative costs in excess of 1% will be funded by a grant from the Walton Family Foundation (page 25).

The applicant indicates that it closely evaluates the percentage of revenue dedicated to facilities costs as charter schools take on debt. It monitors charter school borrowers closely to ensure ability to repay debt and remain financially healthy. The applicant indicates that it often restructures debt to ensure the likelihood of success and/or the future financial viability of a charter school (page 9).

Weaknesses:

While the grant project appears to support charter schools and the applicant provided a list of charter school loans that were either closed in 2009 or are pending closing, the applicant did not provide any information about potential project in the pipeline for CEP III.

Although the applicant clearly demonstrated support for CEP III, it did not clearly describe the mechanisms used to collect and utilize input charter schools/chartering agencies the design of CEP III. The applicant failed to clearly articulate the ways in which CEP III will address the issues of facilities financing in a way that was not addressed under CEP I and CEP II (page 18).

The applicant does not clearly describe how the proposed grant project will address the need for facilities financing that were not addressed, identified, or met the investment models for CEP I and CEP II.

The applicant failed to demonstrate the demand for the proposed NCLF or BCEF among charter schools in the districts that it intends to serve. It did not identify specific schools that have a need for Plan A and/or Plan B or the extent to which progress has been made toward identifying or targeting schools in the states/school districts that will be served.

Although the applicant indicates that CEP III will essentially complement CEP I and CEP II grant projects, it failed to clearly articulate how the goals and/or objectives of CEP III are either similar to or different from those of CEP I and CEP II with respect to: (i) the type of schools that CEP III will target, (ii) how CEP III has been or will be marketed to schools with the greatest need for assistance were identified/evaluated, and (iii) how it will solicit, gather and use input or feedback from charter schools or chartering agencies in the design of CEP III.

Selection Criterion - Capacity- 35 points

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

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

90-100 Points

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

80-89 Points

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

70-79 Points

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

Less than 70 Points

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

Strengths:

The applicant has a track record of financing educational facilities for approximately 12 years. The applicant indicates that it has carried out activities through its national structure of 30 local programs offices, the EFFC programs, CEP I and CEP II, the New Markets Tax Credits Program (NMTC), and a \$4.1 million Educational Seed Grant Fund that provides technical assistance grants and predevelopment recoverable grants for charter schools and CMOs. Table 2 attachment 2a, shows that for the most recently completed fiscal year the applicant issued 15 debt facilities with credit enhancements and that the total dollar amount of debt issued was over \$14 million.

Audited Financial Statement provided by the applicant for fiscal years ending December 31, 2007, December 31, 2006, and December 31, 2005, show financial stability for reported fiscal year ends.

Based on IRS 990 Form, executive compensation for officers, directors and key personnel appear to be cost-effective. Members of the board of directors received \$1.00 per week for the time spent in their respective positions and

compensation for officers, directors, and key personnel totaled \$2,458,324.

The applicant has mechanisms in place to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management. Policies are reviewed twice annually and, if necessary, are revised and readopted by the Board of Directors (pages 23-30).

The applicant provided information regarding the risk level of charter school served as a past grantee. The applicant indicates that although it made high-risk loans, its net loan loss in 2008 was lower than 2% (page 24). Its allowance for loan losses consistently exceeds actual losses. The applicant indicates that to date it has only experienced two defaults in its charter school portfolio (page 25).

The applicant has been involved in educational facilities development since 1997. It has committed over \$90 million in financing as grants loans and loan guarantees for charter school facilities (page 22). It has provided charter school loans and guarantees to charter schools in the States of TX, CA, NY, WI, and FL, IN, NJ, TN, OH and AZ (pages 2-4).

The applicant's conflict of interest policies strongly discourage employees and board members from entering into relationships that could be harmful to the corporation.

The applicant is a previous grantee. It has received two previous grant awards that total \$18.2 million; \$10 million in 2003 for CEP I, and \$8.2 million in 2006 for CEP III. The applicant indicates that grant funds were used to capitalize two funds that pooled low-interest loans and leverage additional capital for investments in local educational facilities funds. The applicant Grant funds supported the capitalization of a newly-created Educational Facilities Financing Center (EFFC). The EFFC created and capitalized the National Educational Loan Fund (NELF). The applicant raised an additional \$10 million in capital from the Walton Family foundation, \$20 million from Prudential Financial and contributed its own funds in the amount of \$5 million. NELF funds were invested in the establishment or expansion of ten local funds, also referred to as local financing funds. The applicant indicates that it has either met or surpassed its fund-raising and leveraging goals (page 33).

Weaknesses:

According to the applicant, unaudited financial statements for 2008 show a decline in net assets from \$159 million in 2007 to \$133 million in 2008 as a result of unrealized losses in the investment portfolio of LISC due to market changes in 2008 (page 23).

Reader's Score: 31

Selection Criterion - Quality of the project personnel- 15 points

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

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

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

90-100 Points

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

80-89 Points

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

70-79 Points

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

Less than 70 Points

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

Strengths:

The applicant indicates that the CEP III grant project team will be comprised of individuals with experience in education, training, finance and charter school underwriting. The applicant has assembled a core team consisting of five staff members and one consultant. The team includes: (1) Ms. Reena Bhatia, Vice President for Education Programs/ Director of the EFFC; (2) Ms. Kathy Olsen, Deputy Director; (3) Ms. Julie Smith, Program Officer; (4) Ms. Idowu O. Odedosu, Analyst; (5) Ms. Melody Mulrain, Program Assistance; and (6) Ms. Constance Eileen Max, Consultant and Principal of Max Capital Development LLC (Attachment 33).

Ms. Bhatia gained experience with charter school financing during her employment as Senior Financial Analyst with Prudential Financial and while serving as Financial Manager for KIPP Foundation (Attachment 33).

The CEP III project team will be assisted by five additional members of management will be involved in implementing CEP III. These individuals are: (1) Michael Rubinger, President and Chief Executive Officer; (2) Michael Tierney, Executive Vice President and Chief Operating Officer; (3) Michael Levine, Executive Vice President and General Counsel; (4) Elizabeth Pugh, Chief Financial Officer; and (5) Janet Ozarchuk, Treasurer (page 36).

Additionally, its network of local and national staff will assist by sourcing, underwriting, and monitoring CEP III investments (page 39). The applicant provided biographies of LISC staff members (Attachment 23, Appendix B - pages 24-25).

The advisory board is comprised of representatives from community development corporations, charter schools, investment banking, real estate, and foundations supporters. Members of the board provide oversight and leadership with regard to the EFFC's strategic mission, resource and business development (pages 39-40).

The board of directors includes individuals who are affiliated with St. Hope, a charter school network; Bedford Stuyvesant Restoration Corporation, the nation's first Community Development Corporation, Bank of America, Capital One, Citigroup; Deutsche Bank, JP Morgan Chase; and Prudential Financial; California Community Corporation, and The Kresge Foundation (page 40, Attachment 23-Appendix A; page 22-23).

Weaknesses:

Resumes provided by the applicant show that several members of the grant project team, including, Ms. Bhatia, the team leader, Ms. Olsen, Ms. Smith, and Ms. Odedosu, have been employed by the applicant for approximately one year or less.

Although the applicant provided resumes of core staff and provided narrative description of the prior experience of the grant project team and other members of management, its discussion of its staffing plan for CEP III did not include a description of the assignments by activity or service and the match between the proposed core staff, or other members of management, with regard to the skills and/or experience necessary to execute the proposed Plan B/BCEF of the grant project.

It appears, based on the applicant's narrative that the individuals that comprise its core staff for CEP III have no experience with either CEP I or CEP II. The applicant did not discuss whether or not the core staff has prior knowledge of

or experience in carrying the duties and responsibilities of implementing either CEP I or CEP II. The team appears to have relatively limited experience with the applicant in implementing and managing charter school facilities grant projects.

Reader's Score: 12

Status: Submitted

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