

**U.S. Department of Education**  
**Washington, D.C. 20202-5335**



**APPLICATION FOR GRANTS**  
**UNDER THE**

**Credit Enhancement for Charter School Facilities Program (84.354A)**

**CFDA # 84.354A**

**PR/Award # U354A140008**

**Grants.gov Tracking#: GRANT11595725**

OMB No. , Expiration Date:

Closing Date: Mar 03, 2014

## **A. Quality of Project Design and Significance**

The Massachusetts Development Finance Agency (MassDevelopment) is applying for a \$5 million grant from the U.S. Department of Education's Credit Enhancement for Charter School Facilities Program. The funds will support the Agency's successful Charter School Loan Guarantee Program (Charter Guarantee Fund) and provide critical funding options for a pipeline of 20 school facility projects with costs exceeding \$253.3M. In January 2010, the Commonwealth lifted the cap on charter schools in the lowest performing school districts as a means to provide high-quality educational opportunities for students most in need. Twenty new Commonwealth school charters were issued from 2012-2014 and 11 schools were approved for expansion.

### **(1) Rates and Fees**

The Charter Guarantee Fund provides advantageous terms and interest rates to charter schools. With a guarantee charter schools are able to obtain higher LTV financing. A bank may advance up to 70-75% on owner occupied real estate, but with a charter school guarantee the bank may increase its advance rate up to 120%. Since charter schools have limited cash to put down on a facilities project, the guarantees are critical in helping them obtain the financing they need to purchase or construct facilities. The guarantee also helps charter schools avoid higher interest subordinated debt. MassDevelopment's current guarantee fee rate is 0.5% which is far below market rates for guarantees (2-3%).

When charter schools are starting out, most rent facilities requiring property improvements. Bank financing for leasehold improvements is virtually non-existent since these types of loans are unsecured. By guaranteeing leasehold financing, MassDevelopment enables charter schools to secure bank financing needed to renovate their facilities.

### Terms and Rates for Facilities Owned by Charter Schools

- Guarantee amounts up to the lower of 50% of the debt or \$5,000,000.
- Maximum LTV of 120%.
- Lender must have first security interest in real estate being financed.
- Guarantee reduces dollar for dollar with loan principal payments.
- Annual guarantee fee of up to 1.25% (current fee is 0.5%).

### Facilities Leased by Charter Schools

- Guarantee amounts may be up to the lower of 90% of the debt or \$2,000,000.
- Maximum LTV of 90% (minimum equity contribution of 10%).
- Guarantee reduces dollar for dollar with loan principal payments.
- Annual guarantee fee of up to 1.75% (current fee is 0.5%).

## **(2) Project Goals, Objectives and Timeline**

**The Primary Goal** is to provide guarantees for debt for acquisition, construction, renovation and leasehold improvements of charter school facilities throughout Massachusetts. Charter school guarantees issued by MassDevelopment are predominantly backed by funds in the MassDevelopment Charter School Loan Guarantee Fund. Charter Guarantee Fund 1 is the \$10.025M 2003 award and Charter Guarantee Fund 2 is an additional \$5M award from 2012.

### **Program Performance Measures**

The Charter Guarantee Fund will target 75% of the guarantee funds for the acquisition, renovation and construction of facilities for qualified charter schools. The Charter Guarantee Fund will service a minimum of 6 charter schools in the first three years following the award.

### **Project-Specific Performance Measures and Targets**

**Measure 1:** Give priority to applications for facility construction/acquisition/upgrades

Target i: 6 schools for facility construction/acquisition/renovation

**Measure 2:** Give priority to servicing Low Income, Low Performing School Districts

Target i: 3 charter schools with majority of low-income students

Target ii: 3 charter schools identified by the Commonwealth as under-performing

**Measure 3:** Maintain a pipeline of 15 potential charter schools

Target i: Maintain involvement with charter school association

Target ii: Present Charter Guarantee Fund program at annual Charter Schools Conference

Target iii: Maintain relationship with Commonwealth Department of Elementary and  
Secondary Education

Target iv: Continue to advertise and place key articles promoting the program

**Measure 4:** Receive 9 Applications for Guarantees

Target i: Actively seek 3 applications each of the three years of the grant

**Measure 5:** Award 6 Guarantees over 3 years

Target i: Award a minimum of 2 guarantees each of the three years of the grant

## **Data Collection**

Utilizing the existing tracking system for lending operations, MassDevelopment will monitor the progress of the grant by tracking calls/outreach; visits; applications taken/received; and applications approved. The tracking will also identify charter schools by type – low-income and/or low performing and by geographic region. By doing this, the Agency will be able to monitor and compare these numbers with the actual application attestations and the data collected for these communities by the Commonwealth’s Department of Elementary and Secondary Education (DESE).

## Timeline

Activity/Task	Timeframe/Benchmark
Will use best efforts to close at least 2 school loan guarantees totaling \$1.5 million leveraging a \$10.5 million loan or bond.	September 2016
Will use best efforts to close at least 2 school loan guarantees totaling \$1.5 million leveraging a \$10.5 million loan or bond.	September 2017
Will use best efforts to close at least 2 school loan guarantees totaling \$2 million leveraging a \$14 million loan or bond. All grant funds deployed.	September 2018

In addition, the following actions will also be undertaken:

Action 1: Within 30 days of grant award a press release will be sent to appropriate outlets

Action 2: Within first 30 days of award, review and update pipeline

Action 3: Within 60 days of grant receipt, generate 3 applications

Action 4: First transaction approved within 120 days of grant receipt.

Action 5: All grant funds deployed within 3 years of receiving grant funds.

Action 6: Timely completion of required reports to the U.S Department of Education.

### **(3) Implementation Plan and Activities**

MassDevelopment will make the \$5 million grant funds available immediately upon receiving the funds. As manager of two successful Charter School Grants from the U.S. Department of Education, the Agency will utilize the same program design, structure and systems for this project. The Charter School Loan Guarantee Program is well established and has

- Documented and approved policies and procedures, including specific underwriting guidelines for charter school loan guarantees (Attachment 13).
- On-going marketing and communications strategies to promote the Program.
- Business Development, lending and bond transaction officers who have a thorough understanding of the Program and provide assistance to school managers in identifying financing alternatives from banks or the capital markets.

- Strong credit review, monitoring and risk management procedures.
- Excellent financial and compliance reporting systems.

MassDevelopment will immediately issue a press release and send an e-mail announcement to a database of charter school contacts, all contacts in charter school related organizations and agencies and banking contacts. A charter school financing workshop will be scheduled as well as one held at the Massachusetts Department of Elementary and Secondary Education Charter School annual meeting.

### MASSDEVELOPMENT IMPLEMENTATION PLAN

	Quarter after Receipt of Grant					
	Completed	1	2	3	4	5+
<b>Marketing</b>						
Marketing Materials	x					
Charter School Contact List	x					
Press Release announcing award		x				
E-mail notification of grant award to our charter school contact database						
Charter School Financing Workshop		x	x			
<b>Program</b>						
Charter School Loan Guarantee Application	x					
Charter School Loan Guarantee Program Policies and Procedures	x					
Credit Underwriting Standards	x					
Credit Review Procedures	x					
<b>Lending/Bond and Guarantee Transactions</b>						
Officers Initiate Financing Transactions		x	x	x	x	x
Approval of Transactions by Credit Committee		x	x	x	x	x
Close charter school loan guarantees		x	x	x	x	x
<b>Grant Administration</b>						
Set-up sub-company on existing loan ledger system for new grant		x				
Set-up Grant Reserve Account		x				
Compliance Reporting Procedures	x					
Annual Report to Department of Education					x	x
<b>Meetings</b>						
Advisory Committee Meetings and Reports		x	x	x	x	x
DESE Charter School Annual Meeting					x	x

#### **(4) Replicability**

The working relationship between MassDevelopment, Massachusetts Charter School Association (MCPSA), and the State Charter School Office is an effective model for other states to duplicate. MCPSA and the State Charter Office have an extensive knowledge of charter schools, well-documented best practices for operating a successful school, experienced staff that can provide technical assistance on education, one of the nation's best accountability plans and strong lobbying efforts to promote the funding and support of charter schools at state and federal levels.

MassDevelopment adds an in-depth understanding of the credit and real estate challenges faced by charter schools. The Agency offers a track record of innovation in responding to financing needs of underserved organizations in the state. By taking a leadership role in creating a Charter School Loan Guarantee Program and with the support of private foundations and charter school organizations in the state, MassDevelopment has constructed a proven model for supporting charter school facilities financing that can be readily replicated in other states.

#### **(5) Charter School Selection Criteria**

The Charter School Loan Guarantee Program will continue to give priority to schools in:

- Geographic areas in which the public schools have been identified for improvement, corrective action, or restructuring under Title I of the Elementary and Secondary Education Act of 1965 as amended by The No Child Left Behind Act.
- Geographic areas in which a high percentage of students performed below proficient on the state's academic assessments (MCAS)
- Communities with a high percentage of students from low-income families, as measured by percentage of students receiving free or reduced lunch.

- Economically Distressed Areas (EDAs) determined by the state to have a high unemployment rate, poverty rate, and/or low household median income.

MassDevelopment's business development, lending, investment banking staff, the Charter School Program Manager, and the Charter School Advisory Board are all sources of leads for the program. The financing application requires that the applicant provide information on the priority criteria listed above. In addition, the information of school district demographics and MCAS (standardized student assessment) testing performance are available directly from the Massachusetts's Department of Elementary and Secondary Education's (DESE).

Applications will be prioritized first by the need of the population served and second by school need. Schools seeking guarantees from the Charter Guarantee Fund will submit an application (Attachment 14) to MassDevelopment detailing the school history and project description. In addition to the four priority categories listed above, the scoring systems developed for charter schools gives weight to the following criteria:

- Size of student population (smaller schools have historically had a harder time accessing capital)
- Total school revenues and commitment of other public resources to the project.

Once projects are ranked according to need, MassDevelopment will determine project viability by assessing the school's capacity to assume the proposed debt. Those projects determined to be viable will be ranked according to the anticipated timeline, including site engineering, architectural design, site assessment and appraisals.

## **(6) Leverage**

MassDevelopment leveraged additional funding for the existing Program as follows:

- \$1 million contribution from MassDevelopment.
- \$1 million pledged from LISC
- \$2.5M commitment from the Boston Foundation
- Private dollars by credit enhancing bonds issued to charter schools.

MassDevelopment has issued more than \$30.8 million of guarantees for loans and bonds within Charter Guarantee Fund 1. Financings supported by these guarantees total more than \$193.7 million, resulting in and over 19:1 leverage of the original \$10.025 million grant from the Department of Education. Charter Guarantee Fund 1 is in a recycling phase.

The leverage calculation is based on the original grant funds – it increases with each issuance of a credit enhanced bond. Charter Guarantee Fund 2 (\$5M) is committed but transactions have not closed.

MassDevelopment also uses its own funds and programs to supplement the guarantee program. Since 1999, there has been \$17.7M in financings from MassDevelopment techdollar loans, general fund loans and landlord financings as well as \$411.3M in bonds, the majority of which did not include guarantees. These numbers, although not included in the above numbers, should be mentioned because the Program has opened up the marketplace and helped create comfort with charter school credits to allow these transactions to happen.

MassDevelopment developed relationships with over 15 banks that purchase charter school bonds, providing a substantial base from which to continue to leverage the charter school loan guarantees. The initial leverage of the proposed \$5 million is projected to be 7:1 (project debt amount: guarantee amount), with increases in leverage as the original \$5 million grant funds are recycled. In addition, MassDevelopment will continue to use best efforts to identify and attract additional investors.

### **(7) State with Strong Charter Laws**

A study released in early 2014 by the National Alliance for Public Charter Schools ranked Massachusetts as having one of the strongest charter school laws in the country (ranked #11 of 43 states). This report, *Measuring Up to the Model: A Ranking of State Charter School Laws*, is a ranking of state public charter school laws across the country focusing on quality controls and accountability.

The state Department of Elementary and Secondary Education strongly supports efforts to further advance the charter school initiative by enhancing the ability of charter schools to access capital markets for the acquisition, construction, renovation and leasehold improvements of charter school facilities. This program allows Massachusetts to continue to serve as a national model for the charter school movement.

The landmark Massachusetts Education Reform Act of 1993 initiated the creation of independently operated public charter schools to provide high-quality public school choice, particularly for educationally disadvantaged families. In the fall of 1995, 15 charter schools opened their doors in Massachusetts. By the fall of 2013, 80 charter schools were operating, 58 of which were located in urban areas, serving primarily low-income and minority students.

Because Massachusetts charter schools provide access to high-quality educational opportunities for a proportionately higher percentage of educationally disadvantaged students, it is critical to ensure that the necessary capacity and resources exist to continue to create and implement high-quality schools.

In passing the historic legislation of January of 2010, An Act Relative to the Achievement Gap, (Acts of 2010, c.12) Massachusetts has demonstrated its national leadership by strategically lifting the cap on charter schools in the lowest-performing districts to provide high-quality educational opportunities for students most in need. Over the next six years, the number of seats made available in Massachusetts's lowest-performing districts will double from 9 to 18 percent.

The United States Department of Education has continually supported the Massachusetts charter school initiative through the awarding of the Charter School Program grants. These funds have helped charter schools in the start-up phase develop strong instructional programs, allowed more mature charter schools to disseminate their best practices and innovations and supported the Massachusetts Charter School Office in providing the administrative oversight necessary for schools to thrive.

The Massachusetts Charter School Statute (M.G.L. c. 71, § 89) defines two types of charter schools that can be authorized by the Massachusetts Board of Elementary and Secondary Education (BESE): Commonwealth and Horace Mann, both of which are independent Local Education Associations that are governed by a board of trustees and operate independently of any school committee. Massachusetts charter schools have the freedom to organize around a core mission, curriculum, theme, and/or teaching method and control the school's budget and staffing.

In return for this freedom, both types of charter schools face a higher degree of accountability and must demonstrate success or face non-renewal at the end of a five year charter. Horace Mann and Commonwealth charter schools differ in that a Horace Mann charter school must have its charter application approved by the local school committee and, in some cases, the local teacher's union when submitting an application.

The revision of M.G.L. c. 71, § 89 in 2010 created three types of Horace Mann charter schools, each with a particular set of requirements for collective bargaining unit involvement. To the extent provided by the charter and as agreed to in a memoranda of understanding (MOU) with the school committee, as well as the faculty and relevant collective bargaining units, some types of Horace Mann charter schools may be exempt from certain provisions in local collective bargaining agreements, such as work hours and hiring policies.

Commonwealth charter schools operate independently from a local school district and operate according to the core mission, curriculum, theme, and pedagogy described in the school's charter application. Commonwealth charter schools receive tuition directly from the state, receive allocations for federal entitlement funds, and may receive reimbursement for transportation services.

Commonwealth charter schools are afforded complete autonomy to control their own budgets and expenditures, to hire (and fire) teachers and staff, and to set their schedules and work rules. It is the responsibility of each individual charter school's board of trustees to approve the school's annual budget and to monitor expenditures and revenues against the approved budget.

Massachusetts maintains a rigorous accountability system which provides for the periodic review and evaluation of charter schools. The BESE is obligated by Massachusetts General Law, Chapter 71, Section 89, and regulations under 603 CMR 1.00 to conduct an ongoing review of charter schools and, by the fifth year of a school's operation, determine if its charter should be renewed. Specifically, the renewal of a Massachusetts public charter school is based on affirmative information in the three guiding areas of accountability:

- Academic program success
- Organizational viability
- Faithful to the terms of the charter

The Department of Elementary and Secondary Education accountability system is guided by protocols, systems, and structures all designed to hold Massachusetts charter schools to the highest levels of performance. Developed in 2006 and updated in September 2010 and again in 2013, the DESE's Charter School Performance Criteria (Criteria) describe what is expected of a high-quality charter school in the three guiding areas of charter school accountability.

The Criteria defines charter school success, outlines the basis for charter school evaluation, and clarifies charter school, state, and federal accountability standards. All charter schools in the state of Massachusetts are subject to regular performance review in relation to the Criteria.

The BESE is recognized by the U.S. Department of Education in its *High Quality Charter Authorizing* guide as one of the nation's highest quality charter school authorizers. The BESE takes its authorizing role very seriously, only granting charters that demonstrate the capacity to provide a high-quality public school choice for students in Massachusetts, and only renewing charters for schools that have provided solid evidence of success.

The establishment of high-quality charter schools begins with Massachusetts’s charter school application process. Groups seeking to establish a charter school submit an **Application for a Public Charter School** and undergo a rigorous criteria-based evaluation process that considers the founding group’s ability to found and operate a ‘high-quality’ charter school. Once the BESE has awarded a charter on the basis of a successful Application for a Public Charter School the new charter school has the freedom to organize around the core mission, curriculum, theme, or teaching method described in the application. It is allowed to control its own budget and hire (and fire) teachers and staff. In return for this freedom, a charter school must demonstrate results within five years or risk losing its charter.

The Massachusetts Charter School Accountability Guide details the systems and structures used by the DESE during its evaluation of each charter school’s performance in relation to the Criteria. Evaluation of the school is based on a variety of information that is provided by the school and gathered by the DESE. In order to track a school’s progress in terms of the Criteria, the DESE requires each charter school to submit an **Accountability Plan** (Plan) prior to the start of its second year of operation that is clear, rigorous, and measurable.

Charter schools create their own Plans by choosing specific elements of the Criteria as overall school objectives and explicitly defining how progress toward those objectives is measured. The Plan must receive approval from the Charter School Office.

A charter school must report on progress toward the objectives stated in its Accountability Plan in its **Annual Report** to the BESE and the public. Each school’s progress in attaining its accountability plan objectives and measures is taken into consideration during the charter school renewal process.

The DESE conducts regular review of charter schools. The DESE conducts a **Site Visit** to each school during the second year of its charter and sometimes during the third and/or fourth years as well. Site visit teams are comprised of individuals with educational and organizational expertise and are most often led by a member of the DESE's Charter School Office (CSO) staff.

The primary purpose of a site visit is to corroborate and augment the information contained in a school's annual report, especially regarding stated progress relative to the school's Accountability Plan performance objectives and to gather evidence about school performance relative to the standards articulated in the Common School Performance Criteria (Criteria). The site visit team is guided by a series of questions and areas of inquiry described in the Site Visit Protocol. Site Visit Reports are issued by the Charter School Office.

By August 1 prior to the fifth year of its charter, a school must submit an **Application for Renewal of a Public Charter School** in order to receive a new charter for five more years of operation. Following the DESE's guidelines, each school presents affirmative evidence regarding why a new charter is deserved, addressing the three areas of inquiry that guide charter school accountability, the areas outlined in the Criteria, plus additional questions about the school's plans for the next five-year term if its charter is renewed.

In response to its application for renewal, each school undergoes a two to four-day high stakes **Renewal Inspection** designed to corroborate and augment the school's Application for Renewal, and its progress toward meeting its Accountability Plan objectives and the Criteria.

The renewal inspection team's final report provides an additional record of the school's performance and serves as one more piece of evidence that the DESE, the Commissioner of Elementary and Secondary Education (Commissioner), and the BESE consider regarding the renewal of a school's charter.

The DESE respects the fiscal autonomy awarded to charter schools and has no involvement in the day-to-day management of funds at a charter school, but rather evaluates the overall fiscal health of a school as part of oversight responsibilities. In return for this freedom, both types of charter schools must demonstrate good results, provided in the form of an annual independent audit submitted to the DESE CSO by November 1 of each year.

The Commissioner's recommendation regarding renewal is presented to the Board of Elementary and Secondary Education. Based on this recommendation and evidence summarizing the school's performance over the past four years the Board publically votes to renew, renew with conditions, or not renew a school's charter for another five-year term.

**(8) Reasonable costs**

A 5-year cash flow pro forma for the Program is Attachment 9. The dollar amount and number of guarantees issued under the proposed \$5 million grant are used in the summary cash flow analysis. The remaining pipeline projects will be financed under our existing grant.

**(9) Strong Theory**

Under the current \$10.025M award, MassDevelopment has developed a process that has been proven successful – 20 schools have been assisted in obtaining facilities financing. The original grant funds, now being recycled, have been leveraged more than 19:3, expenses have been kept low, and no losses have occurred in the portfolio.

The Logic Model (Attachment 5) incorporates the lending expertise of MassDevelopment and local banks with the charter school administration expertise of Massachusetts Department of Elementary and Secondary Education and includes the association representing Charter Schools. This same model will be applied to this \$5M request.

## **B. Quality of Project Services**

### **(1) Identified Needs**

In Massachusetts, unlike traditional public schools, charter schools do not have access to funding through the state's school building authority and local property tax revenue. Charter schools must be able to access private debt to finance their facilities which is challenging because of the need to raise equity and the charter school's required financing terms are often longer than the five- year term of its charter.

Charter schools raise equity through fund raising, grants and/or accumulating the annual facility allowance provided in the state's per pupil tuition rate. Loan guarantees enable charter schools to access private debt because they reduce the equity that schools need to obtain private funding. MassDevelopment has also identified banks willing to purchase bonds and assume the risk of financing a charter school beyond the term of its charter.

As of December 31, 2013, outstanding charter school loan guarantees total \$15.7m, leaving just over \$300,000 in availability under the existing Program, including the cash in Charter Guarantee Fund 1 and the guarantees committed by the investors. The \$5M for Charter Guarantee Fund 2 has two transactions committed. **These balances are not sufficient to meet the existing pipeline.**

MassDevelopment's pipeline as of December 31, 2013 is comprised of 20 school projects with total costs of more than \$253 million. The total financing needs of the charter schools exceeds \$225 million and requires an estimated \$29.8 million in loan guarantees to obtain the necessary debt (Attachment 15). A majority of these projects are for schools in the process of obtaining facility financing or that are looking for real estate to purchase.

Seven of the schools in the pipeline are new “replication” schools which will need an estimated \$10 million in loan guarantees to complete financings for their new school facilities. Since the new legislation in 2010, 16 Commonwealth charter schools were approved and eleven expansion requests were granted. MassDevelopment will recycle approximately \$5.0 million in the next three years and currently has just over \$300,000 available. The need in these three years is projected at \$29.8 million, far in excess of the \$5.3 million that will be available during the time period. MassDevelopment is requesting a \$5 million grant, based on this need and the current pipeline (Attachment 15).

## **(2) Involvement of Charter Schools in Design and Support of Project**

The idea for the loan guarantee fund proposal originated with the Massachusetts charter schools, as expressed through the Massachusetts Charter Public School Association (MCPSA). MCPSA is recognized throughout the state as a strong voice on behalf of Massachusetts charter schools and its role in MassDevelopment’s initial creation of the Charter School Loan Guarantee program ensured that we built a program that met the needs of charter schools.

In 2003, MassDevelopment submitted an application to the Credit Enhancement for Charter Schools Facilities Demonstration Program. The application was crafted in consultation with MCPSA, The Massachusetts DESE, and 40 charter schools that were part of the charter school needs assessment conducted in conjunction with our application - the application was approved and funded in the amount of \$10,025,000. A second grant of \$5M was awarded in 2012.

As part of the implementation of the grant, MassDevelopment established a Charter School Advisory Board whose members provide advice and input from charter school stakeholders. The Committee is comprised of the following members:

- Beth Anderson, Executive Director of the Phoenix Charter Academy
- Cliff Chuang, Massachusetts Department of Elementary and Secondary Education  
Charter School Office
- Janine Mattho, MCPSA
- Elizabeth Pauley – Vice President, The Boston Foundation
- Reena Bhatia – Vice President, Local Initiatives Support Corporation (LISC)
- Rebecca Sullivan – Charter School Program Director, MassDevelopment
- Laura Canter, EVP Finance Programs, MassDevelopment
- Deborah Rosser – Senior Vice President Lending, MassDevelopment
- Pat Sluder – Senior Vice President Finance Programs, MassDevelopment

The Committee currently reports quarterly and meets semi-annually to review the charter school pipeline and availability of Program funds; discuss opportunities for outreach and any current charter school issues; and review charter school compliance reporting.

MassDevelopment's business development, lending, and bond staff also actively call on charter schools in the state and continue to gather information on the financing needs of schools.

### **(3) TA and Other Services**

In addition to the Charter School Loan Guarantee Program, MassDevelopment offers technical and other financing assistance. MassDevelopment's Real Estate Department offers schools consulting services such as site engineering, architectural design, permitting and approvals and property management. The Francis W. Parker Charter School used services to find and purchase a property owned by MassDevelopment at the former Fort Devens.

MassDevelopment's low interest predevelopment loans are available to pay for up-front soft costs such as architectural plans and feasibility studies. Zero interest site assessment financing and low cost remediation loans are available through the Brownfields Redevelopment Fund, a state fund managed by MassDevelopment. Martha's Vineyard Charter School and the MATCH school used predevelopment assistance to finance soft costs of their building projects.

MassDevelopment's Investment Banking staff works with schools to access the tax-exempt bond market, traditionally the lowest cost of financing available – 1-2% below traditional loans. The majority of the credit enhanced bonds MassDevelopment has issued on behalf of charter schools have been purchased by banks, thus reducing issuance costs.

As a means to keep costs down on all issuances, MassDevelopment bids out bond counsel and other attorneys, underwriter, and trustee, as applicable. Bond staff manages the working group for bond issuance to meet the school deadlines and relieve the school managers from this task.

The Charter Guarantee Fund has been instrumental in helping 20 schools obtain the financing they need to buy, construct or renovate school buildings. It is a proven model that can be readily replicated. The \$5 million being requested will provide critical financing options to these new schools.

MassDevelopment also has the ability to lend money directly to charter schools. Real estate loans are usually under \$1,000,000, as this represents the limit at which tax-exempt financing is cost effective. Through the TechDollars program, MassDevelopment provides low cost 100% financing for technology needs of nonprofits – five loans were made to charter schools under this program

The Charter Guarantee Fund benefits charter schools in the following ways:

- Many charter schools are not able to raise sufficient equity to allow them to qualify for a loan or bond to finance acquisition and/or renovations to a school building. Loan guarantees “cover” the gap between the amount of financing the lending institution is willing to provide and the financing amount the charter school needs.
- Not only is the charter school able to obtain the needed facilities financing, but they also may obtain it at senior debt interest rates as opposed to partially financing a facility with subordinated debt. Annual guarantee fees in the Program are currently 0.5%, significantly below the 2-3% rates charged for mortgage guarantees. We have also kept the rates lower than allowable under our current Performance Agreement (1.25-1.75%).
- Terms of the guarantees can exceed the 5-year charter term providing more financing flexibility to the schools.
- MassDevelopment has identified banks that will purchase bonds issued on behalf of charter schools even though school charters must be renewed every five years.
- MassDevelopment also makes loans to charter schools in low income areas at favorable rates (0.5% below our standard rates) and provides 100% financing for technology purchases and installation through our TechDollars Program.

While the Program will focus on charter schools that will/do own their facility, funds will also be available for charters renting buildings that need to be renovated. Of the 16 schools previously financed, three were operating for less than three years and four were issued guarantees for leasehold improvements.

The design of the Program assures that the needs of charter schools will be met, technical assistance is provided, and the funds will reach the quality charter schools with the greatest need for assistance.

#### **(4) Assist Charter Schools with Likelihood of Success and Greatest Need**

The \$5 million request will target charter schools with the highest likelihood of success and the greatest need:

- The grant funds will provide guarantees to the new “replication” charter schools. These schools have received charter approval from the State’s BESE and will use the highly successful model of existing charter schools. Because of the strict quality control of the state’s DESE, there is a high degree of confidence in the academic success of these new schools.
- These “replication” schools will be located in underperforming school districts that are targeted for improvement and that have a high percentage of low income families based on the percentage of free/reduced lunch as compared to the state level. (Attachment 15)
- MassDevelopment, an organization with over 30 years of credit and lending experience, will manage the credit approval process for all charter schools that apply to the Program, ensuring that only financially viable schools receive loan guarantees.

## **C. Capacity**

### **(1) Amount and Quality of Experience**

MassDevelopment was created in 1998 through the merger of the Massachusetts Industrial Financing Agency (MIFA) and the Massachusetts Land Bank (Attachment 10). As the state's finance and development authority, MassDevelopment works with businesses, financial institutions and communities to stimulate economic growth across the Commonwealth. During FY 2013, MassDevelopment financed or managed 238 projects in 104 communities across the state generating investment of nearly \$1.4 billion in the Massachusetts economy.

MassDevelopment is a leading provider of facility financing to charter schools in Massachusetts. Since the charter school movement began in 1995, MassDevelopment has issued 50 tax-exempt bonds and Qualified Zone Academy Bonds (QZABs) totaling \$411.3 million on behalf of 29 charter schools and made 20 loans to charter schools totaling \$17.7 million. More than 60% of these schools were in low income communities.

Charter school loan guarantees are closed and monitored within the Agency's Lending Department, which has more than 30 years of credit and lending experience, including working with federal and state programs.

The Lending Department provides loans and guarantees for real estate and equipment projects to fill financing gaps that banks and other private lenders cannot fill. Loan size and complexity vary – loans range from \$10,000 up to \$5 million and are provided solely by MassDevelopment or as a loan participation in a larger financing for which MassDevelopment may be the lead lender.

Funding for loans and guarantees comes from MassDevelopment's General Fund (retained earnings) and segregated funds capitalized by state and federal government contributions as well as private foundations. In addition to the Charter School Loan Guarantee Program, other segregated funds include the Emerging Technology Fund, Brownfields Redevelopment Fund, Seafood Revolving Loan Fund, and Gloucester Revolving Loan Fund. During its last five fiscal years, MassDevelopment closed 147 loans totaling \$143 million and 76 loan guarantees totaling \$34 million.

As of December 31, 2013, there were 177 loans totaling \$100.7 million and 78 guarantees totaling \$30.9 million under management in our portfolio, including 16 charter school loan guarantees totaling \$15.7 million. In addition, we have 18 loans totaling \$24.6 million under management in our New Markets Loan Portfolio.

MassDevelopment's lending staff, portfolio administration staff and senior management are highly experienced; of the eight lending officers, including the senior lender, seven have over 20 years of credit and lending experience and all but four have been with MassDevelopment for more than 5 years. Portfolio loan administration is comprised of a team of five: the team leader has over 20 years of loan administration experience including the last 18 years with MassDevelopment.

The Vice President of work-out is a 20 year veteran with 10 years at MassDevelopment and the EVP of Finance Programs has over 20 years of experience. MassDevelopment's Investment Banking Department is one of the state's largest issuer of tax-exempt bonds. As a conduit bond issuer, MassDevelopment and the state assume no credit risk for the issued bonds. Bonds are purchased by banks or sold in the public markets with or without credit enhancement.

In the last five fiscal years, MassDevelopment issued 397 bonds totaling more than \$9.2 billion to manufacturers, environmental entities, educational institutions, nonprofits and governmental entities. In addition, MassDevelopment has a New Market Tax Credit Program that has been awarded 6 allocations totaling \$282 million from the U.S. Treasury. In 2011, we closed our first charter school project that was financed with New Markets Tax Credits.

MassDevelopment's Business Development staff works to market MassDevelopment's financing programs throughout the state. Community Development staff are responsible for MassDevelopment's early stage financing programs, including the predevelopment loan program and the Brownfield's Redevelopment Fund site assessment program.

MassDevelopment works in the entire Commonwealth. Staff is located in Boston and five regional offices as well as several satellite offices. Each of the five regions has staff dedicated to business development, lending, bond financing, community development programs and real estate. Staff has annual calling goals for outreach to prospects. Each regional team also sets annual closing goals for the various financing programs including the Charter School Loan Guarantee Program.

Staff efforts are supported by our Marketing and Communications Department comprised of five highly experienced individuals. Our integrated marketing strategies include paid advertising, earned media, trade shows and events, marketing materials for each product and program and a quarterly e-mail newsletter highlighting MassDevelopment business activity.

The Marketing staff write and publish marketing materials for each MassDevelopment product and program providing eligibility guidelines, basic product terms and conditions and recent case studies. Marketing staff is also responsible for constructing prospect lists and conducting direct mailing and e-mailing campaigns for specific products and programs.

MassDevelopment issues press releases on all closed loans/bonds/grants unless the client declines the option. The Charter School Loan Guarantee Program is integrated into MassDevelopment's existing Marketing and Communications strategies.

Additional qualifications to manage another \$5 million grant include:

- Established loan guarantee, loan, and bond financing programs that support the growth of charter schools.
- Cooperative working relationship with Massachusetts Charter Public School Association (MCPSA) and the Massachusetts Department of Elementary and Secondary (DESE) Charter Office.
- Established Charter School Advisory Committee that meets quarterly and has representatives from all charter school stakeholders.
- More than 30 years of credit and lending experience, including working with federal and state funded programs.
- Highly experienced bond, lending and portfolio management staff.
- Established credit and portfolio management policies, procedures and governance as well as a highly experienced work-out staff and in-house legal department.
- Exceptional business development team and marketing and communications group to generate appropriate project leads for the Program.
- Documented standards of conduct and a strong financial profile.

## **(2) Financial Stability**

MassDevelopment's S&P credit rating (A+/stable/A-1) report and most recent audited financial statements are included in Attachments 7 and 8, respectively. McGladrey LLP conducted the financial audit of the Agency. As of June 30, 2013, Agency assets exceed liabilities by \$393.7 million. Current cash and cash equivalents, and short term investments total \$119.2 million and, all cash and cash equivalents, short and long term investments total \$237.1 million, \$36.3 million of which is restricted use.

### **Risk Management**

MassDevelopment has experienced personnel and established policies and procedures to help mitigate risk in its loan and guarantee portfolios. Each loan and guarantee program, including the Charter School Loan Guarantee Program, administered by MassDevelopment has established underwriting criteria, which have been approved by senior management and documented in the Loan Policy and Procedures Manual that is provided to all loan officers along with appropriate training (Attachment 11).

- Application - Prospective borrowers meet with regional staff, and, when appropriate, complete a MassDevelopment loan, bond or guarantee application – a charter school loan guarantee application is included in Attachment 14.
- Due diligence - An in-depth analysis of information provided by the prospective borrower in its loan or guarantee application and in face-to-face meetings are conducted by the lender who is managing the loan or guarantee transaction. We require the charter school to provide a letter from the state's DESE indicating that the school's charter is valid, and we verify that the school is in good standing. Senior management meets with the borrowers as needed.

Borrower information and the lender's analysis are compiled in a standard Approval Request document which is reviewed by senior management and by in-house counsel. Appraisals of collateral are conducted by external professionals with expertise in equipment and/or real estate appraisals.

- Approval Process - Loans and guarantees are approved either by senior management (SVP of Credit and Lending, EVP of Finance Programs and CEO) or by the MassDevelopment Board of Directors. MassDevelopment's Credit Committee, comprised of a subset of the members of the Board, review all loans and guarantees presented to the Board of Directors. The amount of the loan or guarantee and the risk profile determine the required approval level. A summary of all loans and guarantees approved at the senior management level is provided to the Credit Committee and Board of Directors.
- Documentation - Closing of all loans and loan guarantees is overseen by MassDevelopment's Legal Department comprising the General Counsel, three counsel and support staff. Outside counsel is employed as needed.
- Monitoring - Loans and guarantees are risk rated on a scale of 1-6. The lender assigns the risk rating, which is reviewed by management at the time of loan or guarantee approval and closing, based on factors that include operating trends, collateral coverage and cash flow analysis. Officers are required to review each loan and guarantee at least annually, complete a standard written credit comment and opine to the risk rating. For loans and guarantees with risk ratings of 5 or 6, quarterly credit reviews are required.

- External Credit Review - In addition to an internal review, Chaston Associates, a private loan review firm with more than 20 years of loan portfolio review experience for small and regional financial institutions, performs an annual review of most (approximately 92%) credits in the Agency's lending portfolio and opines to risk rating, loan reserves, and overall management of the portfolio. MassDevelopment's loan and guarantee portfolio has received a satisfactory review from Chaston for the last ten years.
- Reporting - A monthly portfolio report and analysis is produced by Portfolio Administration in conjunction with the SVP of Lending and MassDevelopment's work-out officer and submitted to senior management. MassDevelopment's Credit Committee reviews the report on a quarterly basis. Information includes loan and loan guarantee balances; non-accruing loan balances; current loan loss reserves; past due payments; loan balances for each loan rated 5 or 6; and risk rating upgrades and downgrades during the prior month. As of December 31, 2013, there were 43 loans and guarantees, totaling \$25.9 million rated "5 or 6". Sixteen of the loans (\$17.5 million) are in our Emerging Technology (ETF) Portfolio, which because of the early stage of the companies are mostly booked with a "6" loan rating.
- Portfolio Delinquency – As of December 31, 2013, there were five loans totaling \$1,026,253 that were 30-60 days past due and eight loans totaling \$2,766,057 that were over 90 days past due. Three loans, totaling \$963,179, that were 30-60 days past due and one loan totaling \$11,780 which was over 90 days past due are now current. Seven loans over 90 days past due were matured loans - all of which are in the process of being renewed. One loan 30-60 days past due is in legal collection proceedings, but is enhanced by a guarantee fund which will cover any deficiency.

All of the matured loans are current on monthly payments. In addition, there are 33 non-accruing loans totaling \$20.6 million, including ETF loans which are often placed on non-accrual when they close because of their risk profile. Loan loss reserves are \$11.3 million.

- Work-out - Non-performing loans and guarantees are primarily managed by MassDevelopment's work-out officer. Our goal is to restructure loans and guarantees when possible. Loan and guarantee waivers or restructures are generally approved by the EVP, Finance Programs and/or CEO depending on the original approval authority, current loan or guarantee balance and risk rating.
- Portfolio losses - MassDevelopment's loan and guarantee losses have been small over the past five fiscal years (FY 2009-2013 – 2.12%, 0.0%, 0.27%, 0.87% and 1.26% respectively). Losses in FY 2013 relate specifically to our Emerging Technology Fund (ETF) portfolio, which contains loans that are often made to growth stage companies that are not yet profitable and therefore have higher risk than loans in MassDevelopment's General Fund. No charter school loan guarantees are currently in default and no payment has been made under any charter school loan guarantee.
- Systems – All tracking systems are supported by our IT Department and with vendor service contracts:
  - Enable – Customer relationship management system for tracking of prospects(customers) information, customer projects and financings, status of financing and pipeline by product or program.
  - Loan Ledger – Loan and guarantee tracking system for reporting on outstanding loan and guarantee balances, collection of payments, and status of collections.

- Microsoft Dynamics Great Plains – accounting system.

MassDevelopment’s accounting practices follow GASB guidelines. McGladrey LLP, MassDevelopment’s external auditors, validates MassDevelopment’s accounting standards and financials.

### **(3) Expertise in Education**

For expertise on education matters, MassDevelopment works with the Massachusetts Charter Public School Association (MCPSA) and the DESE’s Charter School Office. These two organizations offer extensive knowledge of charter school needs, well documented best practices for operating a successful school, experienced staff that can provide technical assistance on education matters, one of the strictest accountability plans, and strong advocacy efforts to promote funding and support of charter schools at the state and federal governments. Both were instrumental in designing the Charter School Loan Guarantee Program.

Massachusetts Charter Public School Association: The Massachusetts Charter Public School Association (MCPSA) was formed in June 2000, when the Hilltown Cooperative Charter School (HCCS) secured a U.S. dissemination grant to organize a statewide association.

Today, the Massachusetts Charter School Association is a statewide collaboration of Massachusetts charter schools –70 charter schools are dues-paying members and an elected board of directors, consisting of 15 charter school leaders, actively governs MCPSA.

The mission of MCSPA is to “serve, support and advocate for Massachusetts charter schools as they strive to achieve the goals of their charter.” MCPSA communicates with its constituents, the charter public schools of Massachusetts, in a number of ways:

- E-mail list serve: Through the MCPSA School Leader List Serve the MCPSA Executive Director communicates daily with school leaders. Special alerts about new information on the Web site are sent through the list serve.
- Web site: Information concerning MCPSA activities and issues of importance to charter public schools are posted regularly on the MCPSA Web site.
- Delegate Assembly: Annually, elected delegates from member schools meet, vote on dues levels, elect members to the Board of Directors, and adopt resolutions for MCPSA.
- Annual Board Retreat: In 2002, MCPSA implemented an annual board retreat. Board members updated the mission of the organization, agreed upon a strategic goal of the association and objectives to achieve that goal. At the retreat the board reviews progress MCPSA has made toward living its mission and achieving its goals and objectives.

DESE: Massachusetts has been on the forefront of the charter school initiative since the first charter school opened in the state in 1995. The DESE plays a critical role in overseeing charter school applications, performance review, and charter renewal. The state's DESE is represented on the Charter School Advisory Board and is available to answer questions about the educational aspects of charter schools.

#### **(4) Standards of Conduct and Conflict of Interest**

Section 23G of the Massachusetts General Laws (Attachment 6) is the MassDevelopment enabling legislation and describes the agency's standard of conduct. This law requires that no employee or board member shall request or receive compensation in relation to any matter in which the Agency has a direct and substantial interest; no employee or board member shall participate in a particular matter being considered by the Agency in which he or she or his or her immediate family or partner has a financial interest; and no employee or board member shall

have a financial interest in a contract in which the Commonwealth or Agency is an interested party.

All employees and board members are subject to advisories and receive training on the Massachusetts State Ethics Rules (Attachment 6). In addition, our Lending staff is subject to MassDevelopment Officer's Code of Conduct (Attachment 6), which requires that officers uphold the highest professional standards at all times. Violations of standards of conduct are subject to disciplinary action. MassDevelopment also has a Procurement Policy and Procedures Manual which documents the process for hiring third party vendors. The staff receive training on procurement from the Legal Department.

**(5) Co-applicants**

There are no co-applicants to this request.

**(6) Steps taken to Ensure Charter Schools Receive Funding**

MassDevelopment works to ensure charter schools receive facilities funding by:

- Issuing tax-exempt bonds and QZABs on behalf of charter schools. Since 1995, 50 tax-exempt bonds and QZABs (\$411.6 million) have been issued on behalf of 29 schools.
- Making direct loans to charter schools, including loans through our TechDollars Program for their technology needs. Twenty loans totaling \$17.7 million have been made to schools.
- Managing the Charter School Loan Guarantee Program. Twenty-eight guarantees totaling more than \$30.8 million have enabled 20 schools to improve their facilities. In addition, 6 guarantees were issued to 4 charter schools prior to the inception of the Program.
- Working with MCSA, the State's Charter School Office and charter schools to keep abreast of financing needs of charter school.

- Initiating outreach efforts, including direct calling on schools, press releases for closed transactions, and marketing materials and events to charter schools to raise awareness of our financing products and programs.
- Assisting charter schools in seeking New Market Tax Credit financing, if appropriate.

**(7) Previous Performance**

In 2003, MassDevelopment was awarded a \$10,025,000 grant from the U.S. Department of Education Credit Enhancement for Charter School Facilities Program and an additional \$5M in 2012. The FY 2013 Annual Report is Attachment 11. Highlights of the success include:

- Through 2/28/2014, twenty schools have been issued guarantees, totaling more than \$30.8 million, which enabled the schools to access the funding they required for the acquisition, construction, or renovations of their school facilities.
- The guarantees supported loan amounts in excess of \$193.7 million, resulting in a leverage of over 19:1 of the original 2003 funds (grant funds are currently being recycled).
- There have been no losses paid under any guarantee.
- MassDevelopment has contributed \$1.0 million in guarantees to the Program and has attracted an additional \$3.5 million in guarantees from private investors.
- MassDevelopment has developed relationships with more than 15 banks that are now willing to purchase bonds for charter school facilities financing.
- MassDevelopment has presented its Program model at a national conference
- MassDevelopment’s staff has marketed and conducted outreach to educate all MA charter schools on our Program and other programs offered by the Agency that are applicable to charter schools.

## **D. Quality of Program Personnel**

### **(1) Qualifications of key personnel**

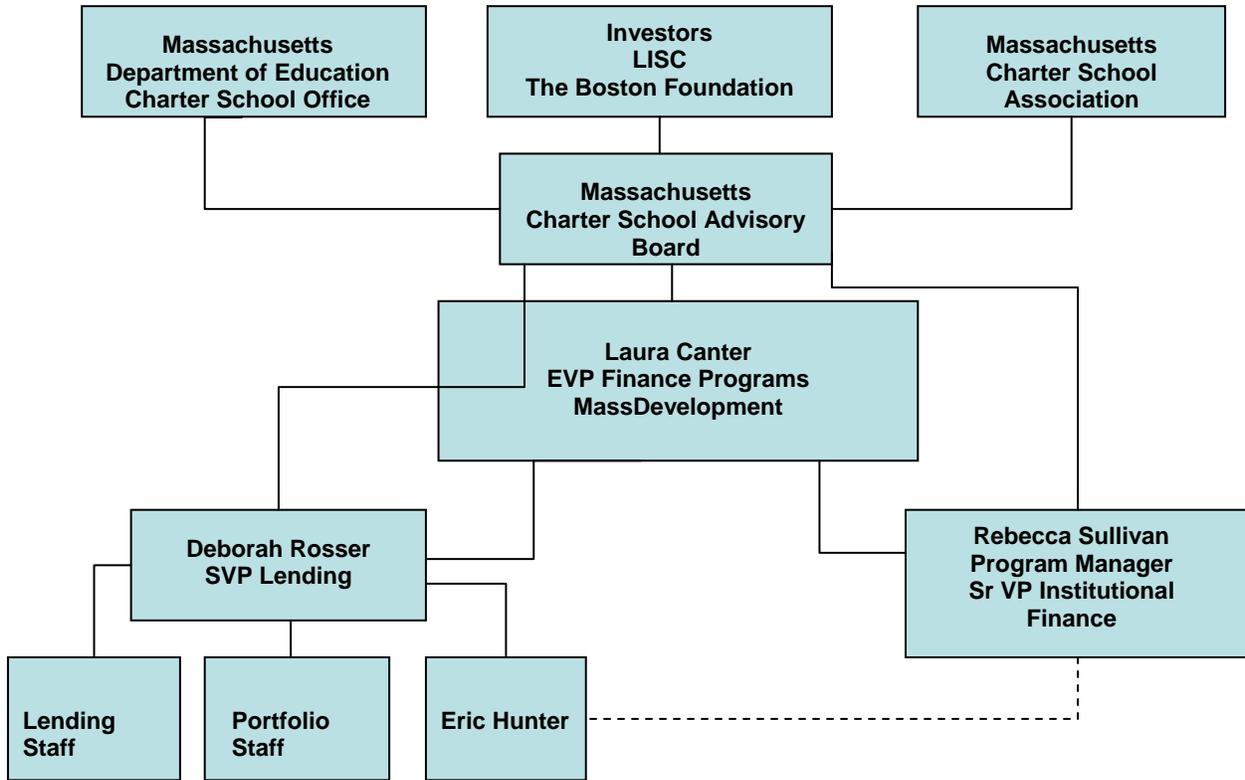
Rebecca Sullivan, Senior Vice President for Institutional Finance, is the Program Manager and primary contact for the U.S. Department of Education. Ms. Sullivan has served in this capacity since 2003 and has worked at MassDevelopment for more than 13 years. Ms. Sullivan's responsibilities include being the point person for questions from MassDevelopment staff, charter schools and the U.S. Department of Education, chairing the Advisory Committee meetings, working with Marketing and Communications to promote the Program, and overseeing the grant administration and reporting. Ms. Sullivan has managed tax-exempt bond financings for a number of charter schools including City on a Hill Charter School, Abby Kelley Charter School, and Boston Collegiate Charter School. She has been a featured speaker at several charter school facility financing workshops.

Eric Hunter, Credit Analyst, will assist Ms. Sullivan in monitoring the pipeline, tracking funds availability, and reporting annually to the U.S. Department of Education.

Deborah Rosser, Senior Vice President of Lending, has over 30 years of credit and lending experience and will oversee the credit review of guarantees, completion of guarantee transactions and monitoring the performance of each charter school loan guarantee. The Charter School Advisory Board meets quarterly to provide guidance to our Program. Resumes of key personnel are found in Attachment 4.

## (2) Staffing Plan

The organizational chart shows the principal staff for the Program.



The Charter School Loan Guarantee Program has full access to the staff and resources of MassDevelopment Finance Programs Division, overseen by EVP Laura Canter.

Charter School tax-exempt bonds and QZABs are issued through our Investment Banking Department headed by Steve Chilton, SVP and staffed with nine highly experienced officers available to work on charter school transactions.

Charter school loans and loan guarantees are issued through the Lending Department managed by Deborah Rosser, SVP. The lenders are the primary contacts for charter schools seeking loan guarantees, and they also work with our bond staff when bond issuances are credit enhanced with guarantees. Portfolio administration staff, a team of five, also report to Ms. Rosser and are responsible for monitoring loan and loan guarantee balances, billing, and payment.

Simon Gerlin, CFO, manages the Finance Department which maintains the Charter School Loan Guarantee Program financial records, and oversees financial reporting, all audits, and investment management of the charter school grant funds. Ellen Torres, MassDevelopment Legal Department, provides legal counsel to the Program.

### **Competitive Preference Priority**

The Program will give priority to charter schools in:

- 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 as amended by The No Child Left Behind Act.
- Geographic areas in which a large proportion of students perform below proficient on the state's academic assessments (MCAS)
- Communities with large proportions of students from low-income families

Schools are identified in two ways: first, through the Commonwealth's Department of Elementary and Secondary Education which maintains data for all three above criteria and second, through the application for funding which directly asks whether the school will serve students and communities that meet these three criteria. The majority of the schools in the pipeline are located in districts that have been targeted for improvement.

The state has identified 29 school districts that scored in the lowest 10 percent on the MCAS in FY 2013. All but four are low-income.

**School Districts Performing in  
Lowest 10% of MCAS  
And Greater than 50% Low-income**

School District	Low Income
Holyoke	Yes
Southbridge	Yes
Springfield	Yes
Lawrence	Yes
Webster	Yes
New Bedford	Yes
Chelsea	Yes
Fall River	Yes
Brockton	Yes
Boston	Yes
Fitchburg	Yes
Athol-Royalston	Yes
Worcester	Yes
Lowell	Yes
Randolph	Yes
Salem	Yes
Lynn	Yes
Winchendon	No
Somerville	Yes
Orange	Yes
North Adams	Yes
Hawlemont	Yes
Gardner	Yes
Everett	Yes
Methuen	No
Haverhill	No
Provincetown	No
Adams-Cheshire	No
Ware	Yes

*Source:* MA Department of Elementary and Secondary Education

## **Invitational Priority**

The Charter School Loan Guarantee Program has allowed MassDevelopment to achieve the most competitive financing package for charter schools. In 2003, there were three banks willing to finance a charter school. Today, largely due to the guarantee, MassDevelopment has developed a network of over 15 banks that have financed the acquisition, renovation or construction of new facilities. By significantly growing the market, charter schools can obtain more than one bid on their financing, resulting in lower interest rates and better terms on each transaction. Most importantly, MassDevelopment has been able to achieve financing for charter schools by significantly leveraging private funds – the leverage ratio of 19:1 (amount of financing:grant funds) demonstrates an optimal usage of the U.S. Department of Education’s grant funds.