

## **I. Project Design and Significance**

MassDevelopment is applying for a \$5 million grant from The U.S. Department of Education's Credit Enhancement for Charter School Facilities Program to expand its successful Charter School Loan Guarantee Program and to support a pipeline comprised of 25 school facility projects with total costs exceeding \$225,000,000. A significant portion of our pipeline is attributed to historic legislation in January 2010, that lifted the cap on charter schools in the lowest performing school districts in an effort to provide high-quality educational opportunities for students most in need. In February, 2011, 13 new Commonwealth school charters were issued; ten of the charters were issued to successful charter schools enabling these schools to replicate their models in underperforming school districts in the state.

### **Program Design**

In 2003, MassDevelopment was awarded a \$10,025,000 grant from the U.S. Department of Education under the Credit Enhancement for Charter School Facilities Program. The grant along with two \$500,000 guarantees from MassDevelopment; a \$1,000,000 guaranty from the Local Initiative Support Corporation (LISC) and a \$2,500,000 guaranty from The Boston Foundation comprise the Charter School Loan Guarantee Program ("Program").

MassDevelopment's Program guarantees debt for acquisition, construction, renovation and leasehold improvement of charter school facilities in Massachusetts. Guarantees allow banks or bondholders to increase the amount of money that the bank or bondholder is able to lend to a school. Guaranteed debt is in the form of private bank loans, loans from MassDevelopment, and tax-exempt bonds or Qualified Zone Academy Bonds (QZABs) issued by MassDevelopment and privately placed or sold in the public market. Charter school guarantees, issued by MassDevelopment, are backed by the funds in the charter school Grant Reserve Account Fund (Fund) comprised of the original \$10 million grant, interest earned on grant funds and annual

guarantee fees by charter schools; and guarantees committed to the Program by MassDevelopment, LISC and The Boston Foundation.

Charter school guarantees are issued under our Program to schools at all stages of their development – from start-up to mature schools. Two types of guarantees are offered: guarantees for debt on facilities owned by charter schools and guarantees for loans to make leasehold improvements for facilities leased but not owned by charter schools. While we are primarily focused on guaranteeing new debt, we refinance debt in cases where we can reduce the interest cost to the school. For example, in July 2008, MassDevelopment issued an \$8 million tax-exempt bond on behalf of Holyoke Community Charter School which was credit enhanced with a guarantee. The bond consolidated existing debt, paid off 12% subordinated debt which resulted in interest savings of 7.0% per annum on the subordinated debt for the school.

#### **Facilities Owned by Charter Schools**

A loan guarantee enables a borrower to obtain a higher amount of debt financing by guaranteeing the gap between the lender's required loan-to-value (LTV) ratio on real estate and the loan amount required by the Charter School. It can also help the school conserve cash by lowering the down payment requirement and/or avoiding the use of costly subordinated debt. Terms of the guarantee are:

- Guarantee amounts up to the lower of 50% of the debt or \$3,000,000.
- Maximum LTV of 100%.
- 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**

Leasehold improvement loans are essentially unsecured loans as charter schools do not typically have other assets to pledge as collateral. Guaranteeing the loan ensures access to bank debt. Terms of the guarantee are:

- Guarantee amounts may be up to the lower of 90% of the debt or \$1,000,000.
- 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%).

Through March 31, 2011, we have issued 19 guarantees totaling \$16,631,804 to lenders and bondholders on behalf of 16 charter schools throughout the state (Appendix A). Debt amounts leveraged by these guarantees total more than \$110 million resulting in over 11:1 leverage of the initial \$10 million grant from the Department of Education. Without the support of the guarantees, these 16 charter schools would not have been able to obtain adequate financing for their facilities projects.

The Charter School Loan Guarantee Program is structured as a revolving fund – as the charter school reduces the principal debt balance, the guarantee balances reduces, freeing up funds to support additional school guarantees. In addition, guarantee fees and investment interest on the grant funds are deposited into the Fund, adding additional capital for charter school guarantees. As of March 31, 2011, the cash balance in the Fund totaled \$11,697,714, which supports \$9.1 million of outstanding charter school loan guarantees. The investor guarantees constitute additional funds under which charter school guarantees may be issued. The program design and structure for the newly proposed grant funds will be the same as for the existing Program.

### **Program Terms and Fees**

The Massachusetts Charter School Loan Guarantee Programs provides advantageous terms and rates to charter schools:

- Higher advance rates on loan and bond debt: With a guarantee, charter schools are able to obtain higher LTV financing. Typically, a bank may advance up to 70-75% on owner occupied real estate. With a charter school guarantee the bank can increase its advance rate up to 100%. Since charter schools have limited cash to put down on a facilities project, our guarantees are critical in helping them obtain the financing they need to purchase or construct their school buildings. The guarantee also helps charter schools avoid higher interest subordinated debt.
- Lower guarantee fees: Mortgage (non-charter) guarantee fees are generally in the 2-3% range. Although MassDevelopment may charge up to 1.25 % on owner occupied school buildings and 1.75% on leased school buildings, our current rates are 0.5%, far below market rates for guarantees.
- Access to leasehold financing for early stage schools: When charter schools are starting out, most rent facilities that require some type of property improvements. Bank financing for leasehold improvements is virtually non-existent since these types of loans are essentially unsecured. By guaranteeing leasehold financing, MassDevelopment enables charter schools to secure bank financing needed to renovate their facilities.

### **Program Need**

In January 2010, Governor Patrick signed legislation that lifted the state's cap on charter schools in underperforming school districts and allowed charter governing boards to hold multiple contracts thereby enabling the replication of high quality charter schools in these districts. In

February, 2011, 13 new schools were granted Commonwealth charters; ten of these schools are “replication” schools. We expect most of these schools to need credit enhancements to finance their facilities.

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 March 31, 2011, outstanding charter school loan guarantees total \$9,106,753, leaving approximately \$7 million in availability under our existing Program, including the cash in Fund and the guarantees committed by the investors. We expect to close three charter school guarantees by September 30, 2011 totaling \$4.5 million, which would leave available funds of \$3.7 million (this reflects guarantee amortization over the next six months) . This balance is not sufficient to meet our existing pipeline.

MassDevelopment’s pipeline at March 31, 2011 is comprised of 25 school projects with total costs of more than \$225 million. The total financing needs of the charter schools exceed \$200 million and require an estimated \$28 million in loan guarantees to obtain the needed debt. (see Appendix B). There are 15 school projects, whose school leaders are in the process of obtaining facility financing or are looking for real estate to purchase, with a total guarantee need of \$18

2011 CREDIT ENHANCEMENT FOR CHARTER SCHOOL FACILITIES PROGRAM PROPOSAL  
MASSACHUSETTS DEVELOPMENT FINANCE AGENCY

million. Ten of the schools in the pipeline are new “replication” schools which we estimate will need \$10 million in loan guarantees to complete financings for their new school facilities.

Below is an analysis of the projected need for the new \$5 million grant. The Net Available Funds Balance is the sum of our current outstanding loan guarantees and the pipeline minus the projected balance of the Fund plus existing investor guarantees. We project that 5 of the 10 “replication” schools will need guarantees in FY 2012 and the other five will need funding in 2013. As a result, in FY 2012, we project a need for \$1.2 million and in 2013 a need for \$6.4 million. We are requesting a \$5 million grant, because the need, as we know it now, declines after 2013, and we are using an average amortization schedule in the model. There can be variation in amortization schedules among deals which will affect availability of funds.

Balance Outstanding as of FYE	PROJECTED CHARTER SCHOOL LOAN GUARANTEE BALANCES						
	2010	2011	2012	2013	2014	2015	2016
<b>Total Outstanding Balance:</b>	<b>\$10,125,517</b>	<b>\$8,036,784</b>	<b>\$5,773,607</b>	<b>\$4,160,241</b>	<b>\$2,565,977</b>	<b>\$1,226,808</b>	<b>\$865,766</b>
3 new Guarantees in 2011		\$4,500,000	\$3,750,000	\$3,000,000	\$2,250,000	\$1,500,000	\$750,000
8 new guarantees in 2012			\$8,000,000	\$6,666,667	\$5,333,333	\$4,000,000	\$2,666,667
8 new guarantees in 2013				\$9,000,000	\$7,500,000	\$6,000,000	\$4,500,000
3 new guarantees in 2014					\$4,000,000	\$3,333,333	\$2,666,667
3 new guarantees in 2015						\$3,000,000	\$2,500,000
3 new guarantees in 2016							\$2,500,000
<b>Total Outstanding Existing Guarantees and Pipeline</b>	<b>\$10,125,517</b>	<b>\$12,536,784</b>	<b>\$17,523,607</b>	<b>\$22,826,908</b>	<b>\$21,649,310</b>	<b>\$19,060,141</b>	<b>\$16,449,099</b>
<b>Existing Charter School Grant Reserve Account + Investors Guarantees</b>	<b>\$16,144,660</b>	<b>\$16,259,443</b>	<b>\$16,341,734</b>	<b>\$16,425,865</b>	<b>\$16,477,851</b>	<b>\$16,523,037</b>	<b>\$13,073,374</b>
<b>Net Available Funds</b>	<b>\$6,019,143</b>	<b>\$3,722,659</b>	<b>(\$1,181,873)</b>	<b>(\$6,401,042)</b>	<b>(\$5,171,460)</b>	<b>(\$2,537,104)</b>	<b>(\$3,375,725)</b>
<b>Projection for Existing Charter School Grant Reserve Account + Investors Guarantees</b>							
Tier One							
Grant less admin expenses in year 1	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000
Interest	\$1,719,591	\$1,778,564	\$1,837,840	\$1,897,423	\$1,957,314	\$2,017,514	\$2,078,025
MassDevelopment Guaranty	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
Guarantee Fees		\$57,684	\$82,618	\$109,135	\$103,247	\$90,301	\$82,245
Less: MassDevelopment Expenses	(\$74,931)	(\$76,804)	(\$78,724)	(\$80,692)	(\$82,710)	(\$84,778)	(\$86,897)
	\$12,144,660	\$12,259,443	\$12,341,734	\$12,425,865	\$12,477,851	\$12,523,037	\$12,573,374
Tier Two							
MassDevelopment Guaranty	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
LISC Guaranty	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$0
Boston Foundation	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$0
<b>Net Program Funds Available</b>	<b>\$16,144,660</b>	<b>\$16,259,443</b>	<b>\$16,341,734</b>	<b>\$16,425,865</b>	<b>\$16,477,851</b>	<b>\$16,523,037</b>	<b>\$13,073,374</b>

**Assumptions:**

10 "Replication" Schools all apply for guarantees  
6 year amortization on guarantees  
No payments made under guarantees  
Guarantee fees are set at 50 b.p  
Interest on Grant Reserve account is 0.5%  
LISC and Boston Foundation Guarantees expire in 2016

---

## **Program Timeline and Goals**

The goal of our program is to enable charter schools, especially those serving students from underperforming areas of the state, to access the necessary financing for school facilities that will provide an optimal educational experience for students. Our timeline for utilizing the requested grant funds is shown below. Other measurable goals are:

- Press release announcing award will be sent to appropriate media outlets and an e-mail announcement to all charter schools and charter school related agencies and organizations in the state.
- First transaction approved within 120 days of grant award.
- All grant funds deployed within 3 years of receiving grant funds.
- Timely completion of required reports to the U.S Department of Education.

We will use our best efforts to meet the goals and timeline for the proposed \$5 million grant presented below, but the timing of transaction closings can be affected by a number of factors including locating a suitable building, arranging debt financing, and raising equity. Note: many of the pipeline deals will be issued under the existing grant as capacity under the existing Program will be generated by amortization of existing guarantees. The proposed \$5 million request will be used to ensure that we can meet the financing needs of the new schools that are

being replicated in underperforming communities of the state. Issuances in years 3-5 reflect the recycling of grant funds as guarantees issued in the first two years amortize.

Goal	Time Line
Close two charter school loan guarantees totaling \$2.0 million	Project Year One
Close three charter school loan guarantees totaling \$3.0 million	Project Year Two
Close one charter school loan guarantees totaling \$1.0 million	Project Year Three
Close one charter school loan guarantees totaling \$1.0 million	Project Year Four
Close one charter school loan guarantees totaling \$0.5 million	Project Year Five

### **Program Implementation Plan**

MassDevelopment will make the \$5 million grant funds available immediately upon receiving the funds. Because we already administer a Charter School Grant from the U.S. Department of Education and will be using the same program design, structure and systems for the proposed grant, we are confident that our implementation plan and goals will be achieved. The Charter School Loan Guarantee Program is well established with:

- Documented and approved policies and procedures, including specific underwriting guidelines for charter school loan guarantees (Appendix C).
- 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.

2011 CREDIT ENHANCEMENT FOR CHARTER SCHOOL FACILITIES PROGRAM PROPOSAL  
 MASSACHUSETTS DEVELOPMENT FINANCE AGENCY

Our first step will be to issue a press release to our media contacts and to send an e-mail announcement to our database of charter school contacts, all contacts in charter school related organizations and agencies, and banking contacts. A second announcement will follow inviting our contacts to charter school facilities financing workshops. In the past, we have held workshops at the Massachusetts Department of Elementary and Secondary Education Charter School annual meeting. Ongoing implementation steps include the marketing of the Program, closing of charter school loan guarantees, and reporting on Program activities.

**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 o Department of Education					x	x
<b>Meetings</b>						
Advisory Committee Meetings		x	x	x	x	x
DESE Charter School Annual Meeting					x	x

### **Charter School Selection**

The Charter School Loan Guarantee Program will continue to give priority to 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, as measured by percentage of students receiving free or reduced lunch.
- Economically Distressed Areas (EDAs), areas determined by the state to have a high unemployment rate, poverty rate, and/or low household median income.

MassDevelopment's business development staff, lending staff, investment banking staff, Charter School Program Manager, and Charter School Advisory Board all source leads for the program.

Our charter school financing application requires that the applicant provide information on the priority criteria listed above. In addition, the information of school district demographics and MCAS testing performance can be obtained directly from the Massachusetts's Department of Elementary and Secondary Education's (DESE) Charter School Office or through its web site.

When evaluating multiple applications, requests will be prioritized first by the need of the population served and second by school need. Schools seeking guarantees from the Fund will submit an application (Appendix D) to MassDevelopment detailing the school history and project description. Applications will be scored according to need. 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.

### **Leverage of Public and Private Funding**

MassDevelopment leveraged additional funding for the existing Loan Guarantee Program (original \$10 million grant) in several ways:

- MassDevelopment contributed \$1 million of loan guarantees.
- MassDevelopment successfully attracted private foundation investment for the Program. LISC pledged a \$1 million loan guarantee to the Program and The Boston Foundation committed a \$2.5 million loan guarantee.
- MassDevelopment leveraged private dollars by credit enhancing bonds issued to charter schools. MassDevelopment has issued more than \$16.6 million of guarantees for loans and bonds. Financings supported by these guarantees total more than \$110 million, resulting in over 11:1 leverage of the original \$10 million grant from The Department of Education (Note: we are currently recycling the grant funds and the leverage calculation is based on the original grant funds – it increases with each issuance of a credit enhanced bond).

We have 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. We project initial leverage of the proposed \$5 million to be 7:1 (project debt amount: guarantee amount), with increases in leverage as the original \$5 million grant funds are recycled. Since we are targeting the grant funds to the ten new “replication” schools we calculate leverage using the estimated total debt amount for the ten “replication school projects (\$72 million) and the estimated total guarantee needs (\$10 million). We will continue to use best efforts to identify and attract additional investors.

### **Program 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 along 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. To this end, in May 2004, MassDevelopment led a session at the annual meeting of the Council of Development Finance Agencies (CDFA) to educate its counterparts on our charter school

facilities financing program. We have contributed information on our program to the following recent research reports and articles on charter school financing:

- 2010 report by Ernest & Young to support an industry research project that was being conducted to assist charter school leaders in benchmarking loan and school operating performance; educating the business community about charter school lending; and enhancing their ability to evaluate lending opportunities.
- 2011 article being written by the Pioneer Institute on the challenges of financing charter schools.

In addition, MassDevelopment issues a press release for all loan, bond, and guarantee transactions that close, including charter school loan guarantees.

Going forward, MassDevelopment will commit its best efforts to:

- Submit an example of a charter school loan guarantee financing to the CDFR's annual Excellence Awards program. These awards recognize and honor development finance initiatives that benefit a community and can be replicated by other economic development agencies.
- Respond to surveys and research requests concerning charter school financing programs.
- Feature a Charter School Loan Guarantee financing in our newsletter, a quarterly publication that is sent to over 6,000 businesses, nonprofits, and municipalities.

### **Massachusetts State Charter School Charter Laws and Experience**

The state DESE 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 2010, 63 charter schools were operating, 43 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.

A study released in January 2011 by the National Alliance for Public Charter Schools ranked Massachusetts as having one of the strongest charter school laws in the country. 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.

Massachusetts ranks first in quality and accountability and ranked third overall; the state improved its ranking due to this historic legislation.

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 LEAs 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 DESE 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, the DESE's Charter School Common School Performance Criteria (Criteria) contain thirty-one criteria that 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 Charter School Office, 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.

### **Program Costs**

A 5-year cash flow proforma for our Program is shown below. 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.

**MassDevelopment**  
**Five Year Cash Flow Proforma**

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Beginning Balance	\$5,000,000	\$5,012,000	\$5,037,278	\$5,063,401	\$5,089,539
Interest Income	\$25,000	\$25,060	\$25,186	\$25,317	\$25,448
Fees Earned	\$10,000	\$23,333	\$24,167	\$24,167	\$26,667
Admin Costs	(\$2,500)	(\$2,500)	(\$2,500)	(\$2,500)	(\$2,500)
Program Costs	(\$20,500)	(\$20,615)	(\$20,730)	(\$20,846)	(\$20,963)
Ending Balance	\$5,012,000	\$5,037,278	\$5,063,401	\$5,089,539	\$5,118,190

\$ Guarantees Issued	\$2,000,000	\$3,000,000	\$1,000,000	\$1,000,000	\$500,000
# Guarantees Issued	2	3	1	1	1

Assumptions for cash flow proforma:

- Guarantee amounts are issued as described above. During years 3-5, guarantees will be issued as previously issued guarantees begin to amortize.
- Investment return is 0.5%. All investment income is reinvested in the Fund.
- Guarantees issued have a 0.5% annual guarantee fee, although we reserve the right to charge up to 1.25% on owner occupied facilities and 1.75% on leasehold financings. Guarantee fees are reinvested in the Fund.
- Costs (see Table 3 Budget for more detail) will be paid out of the Fund:
  - Administrative costs (\$2,500/ annum over 5 years) – costs include setting up guarantee accounts on loan ledger, maintaining financial books and records; and internal and external reporting.
  - Program costs (Table 3 Budget line C.2.a). Program costs for facilitating financing reflect salary and fringe for lenders who manage the approval and closing processes for loan guarantees; the Program Manager who oversees all aspects our Program including answering questions from our staff and

potential borrowers, management of all reporting, chairing the quarterly Advisory Committee meeting and coordinating with our Marketing and Communications Department on events and marketing strategies; and senior management who review approval requests for all debt, bonds, and guarantees. Salary and fringe costs are also included for internal marketing and communications staff, internal legal counsel, and internal risk management staff, all who work to facilitate debt issuances, including loan guarantees. Costs are calculated based on our costs for our existing grant and adjusted pro-rata for the new grant. Under our existing grant, we are allowed to take these costs which are based on actual reported monthly allocations of time spent by staff members on the Program. In FY 2010, the projected expense ratio to the total dollar amount of the Fund (including investor guarantees) was 0.45%. We use this percentage for total costs, other than the banking costs below, and budget a small annual increase.

- Other Program costs (Table 3 Budget Line C.2.c) include banking and investment management fees for the Grant Reserve Account Fund.

Fees paid by charter schools include an annual guarantee fee, currently 0.5%, a \$250 application fee to MassDevelopment and their legal costs. In the event of a work-out, charter schools will be responsible for MassDevelopment's legal costs.

The Charter School Loan Guarantee Program will earn income from two sources: interest earned on its cash balance in the Fund (mostly related to the U.S. Department of Education grants), and guarantee fees paid by schools. MassDevelopment's Finance Department oversees the investment of the cash in the Fund. US Bank is the custodian of the funds, and PFM Asset

Management is the investment advisor. Although our cash flow proforma indicates a slight growth in the Fund over time, our main objective is to preserve the Fund by extending credit to schools that have the greatest need and a high likelihood of success. We have not experienced any losses in our current program, and we do not project any draws under a guarantee in the proposed grant as these grant funds will be used to support “replication” schools which have a proven track record.

## **II. Project Services**

The Charter School Loan Guarantee Program has been instrumental in helping 16 schools obtain the financing they need to buy, construct or renovate school buildings. It is a proven model that can be readily replicated. Letters supporting our program are included in the Appendix E. Due to the ten newly issued charters for successful schools that now seek to start additional schools in the underperforming areas of the state, MassDevelopment has a strong pipeline of transactions which exceeds our current Program funds. With the additional \$5 million being requested, we will be able to help these new “replication” schools finance their new school facility.

### **Program Benefits to Charter Schools**

Our Program addresses the needs of 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 can the charter school obtain the needed facilities financing, but they can obtain it at senior debt interest rates as opposed to partially financing a facility with subordinated debt. Annual guarantee fees in our 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 charter 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.

Our Program addresses the need not only for financing for schools that will own school buildings, but also for schools that are 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 our Program assures that the needs of charter schools will be met, that technical assistance is provided to charter schools (page 25), and that the funds will reach the quality charter schools that have the greatest need for assistance (page 26).

### **Involvement of Charter Schools**

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.

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
- Barry Barnett, Massachusetts Department of Elementary and Secondary Education  
Charter School Office
- John Tarvin, Designee of the MCPSA and Massachusetts Center for Charter Public  
School Excellence, a subsidiary of 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 – Vice President Finance Programs, MassDevelopment

The Committee meets quarterly 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. Our 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.

### **Technical Assistance and Other Services**

MassDevelopment has a long history of working with charter schools (Appendix F). 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.

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 our TechDollars program, we provide low cost 100% financing for technology needs of nonprofits – five loans were made to charter schools under this program

### **Charter Schools with Highest Likelihood of Success and Greatest Need**

The requested \$5 million grant 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 recently received new charter approvals 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, we have 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. (Appendix B - pipeline)
- MassDevelopment, an organization with 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.

### **III. Program Capacity**

Under the direct management of MassDevelopment, the Massachusetts Charter School Loan Guarantee Program has been a success – 16 schools have been assisted in obtaining facilities

financing. The original grant funds, now being recycled, have been leveraged more than 10:1, expenses have been kept low, and no losses have occurred in the portfolio.

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.

### **Amount and Quality of Experience**

MassDevelopment (Agency) was created in 1998 through the merger of the Massachusetts Industrial Financing Agency (MIFA) and the Massachusetts Land Bank. 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 2010,

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 (Appendix F) in Massachusetts, and has significant experience working with charter schools and other educational institutions. During its last five FYs, MassDevelopment issued 182 bonds totaling \$4.6 billion on behalf of educational institutions. Since the charter school movement began in 1995, MassDevelopment has issued 40 tax-exempt bonds and Qualified Zone Academy Bonds (QZABs) totaling \$319.1 million on behalf of 27 charter schools; made 15 loans to charter schools totaling \$16.0 million and issued 25 loan guarantees totaling more than \$17 million on behalf of 20 charter schools, including the 16 schools that received guarantees under the Charter School Loan Guarantee Program. 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 (along with its predecessor Agencies), has more than 30 years of credit and lending experience, including working with federal and state funded programs. The Lending Department provides loans and guarantees for real estate and equipment projects to fill financing gaps that banks and other private lenders can not 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 236 loans totaling \$169.0 million and 72 loan guarantees totaling \$28.9 million. As of March 31, 2011, there were 171 loans totaling \$85.3 million and 43 guarantees totaling \$14.5 million under management in our portfolio, including 13 charter school loan guarantees totaling \$9.1 million. In addition, we have 24 loans totaling \$23.6 million under management in our New Markets Loan Portfolio.

MassDevelopment's lending staff, portfolio administration staff and senior management are highly experienced; of the seven lending officers, including the senior lender, six have over 20 years of credit and lending experience and all but one have been with MassDevelopment for at least five years. Portfolio loan administration is comprised of a team of five: the team leader has over 30 years of loan administration experience including the last 10 years at MassDevelopment. Our Vice President of work-out is a 20 year veteran with 10 years at MassDevelopment. The Chief Operating Officer of MassDevelopment has 30 years of Lending and Credit experience and the EVP of Finance Programs has 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. During its last five fiscal years, MassDevelopment issued 435 bonds totaling nearly \$7.4 billion to manufacturers, environmental entities, educational institutions, nonprofits and governmental entities.

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. In addition, MassDevelopment has a New Market Tax Credit Program that has been awarded four allocations totaling \$176 million from the U.S. Treasury. In 2011, we closed our first charter school project that was financed with New Markets Tax Credits.

MassDevelopment works in the entire state of Massachusetts. Staff is located in Boston and five regional offices as well as several satellite offices. Each of the five regions has a staff person dedicated to business development, lending, bond financing, community development programs and real estate. Staff has annual calling goal 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 calling 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 writes and publishes 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.

### **Financial Stability**

MassDevelopment's S&P credit rating (A+/stable/A-1) report and three years of audited financial statements are included in Appendices G and H, respectively.

PricewaterhouseCoopers, LLP conducted the financial audit of the Agency. As of June 30, 2010, Agency assets exceed liabilities by \$437.9 million. Current cash and cash equivalents, and short term investments total \$195 million and, all cash and cash equivalents, short and long term investments total \$262 million, \$27 million of which is for restricted use. For complete information on the Agency finances, please refer to the Management's Discussion and Analysis on page 2 of the audited financial statements.

### **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 (Appendix C-Charter School Loan Policies and Procedures).

- Application - Prospective borrowers meet with regional staff, and, if appropriate, complete a MassDevelopment loan, bond or guarantee application – a charter school loan guarantee application is included in Appendix D.
- 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, COO and CEO) or by the MassDevelopment Board of Directors. MassDevelopment's Credit Committee, comprised of a subset of the members of the Board, reviews 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, Deputy 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 March 31, 2011, there were 43 loans and guarantees, totaling \$24.3 million rated "5 or 6". Eleven of the loans (\$7.2 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 March 31, 2011, there are three loans totaling \$596,704 that are 30-60 days past due and three loans totaling \$1,164,875 that are over 90 days past due. Two loans, totaling \$552,953, that were 30-60 days past due are now current. The three loans over 90 days past due are matured loans - two of the loans are in the process of being renewed and the third is in the process of being refinanced. All three are current on monthly payments. In addition, there are 31 non-accruing loans totaling \$18.7

million, including ETF loans which are often placed on non-accrual when they close because of their risk profile. Loan loss reserves are \$13.4 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 COO 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 2006- 2010) – 0.84%, 0.0%, 0.23%, 2.12% and 0% of total portfolio, respectively. Losses in FY 2009 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:
  - NetSuite – 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. Pricewaterhouse Coopers, MassDevelopment's external auditors, validates MassDevelopment's accounting standards and financials.

### **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 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 – 56 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 Charter School Office: Massachusetts has been on the forefront of the charter school initiative since the first charter school opened in the state in 1995. As described in the Program Design and Significance Section (see pages 13-19), the Charter School Office plays a critical role in overseeing charter school applications, performance review, and charter renewal. The state's Charter School Office is represented on the Charter School Advisory Board and is available to answer questions about the educational aspects of charter schools.

### **Standards of Conduct and Conflict of Interest**

Section 23G of the Massachusetts General Laws (Appendix I) 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 (Appendix J). In addition, our Lending staff is subject to MassDevelopment Officer's Code of Conduct (Appendix J), 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. Staff receive training on procurement from our Legal Department.

### **Support for Charter Schools to Receive Facilities Funding**

MassDevelopment, a quasi-state public agency, works to ensure charter schools receive facilities funding by:

- Issuing tax-exempt bonds and QZABs on behalf of charter schools. Since 1995, 40 tax-exempt bonds and QZABs (\$319.1 million) have been issued on behalf of 27 schools.
- Making direct loans to charter schools, including loans through our TechDollars Program for their technology needs. Fifteen loans totaling \$16 million have been made to schools.
- Managing the Charter School Loan Guarantee Program. Nineteen guarantees totaling more than \$16 million have enabled 16 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.

### **Previous Performance**

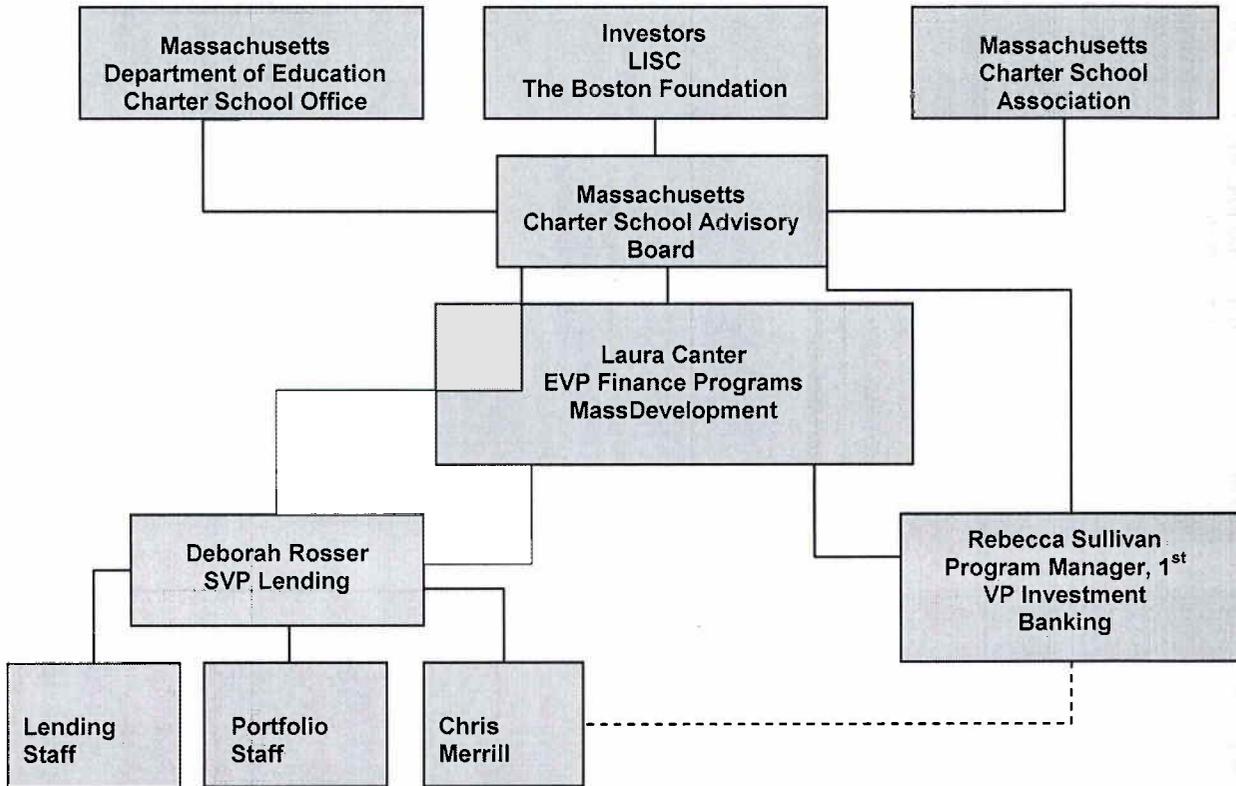
In 2003, MassDevelopment was the recipient of a \$10,025,000 grant from the U.S. Department of Credit Enhancement for Charter School Facilities Program. Our FY 2010 Annual Report is attached in Appendix K. Our Charter School Loan Guarantee Program has been a success:

- Through 9/30/2010, sixteen schools have been issued guarantees, totaling more than \$16 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 \$110 million, resulting in a leverage of over 11:1 of the original grant 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.

### **IV. Quality of Program Personnel**

## Program Personnel

The organizational chart shows the principal staff for the Program.



Rebecca Sullivan, First Vice President of Investment Banking, 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 10 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.

Christopher Merrill, 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.

### **Staffing Plan**

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. John Champion, 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. US Bank is the custodian of the funds and PFM Managements is the investment advisor. Lee Smith, MassDevelopment Legal Department, provides legal counsel to the Program.

## **V. Competitive Preference Priority**

The Massachusetts Charter School Loan Guarantee Program will continue to 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

We identify these schools in several ways. First, the state's DESE provides information on all three of these criteria. Second, when a school applies to our charter school loan guarantee program, the application directly asks whether the school will serve students and communities that meet these three priority criteria. The proposed \$5 million is being requested to support a pipeline of successful schools that received new Commonwealth charters to create 10 schools based on their school models. All of these "replication" schools are located in districts (Boston and Lawrence) that have been targeted for improvement, have a high percentage of low income families and have greater than 50% of the students scoring below proficient on MCAS in one or more grades/subjects. (Please see MassDevelopment's Pipeline, Appendix B-New Schools). Our data on these three criteria for the replication schools was obtained from the MA Department of Elementary and Secondary Education web site. In addition, the MA DESE identified school districts that scored in the lowest 10 percent on the MCAS in the two previous consecutive years. These districts also meet one or more of the priority criteria listed above.

2011 CREDIT ENHANCEMENT FOR CHARTER SCHOOL FACILITIES PROGRAM PROPOSAL  
 MASSACHUSETTS DEVELOPMENT FINANCE AGENCY

<b>School District</b>	<b>School Identified for Improvement</b>	<b>Low Income (&gt;50%)</b>	<b>&gt;50% Below Proficient MCAS (2010) in at least one grade/subject</b>
Athol Royalston	-	Yes	Yes
Boston	Yes	Yes	Yes
Brockton	Yes	Yes	Yes
Chelsea	Yes	Yes	Yes
Chicopee	Yes	Yes	Yes
Everett	Yes	Yes	Yes
Fall River	Yes	Yes	Yes
Fitchburg	Yes	Yes	Yes
Gateway	-	-	Yes
Gill Montague	-	Yes	Yes
Greenfield	Yes	Yes	Yes
Haverhill	Yes	-	Yes
Holbrook	Yes	-	Yes
Holyoke	Yes	Yes	Yes
Lawrence	Yes	Yes	Yes
Lowell	Yes	Yes	Yes
Lynn	Yes	Yes	Yes
Malden	Yes	Yes	Yes
New Bedford	Yes	Yes	Yes
North Adams	Yes	Yes	Yes
Orange	Yes	Yes	Yes
Quaboag	-	-	Yes
Randolph	Yes	Yes	Yes
Salem	Yes	Yes	Yes
Somerville	Yes	Yes	Yes
Southbridge	Yes	Yes	Yes
Springfield	Yes	Yes	Yes
Webster	-	Yes	Yes
Winchedon	Yes	-	Yes
Worcester	Yes	Yes	Yes

## V. 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 11:1 (amount of financing:grant funds) demonstrates an optimal usage of the U.S. Department of Education’s grant funds.