

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

Status: Submitted

Last Updated: 06/14/2011 04:50 PM

Technical Review Coversheet

Applicant: Massachusetts Development Finance Agency -- Lending Finance Programs (U354A110001)

Reader #2: *****

	Points Possible	Points Scored
Questions		
Quality of project design and significance		
Selection Criterion		
1. Question 1	35	28
Sub Total	35	28
Quality of project services		
Selection Criterion		
1. Question 2	15	11
Sub Total	15	11
Capacity		
Selection Criterion		
1. Question 3	35	32
Sub Total	35	32
Quality of project personnel		
Selection Criterion		
1. Question 4	15	12
Sub Total	15	12
Priority Questions		
Competitive Preference Priority		
Competitive Preference Priority		
1. CP Question 1	15	12
Sub Total	15	12
Total	115	95

Technical Review Form

Panel #1 - Panel 1 - 1: 84.354A

Reader #2: *****

Applicant: Massachusetts Development Finance Agency -- Lending Finance Programs (U354A110001)

Questions

Quality of project design and significance - Selection Criterion

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

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

Strengths:

The applicant will utilize grant funding to secure loans for charter schools at lower interest rates and a higher LTV ratio. Without this guarantee, many charter schools would not be able to secure affordable financing. In addition, the applicant is able to provide financing for leasehold improvements, which is necessary for some charter schools, especially start ups, to begin safe operations. pg. 4

This program will be implemented using an existing model. Timeline presented is aggressive, with an implementation plan that will enable the applicant to reach the project goals. The timeline matches the purpose of the proposed program. The applicant has successfully worked with charter schools to help them obtain funding since 2003 and has had no loan losses in its charter school lending program. pg. 1, 8 -9

Supporting a pipeline of up to 25 charter schools is appropriate for the amount of funding requested. Program costs related are related to the partial cost of personnel to administer the program. The costs to charter schools will be an annual guarantee fee of 0.5% - a nominal application fee and legal costs. pg. 5

The collaboration between the Massachusetts Charter School Association, the State Charter School Office, and the

applicant is very strong. Each of these entities has a broad base of knowledge regarding charter schools and specific experience with the charter schools seeking loan guarantees. This partnership allows the applicant to fully know and understand the workings of a specific charter schools. pg. 12

The applicant has estimated a 7:1 leverage of grant monies on the first issuance of loan guarantees. Once the original guarantees are complete and monies are recycled, the ratio will be higher. The applicant has been successful in achieving an 11:1 leveraging ratio with the previous grant program. pg. 10-11

The state of Massachusetts has one of the strongest charter laws according to the National Alliance for Public Charter Schools - a group that compares and ranks state chartering laws. The state has a strong accountability program, ensuring only well run, high quality schools are maintained. pg. 14

The applicant has secured outside funding from a local foundation and a CDFI. The applicant has also committed \$1 million to the project. pg. 11

The applicant will provide financing to charter schools in all stages of development with financing for leasehold improvements, refinancing of debt, and guarantees on owned facilities. pg. 2

The applicant will offer debt guarantees for property acquisition, construction, renovation, and leasehold improvements.

Loan funds are reasonable and will be placed into an existing, successful program.

Weaknesses:

Although the applicant has had great successes in Massachusetts, it will be challenging to replicate the model in other states that do not have the same type of state government finance and development agency to work with.

While the applicant indicates guarantees will be given to new charter schools, the narrative does not give much specificity as to how new charter schools will be considered. pg. 10

The goals should be more explicit. As they are presented, they are vague and broad in focus. They do not provide long term achievable outcomes. pg. 6

The selection criteria as presented do not consider the educational, management, or financial factors relative to a charter school. While it is good to serve populations where a large proportion of students are poorly performing or where public schools have been identified for improvement, these are not the only factors that will determine whether or not a charter school will be successful. pg. 10

The applicant does not provide information on the amount of assistance that will be provided to charter schools.

There is no specificity relative to what loan terms will be given. There is no indication of what market rate terms are for comparison purposes. Interest rates are not addressed.

Reader's Score: 28

Quality of project services - Selection Criterion

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

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

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

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

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

Strengths:

The application includes heartfelt letters of support not only from the charter schools previously served, but also from partner agencies - Banks, local Foundations, and the state Department of Education. Appendix E

Program fees are currently being charged at a lower percentage than quoted in the performance agreement. The applicant indicates this practice will likely continue. pg. 22-23

The applicant has made provision for the charter schools in the loan guarantee program to obtain loans that exceed the 5 year limit of the charter agreement. pg. 23

The application indicates the state charter school association (MCPA) was the entity that initiated the idea of the loan fund. Through that idea, grew a partnership between the applicant, the State Department of Education, and the charter school association. The applicant created a Charter School Advisory Board to work with them to provide advice and input on behalf of the charter school stakeholders. pg. 23 - 24

The applicant has a strong base of support throughout the property acquisition process. Assistance is available for a variety of processes that happen during the building phase (permits, architectural consultations, site work). In addition, the applicant has the ability to offer charter schools low cost pre-development loans to offset some of these costs. These strategies are cost effective in that they help ensure charter schools get the property that meet their needs and do not pay for space they don't need or can't use. pg. 25

Because the state cap on charter schools has been recently lifted and additional charters have been granted, charter schools will be searching for facilities. In addition to these new replication charter schools, the applicant currently has an existing pipeline of transactions that have exceeded their ability to provide assistance. pg. 26

Weaknesses:

There is no specific discussion about assistance provided to new charter schools that are not part of an existing CMO. Stand alone start-up charter schools are typically the most in need of assistance.

The applicant did not address the cost of lending terms.

Reader's Score: 11

Capacity - Selection Criterion

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

(1) The amount and quality of experience of the applicant in carrying out the activities it proposes to undertake in its application, such as enhancing the credit on debt issuances, guaranteeing leases, and facilitating financing;

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

Strengths:

The applicant has a process in place to assess each charter school and their related risks throughout the loan process. Charter schools are required to prove their good standing to the applicant through verification from the state Department of Education. In addition, loans provided to charter schools that are high risk are reviewed quarterly rather than annually. pg. 31-32

The applicant has an annual external credit review of the agency's lending portfolio. This review has been satisfactory for the past 10 years. pg. 33 & 38

Through the applicant's existing grant program funded by the USED, there are no loan guarantees in default. The program provided guarantee for \$110 million in loans to assist 16 charter schools. Because of the success of this program, 15 additional banks are willing to purchase bonds for charter schools. pg. 34

Through the creation of the Charter School Advisory Board, the applicant is able to obtain the educational expertise necessary for the grant program by strategically placing a representative from the State Charter School Office on the board. This group will work with the applicant to identify issue relative to charter schools in the state and offer suggestions on making the program better. pg. 24

The applicant, as a state agency, has standards of conduct explicitly spelled out in state law. In addition, there are procedures in place to hire third party vendors, so no conflicts of interest will occur. Appendix

Established policies relative to good underwriting criteria and portfolio monitoring are in place. Loans are monitored more or less frequently based on the risk level assigned. pg. 32

The applicant has 30 years of successful lending experience. They have financed 182 bonds totaling \$4.6 billion in the first 5 years for educational purposes. pg. 27-28

The applicant works with the Massachusetts Charter Public School Association and the DESE's Charter School Office to assist in the evaluation of charter schools to determine whether or not they can be successful. In addition, these two entities provide technical assistance to charter schools as it is needed.

Through a variety of programs including bond issuance, direct loans and loan guarantees, the applicant, as a state agency, works with individual charter schools to help them obtain suitable facilities through a variety of programs. pg. 38

As a previous grantee, the applicant has been able to leverage the grant funds at 11:1, introduce new lenders that are willing to lend to charter schools, and obtain additional funding of \$3.5 million from private investors. This work has been done without losses being paid from the guarantees. pg. 38

Weaknesses:

The financial statements indicate a negative operating profit before government contributions are made to the agency. This negative operating profit is troubling and should have been explained. Appendix G

The applicant has numerous partners, but the contributions of some of the partners are not discussed.

Reader's Score: 32

Quality of project personnel - Selection Criterion

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

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

Strengths:

The project manager has significant experience with the state agency and specifically working with financing for charter schools. Other key personnel are well qualified for the support positions they will hold. pg. 39

The applicant is a well established state agency that provides capital financing for the state. Established staff members are in place that have worked with this program and will continue to operate in the same capacity. pg. 39

Weaknesses:

While the organizational chart indicates involvement from educational entities, there is no staff member with educational expertise.

Reader's Score: 12

Priority Questions

Competitive Preference Priority - Competitive Preference Priority

1. This priority is:

The capacity of charter schools to offer public school choice in those communities with the greatest need for school choice based on--

- (1) The extent to which the applicant would target services to geographic areas in which a large proportion or number of public schools have been identified for improvement, corrective action, or restructuring under Title I of the Elementary and Secondary Education Act of 1965, as amended (ESEA);**

(2) The extent to which the applicant would target services to geographic areas in which a large proportion of students perform below proficient on State academic assessments; and

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

Strengths:

The applicant indicates that all three areas of this priority will be met. When the number cap on charter schools was lifted in 2010, the newly awarded charters were directed to located in geographic areas that meet these criteria. pg. 41

The applicant provides good reference data relative to each competitive priority.

Weaknesses:

More specificity should have been provided relative to the targeted percentages for inclusion in the program. It is difficult to determine if the percentages mentioned are ambitious without a frame of reference.

Reader's Score: 12

Status: Submitted
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Sub Total	15	13
Priority Questions		
Competitive Preference Priority		
Competitive Preference Priority		
1. CP Question 1	15	10
Sub Total	15	10
Total	115	96

Technical Review Form

Panel #1 - Panel 1 - 1: 84.354A

Reader #1: *****

Applicant: Massachusetts Development Finance Agency -- Lending Finance Programs (U354A110001)

Questions

Quality of project design and significance - Selection Criterion

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- (3) The extent to which the project implementation plan and activities, including the partnerships established, are likely to achieve measurable objectives that further the purposes of the program;
- (4) The extent to which the project is likely to produce results that are replicable;
- (5) The extent to which the project will use appropriate criteria for selecting charter schools for assistance and for determining the type and amount of assistance to be given;
- (6) The extent to which the proposed activities will leverage private or public-sector funding and increase the number and variety of charter schools assisted in meeting their facilities needs beyond what would be accomplished absent the program;
- (7) The extent to which the project will serve charter schools in States with strong charter laws, consistent with the criteria for such laws in section 5202(e)(3) of the ESEA; and
- (8) The extent to which the requested grant amount and the project costs are reasonable in relation to the objectives, design, and potential significance of the project.

Strengths:

- 1) The applicant provides loan guarantees to charter schools with better terms to charter schools than they can receive from other sources. Facilities owned by charter schools: guarantee amounts up to 50% of debt, LTV of 100%, guarantee fee .5% below market rate versa 2-3%. Facilities leased by charter schools: Unsecured loans guarantee up to 90% of the debt, LTV 90%, and guarantee fee, .5%. With a charter school guarantee, a bank can increase its advance rate up to 100% (p 2-4)
- 2) The goals are addressed. The applicant goal is to enable charter schools serving students from underperforming areas of the state to access financing for school facilities. The applicant proposes targeting 10 replication schools for this guarantee program. The measurable goals are press release announcing the award, email announcement to all charter schools and related agencies and organizations in the state, the first transaction will be approved within 120 days of the grant award, all funds will be deployed within 3 years from receiving the award, and reports will be completed timely. (P. 7)
- 3) The applicant has prior experience administering similar grant from the USED therefore, they are like to achieve measurable objectives. The currently have well documented and approved, underwriting guidelines, policies, and

procedures for the Loan Guarantee Program. They have on-going marketing and communication strategies to promote the program and excellent financial and compliance reporting systems in place. (.8)

4) The applicant request is to finance the needs of new schools in underperforming communities in the state. The applicant intends to replicate the program in the state of Massachusetts because they have a strong working relationship with the Mass Charter School Association and the State Charter School Office.

This is an effective model to share with other states as a best practice. The applicant has a proven model for supporting charter schools facilities financing that can only be replicated in Massachusetts. The agency has track record of innovation in responding to financing needs of underserved schools in the state. (P.12)

5)The applicant uses criteria for selecting charter schools based on the following priorities: Geographic areas with large number of public schools have be identified for improvement, corrective action, or restructuring under Title I, areas in which large numbers of students perform below proficient on the state's academic assessments (MCAS), communities with large number of students from low-income families and economically distressed areas of the state with high unemployment rate, high poverty rate, and low to median income households.

6) The applicant will leverage additional funds from their existing Program and from private foundations, and other public funds. LISC has pledged \$1 million, the Boston Foundation committed \$2.5 million and the applicant also committed \$1 million to the fund. (page 11)

7) The applicant and the state DESE strongly supports efforts the school initiative by enhancing the ability of charter schools to access capital markets for facilities financing. The program allows the state to continue to serve as a national model for the charter school movement. (p.13) Since then many other laws have been passed. In 2010, the state passed an Act Relative to the Achievement Gap. The applicant project will serve the strong charter schools in the state because they will finance schools that used the Commonwealth Charter School Models and approved by the DESE's charter school common school performance criteria. (p14-17)

8) The requested grant amount and project costs are reasonable based on the 5-year cash flow pro forma for the program. The applicant has additional funds remaining from existing grant funding and other sources to finance their pipeline of projects. (p. 19-21)

Weaknesses:

- 1) The applicant did not state or reference interest rate or market rate terms.
- 2) The Applicant did not address how they will handle the charter schools that did not meet their criteria for financing.
- 3)The applicant issues bonds, but they did not describe the process or pricing.
- 4) The applicant did not address the amount of assistance to charter schools.
- 5) It is questionable if this model can be replicated in other states.
- 6) The goals are not specific. They do not provide achievable outcomes.

Reader's Score: 28

Quality of project services - Selection Criterion

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

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

(2) The extent to which charter schools and chartering agencies were involved in the design of, and

demonstrate support for, the project;

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

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

Strengths:

1) The applicant has been instrumental in helping 16 schools obtain financing they needed to buy, construct and renovate school buildings. The model is proven and it can be easily replicated. According to the applicant's narrative, the program addresses the needs of the charter schools in the following ways: The loan guarantee covers the gap between the amount of financing the lending institution is willing to provide and the financing amount the charter school needs. Annual guarantee fees are below market, the terms may be longer than 5 years & flexible. The applicant has relationships with banks that they have identified to purchase the bonds issued and make 100% loans to charter schools in low-income areas at favorable interests. (p 22-23)

Because the state cap on charter schools was lifted, the applicant recognized a future need for additional financing.

2) The applicant has excellent working relationship with various charter school associations and agencies. The applicant stated that they formed collaborations and seeks input from the Mass Charter School Public School Association, a highly recognized and strong group in the state. (p. 23) This application also received feedback and consultation from the Mass DES and the 40 school that were part of the charter school needs assessment conducted as with the previous \$10 million application that was funded. The applicant also has an advisory board whose members provide advice and input from various charter schools stakeholders (p 24)

3) The applicant offers technical assistance in real estate development, and consulting services for pre-development services such as architectural plans and feasible studies, and other financing assistance to charter schools. The services are cost-effective because the applicant offers low interest rate for the up-front predevelopment costs. The applicant also has a long history of working with charter schools. The applicant offers low interest predevelopment loans to pay for up-front soft cost and feasibility studies. The applicant has the resources to lend directly to the charter schools for real estate and through the TechDollar program for 100% technology financing. The applicant also packages and issues the tax-exempt bonds. (p 25-26)

4. The requested grants funds will provide guarantees to the new replication charter schools in MA. These schools have received their charters from the State's BESE and will use the highly successful model of existing charter schools. The applicant has a high confidence that these schools will succeed because of the strict quality control of the state's DESE. The replication schools will be relocated in underperforming school districts that are targeted for improvement and have high number of low-income families. The applicant has 30 years of credit and lending experience and will manage the credit approval process for all charter schools that apply to the program to ensure that only the strong and viable schools will receive the loan guarantee. (P 26)

Weaknesses:

The applicant did not state how the services will assist charter schools that have the greatest needs for assistance under the program.

The applicant did not address lending terms and cost savings.

Capacity - Selection Criterion

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

(1) The amount and quality of experience of the applicant in carrying out the activities it proposes to undertake in its application, such as enhancing the credit on debt issuances, guaranteeing leases, and facilitating financing;

(2) The applicant's financial stability;

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

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

(5) The ability of the applicant to prevent conflicts of interest, including conflicts of interest by employees and members of the board of directors in a decision-making role;

(6) If the applicant has co-applicants (consortium members), partners, or other grant project participants, the specific resources to be contributed by each co-applicant (consortium member), partner, or other grant project participant to the implementation and success of the grant project;

(7) For State governmental entities, the extent to which steps have been or will be taken to ensure that charter schools within the State receive the funding needed to obtain adequate facilities; and

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

Strengths:

1) The applicant has over 30 years of credit and lending experience working with both state and federal funds; (p 27) The applicant works with businesses, banks, and communities to stimulate economic growth. The applicant has excellent experience in carrying out its charter school loan guarantee program. (p.27)

2) The applicant other qualifications are: Established loan guarantee program and bond financing programs that support the growth of charter schools in Mass; Excellent working relationship with Mass Charter Public School Asso., and Mass Dept of Elem and Secondary Charter school office.; Experienced bond, lending, business development, marketing, communications, and portfolio management staff; (p 27)

3) The applicant's S & P credit rating is A+ stable A-1 report. The applicant submitted 3 years of audited financial statements and they have a great balance sheet and strong liquidity. As of 6/30/10, The applicant Net Asset was \$437.9 million. Cash was \$ 195 million and an investment was total \$262 million. (P 31)

4) The applicant has experienced staff and established policies and procedures to help mitigate it risk in the loans and guarantee portfolio. The loan and guarantee program has an underwriting criteria and there is a loan policy and procedure manual in place. There is an external credit review committee for approval and risk rating. (p 31-34.)

5)The applicant has cooperative working relationship with the Mass Charter School Public School Association and the DESE's Charter School office (state overseer of charter schools) for expertise on educational matters. These organizations have 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. Both of these organizations promote funding and support for charter schools at the state and federal level. They were instrumental in

designing the applicants' charter school loan guarantee program. (p. 35-36)

5) The applicant abides for the Mass. General Law sec 23 G that 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 direct and substantial financial interest. All staff and board members receive training on the ethics rules, code of conduct, which requires professional standards and procurement policy from the legal department. (p 37)

6) The applicant is a quasi-state public agency that works to ensure charter schools receive facilities. These steps have been taking within the state ensure the schools received needed funding for facilities:
Issues tax-exempt bonds and QZABs in behalf of the charter schools (40 bonds to date totaling \$ 319 million)
Makes direct loans to charter schools including the Tech-Dollars program for technology needs. (15 loans totaling \$ 16 million) Assist charter schools in applying for New Market Tax Credits. (P 37- 38)

7) The applicant was awarded \$ 10 million grant from the US Department of Education Credit Enhancement for Charter School facilities program. The applicant has over 10 years experience in the charter school business. As of FY2010, 16 schools received guarantees totaling \$16 million from the applicant. The guarantees supported loans amount of \$110 million resulting in a leverage of over 11:1. There has been on losses paid under the guarantee program. The applicant also contributed \$1.0 million to the program and raised another \$3.5 million for private investors. The applicant has developed relationships with 15 banks that are now purchasing the bonds for charter schools. The applicant provided its program model at a national conference. (p 38)

Weaknesses:

The audit displayed negative operating profit.

The applicant did not list the specific resources of the partners.

Reader's Score: 33

Quality of project personnel - Selection Criterion

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

(1) The qualifications of project personnel, including relevant training and experience, of the project manager and other members of the project team, including consultants or subcontractors; and

(2) The staffing plan for the grant project.

Strengths:

1) The project manager and other members of the team have been with the applicant for many years and they all have experience and expertise in charter schools facilities financing, banking/finance, law, business development, construction, and tax-exempt bonds. (p 39)

2) The charter school loan guarantee program has full access to all staff and resources of the applicant. The lenders and bond staff are the primary contacts for the charter schools seeking loan guarantees. The applicant has legal staff in house that provides legal counsel to the program. (p 40) For expertise on education matters, the applicant works with Massachusetts Charter Public School Association and the DESE's Charter office. These two external organizations offer extensive knowledge of charter school needs, well-documented best practices for operating a successful school. They

also have experienced staff that can provide technical assistance on education matters. (p. 35)

Weaknesses:

The staff did not exhibit educational experiences.

Reader's Score: 13

Priority Questions

Competitive Preference Priority - Competitive Preference Priority

1. This priority is:

The capacity of charter schools to offer public school choice in those communities with the greatest need for school choice based on--

- (1) The extent to which the applicant would target services to geographic areas in which a large proportion or number of public schools have been identified for improvement, corrective action, or restructuring under Title I of the Elementary and Secondary Education Act of 1965, as amended (ESEA);**
- (2) The extent to which the applicant would target services to geographic areas in which a large proportion of students perform below proficient on State academic assessments; and**
- (3) The extent to which the applicant would target services to communities with large proportions of students from low-income families.**

Strengths:

The applicant will continue to give priority to charter schools in:

- 1) Geographic areas in which a large number of public schools have been identified for improvement, corrective action, or restructuring under the Title I Act of 1965.
- 2) Geographic areas in which a large number of the students perform below proficient on the state's academic assessment MCAS.
- 3) Communities with large number of low-income families.

Weaknesses:

No data submitted to support these factors stated in this area.

The applicant did not identify target percentages for any of the priorities.

In addition, they did not address how they would serve these schools.

Reader's Score: 10

Status: Submitted

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Panel #1 - Panel 1 - 1: 84.354A

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- (8) The extent to which the requested grant amount and the project costs are reasonable in relation to the objectives, design, and potential significance of the project.

Strengths:

The applicant is building on an existing program utilizing existing policies and experienced staff.

Using ED funds, the applicant will guarantee funds to allow for higher Loan-To-Value ratios. The program also allows for lower guarantee fees: 1.25% for schools that own their buildings, and 1.75% for schools leasing their facilities. This fee is low compared to the market which ranges between 2% and 3%.

A timeline is presented with specific activities including marketing, major program activities, lending and bond transactions, grant administration, and meetings.

The type of assistance to be provided includes acquisitions, construction, renovation, and leasehold improvements.

Although the applicant did not present new letters of funding commitment for leverage, MassDevelopment has a history from its past activities leveraging funds into a good private-public ratio. This project will add on to the existing Loan Guarantee Program which experienced a leverage of 11:1 with the original \$10 million ED grant award.

The amount of funds requested is reasonable being that the funds are planned to be infused into an existing revolving fund program that functions well, and will leverage the funds 7:1.

Weaknesses:

MassDevelopment identifies goals, but they are very simple or intertwined with tasks and objectives.

The applicant should explain the spread on the fees it could charge (1.25% to 1.75%) against what it is currently charging (.5%). The reason for difference is unclear.

Although the applicant discusses school selection (page 11), the applicant could strengthen its process by explaining how the schools will be selected beyond the size of the student population and the total school revenue. It was not clear how the type and amount of assistance would be given either.

The amount of assistance to charter schools is not identified.

The program may not be replicable in other states because of the type of organization implementing the program (a quasi-state organization).

Interest rates and other terms are not addressed, nor are market rate terms provided.

Reader's Score: 28

Quality of project services - Selection Criterion

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

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

Strengths:

The letters of support from charter schools and representative organizations (MCPSA, MA-DESE, and foundations) of charter schools demonstrated input into the preparation of the application and support of the project.

The applicant offers technical assistance in a variety of areas including real estate pre-development services, construction-related services, and a range of financial services; all which help charter schools in areas for which they lack knowledge.

The applicant identifies needs based on its experience with charter schools in the state, focusing on many aspects of financial needs.

Weaknesses:

MassDevelopment did not clearly identify the method by which it would assist schools with a likelihood of success and the greatest need. It stated that it would target schools using the following criteria: replication charter schools assume priority; replication schools would be located in underperforming school districts; and MassDevelopment will manage the credit approval process for all applicants. The last criterion does not make sense, and it is not pertinent to the process of selecting schools.

Cost-effective strategies, other than the provision of certain technical assistance, were not addressed in the application. The applicant missed an opportunity to use its many years of experience to share some of the lessons it learned for reducing costs.

The applicant served over 16 charter schools during the administration of the existing program. More support and indication of direct involvement in the design of the project would have been validated with more than four letters from charter schools.

The applicant does not provide education-related services for charter school applicants. Some expertise and knowledge provided to charter schools would help schools beyond the renovation or construction period into the general operation of the school.

The applicant did not address lending terms.

Reader's Score: 10

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

(1) The amount and quality of experience of the applicant in carrying out the activities it proposes to undertake in its application, such as enhancing the credit on debt issuances, guaranteeing leases, and facilitating financing;

(2) The applicant's financial stability;

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

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

(5) The ability of the applicant to prevent conflicts of interest, including conflicts of interest by employees and members of the board of directors in a decision-making role;

(6) If the applicant has co-applicants (consortium members), partners, or other grant project participants, the specific resources to be contributed by each co-applicant (consortium member), partner, or other grant project participant to the implementation and success of the grant project;

(7) For State governmental entities, the extent to which steps have been or will be taken to ensure that charter schools within the State receive the funding needed to obtain adequate facilities; and

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

Strengths:

The applicant is successful in administering an existing charter school financing program, which includes enhancing credit on debt issuances, guaranteeing leases, and facilitating financing.

MassDevelopment has many years of experience providing financial support to a variety of projects in different areas of the Massachusetts economy. It utilizes its resources well, and presents sound financial statements.

The applicant's credit rating through Standard & Poor is very good at A+/Stable/A-1.

The applicant has many years of experience dealing with unwarranted risk in its loan underwriting, portfolio monitoring, and financial management. Additionally it utilizes policies and procedures for each of the identified areas. The areas identified by the applicant as useful in managing risk include: the information required in a charter school's application; the due diligence MassDevelopment performs during the application process; the agency's review and approval process which occurs on several levels of the organization; and assigning risk ratings during regular monitoring assessments to identify loans or guarantees that need more attention.

Mass Development provided a conflict of interest policy which addressed the problems of employees and members of the board of directors regarding decision-making roles. The applicant trains all Board Members and employees on the state's ethics rules. Procedures are in place to deal with violations.

Mass Development is a state entity. While it is not the state agency which issues direct funding or operational support for charter schools, it offers the following funding for charter schools to obtain adequate facilities: tax exempt bonds; direct loans (for technology needs); the Charter School Loan Guarantee Program; and assistance with the New Markets Tax Credit Program.

Mass Development's past performance reports indicate, at a minimum, that it met the requirements of ED.

The Charter School Advisory Board will provide expertise in education to evaluate the likelihood of success of a charter school.

Weaknesses:

Although Standard & Poor's credit rating was very good, the applicant displayed a negative operating profit before government contributions. While Standard & Poor accounted for this negative operating profit in its rating, this notation is made to prepare for the many years of governmental fiscal austerity to come.

The applicant has numerous partners, but did not list the specific resources to be contributed by each partner, or other grant project participants. Such a list would strengthen the application.

Although the applicant operates in a strong charter school state, as determined by original legislation and recent legislation, the applicant did not identify what steps or actions will be taken to ensure that charter schools within the State receive the funding needed to obtain adequate facilities.

Reader's Score: 32

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

(1) The qualifications of project personnel, including relevant training and experience, of the project manager and other members of the project team, including consultants or subcontractors; and

(2) The staffing plan for the grant project.

Strengths:

The project personnel, managers, and associated participants are highly qualified relative to finance, and managing the operations of a school finance program.

MassDevelopment provided a sufficient staffing plan for the project.

Weaknesses:

One area the applicant could improve project personnel is in the field of education. Although strong in the area of finance, an education expert would help charter schools directly regarding the requirements of the ED and the state. Also an education expert would link the programmatic aspect of school functions with the financial aspect of developing or rehabilitating facilities.

Reader's Score: 13

Priority Questions**Competitive Preference Priority - Competitive Preference Priority****1. This priority is:**

The capacity of charter schools to offer public school choice in those communities with the greatest need for school choice based on--

(1) The extent to which the applicant would target services to geographic areas in which a large proportion or number of public schools have been identified for improvement, corrective action, or restructuring under Title I of the Elementary and Secondary Education Act of 1965, as amended (ESEA);

(2) The extent to which the applicant would target services to geographic areas in which a large proportion of students perform below proficient on State academic assessments; and

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

Strengths:

The applicant identified three factors to address the competitive preference priority. Mass Development will give priority to: geographic areas in which a large proportion or number of public schools have been identified for improvement, corrective action, or restructuring; geographic areas in which a large proportion of students perform below proficient on the state's academic assessments; and communities with large proportions of students from low income families.

Data is provided about the population to be served relative to the competitive preference priorities.

Weaknesses:

The applicant reiterated the language in the application to target schools in locations where a majority of traditional public schools have been identified for improvement, corrective action or restructuring; schools in areas where students perform below proficient on state academic assessments; and schools that serve low-income communities. It discussed its past activities and its target areas, but did not provide a methodology for actually serving these schools.

MassDevelopment did not identify target percentages for any of the competitive preference priorities.

Reader's Score: 10

Status: Submitted

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