

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

Status: Submitted

Last Updated: 06/14/2011 06:27 PM

Technical Review Coversheet

Applicant: The Reinvestment Fund (U354A110003)

Reader #1: *****

	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	30
Sub Total	35	30
Quality of project personnel		
Selection Criterion		
1. Question 4	15	15
Sub Total	15	15
Priority Questions		
Competitive Preference Priority		
Competitive Preference Priority		
1. CP Question 1	15	13
Sub Total	15	13
Total	115	97

Technical Review Form

Panel #1 - Panel 1 - 1: 84.354A

Reader #1: *****

Applicant: The Reinvestment Fund (U354A110003)

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:

- 1) The applicant will focus on early stage charter schools that need credit enhancement to provide higher than standard loan to value up to 100%. The applicant offers sub-debt, leasehold improvement financing and energy loan at below market rates and terms to bridge the gap. (p. 9) The assumed interest rate charged will be 7.39% for early-stage schools that have been turned away by banks because of lack of credit histories. Cost of funds is 5.39 % and the applicant will add 200 basis points over cost. (p. 14) To provide more favorable financing terms the applicant will minimize interest rate, charge no origination fee or reduced fees, and offer forgiveness if 25% higher LTV. (p. 11) The applicant also contributes grant funds to technical assistance and investment reserve funds to TA assistance and organization assessments to mitigate risk. (p. 15) The applicant will charge .5% fee for compliance and servicing and no origination fee for the NMTC loans. The applicant will charge 1% fee for construction/permanent loan that is a savings from a traditional lender. (p. 14-15) The terms & rates seems reasonable given the credit enhancement.
- 2) The applicant stated the following goals with measurable objectives: to serve low-income communities where at least 80% of the students received free or reduced lunch and schools with the greatest need; to implement grant project within the next five years in a timely manner; to achieve a blended leverage ratio of 7.5:1 for NMTC, sub-debt and leasehold improvement loans; to provide more favorable financing terms by minimizing interest rate, no origination fees or reduce fees, or forgiveness of 25% & higher LTV; to market and promote replication of the grant and other innovate credit

enhancement models like the Chase NMTC model ; and to provide quality education to the charter schools and within 5 years the students will exceed literacy scores in their school districts in reading, language arts, and math. (p. 10-11) The timeline was excellent because it includes the detailed activities.

3) The applicant states within 5 years of the project's implementation plan, they would like to achieve measurable objectives. A subsidiary, TRF Urban Growth Fund is a partnership that raised \$48 million for private equity investments. The applicant formed joint venture with NCB Capital Impact. The Capital Access Program has a \$45 million non-revolving loan for charter school lending. p. 12) See p. 17, chart project Implementation plan.

4) The applicant plans to promote best practice of innovative credit enhancement models like their NMTC pool at local charter schools forums and at regional and national conferences. (p.11)

5) The applicant will offer the following types of loan products: leasehold improvements, sub-debt loans, and NMTC loans to the schools.

6) The applicant has a successful track record of raising private and public funds in their line of work. The applicant created a collaborative lending initiative to support its work. This initiative has secured \$25 million syndicated line from a consortium of 30 banking institutions. This partnership has also raised \$48 million for private equity investments. The applicant has also formed joint ventures with other charter schools lenders in the region. (p. 11-12) A couple of funders issued conditional letters of intent to the applicant contingent upon approval.

7) The applicant will concentrate their charter school facility lending in the markets with greater regulatory advantage. The applicant is working with five markets with strong charter laws and the CER report was used to select the markets.

8) The requested grant amount and project amount are reasonable because the applicant will use \$10 million to credit enhance 23 new start up charter schools. The fees will also be covered by the applicant.

Weaknesses:

- 1) The applicant did not fully reference terms they would like to offer in the loans or credit enhancement program.
- 2) The applicant did not address how they will support or work with weaker schools that did not meet their criteria.
- 3) The applicant did not address their criteria for selecting charter schools.
- 4) The model cannot be replicated nationally because the applicant is using the NMTC allocations.
- 5) The applicant did not state the amount of assistance the will be given for each charter school.

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:

1) The applicant offers technical assistance for leasehold improvement and related facility financing for early stage charter schools. The applicant also offers organization assessment and due diligence for real estate development project for the facilities. According to the result of the surveys, the applicant is meeting the needs of these schools that do not have the credit or equity to qualify for a traditional commercial bank loan. (p. 17-18)

2) In developing the design of the program, the applicant solicited input from charter schools through emails surveys and phone interviews. (p. 17-18) They had several letters of support from schools.

3) Based on the applicant's surveys and telephone interviews of new charter schools operators, they indicate that the applicant's products are consistent with the charter schools' most pressing needs. Lack of credit history and upfront equity for development remain the largest challenges the school faced in facility financing. The TA and advisory services the applicant offers is necessary with the loan and guaranteed products. (p. 19) According to borrower, "TRF's assistance is critical". TRF helped them move out of a sub-standard facility to a new one and they expanded enrollment because of the cost effective TA they received. (p.19) In additional to real estate feasibility TA, the applicant also offers the schools TA for energy reviews, and organizational assessment. (p. 25-26) The Technical Assistance will cost \$25,000 and will be paid for through the interest earning loan pool.

4) The applicant charter school loan pool will offer leasehold improvement loans, subordinate debt facility loans and new markets tax credit loans to schools in the underserved segments with the greatest need. They will work with each school to balance the financial resources and collateral available with the project's space requirements and the development cost to shape a loan that a school can afford to carry debt. (p. 20)

The applicant stated they will assist high needs schools as start-up schools that need hands on underwriting assistance and technical assistance. Most start ups need leasehold improvement financing and they need assistance from the beginning up to stabilize operations (p.27)

Weaknesses:

1) It is not clear if the applicant received input from charter schools authorizers or other chartering agencies.

2) The applicant did not fully demonstrate in the narrative how they will assist start ups with high needs.

Reader's Score: 11

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 is a 26-year old nonprofit lender that has expertise in capital market financing. At the present, the applicant manages \$700 million in assets from over 800 individual and institutional investors. The applicant uses its NMTC allocations and credits of other CDEs to provide flexible, larger, and long-term loans to charter schools. The applicant has a long history in leveraging private and public funds by forming collaborations and partnerships. (p. 29)
- 2) The applicant is financially strong and stable. They have completed 2,500 lending and investments transactions totaling over \$1 billion. Their loan portfolio is strong and has never experienced a loss on charter school lending. The applicant received one of the highest ratings of AAA+/1 from the CDFI Assessment and Rating Systems (CARS). This rating affirms the applicant's comprehensive business model that achieves outstanding community impact with strong financial performance (p. 31-32)
- 3) The applicant's strong lending record and criteria reflect its ability to manage capital and risk. The applicant has a comprehensive system of board approved financial management, internal accounting, loan underwriting policies & procedure, risk mitigation strategies, and operational controls to safeguard corporate assets. (p. 31-34)
- 4) The applicant has expertise and experience in working with charter schools from an early stage to maturity. It uses flexible but rigorous underwriting procedures to make responsible charter schools loans and provides TA to borrowers to help them access other resources. The applicant has staff and board of directors on the team with related education experience. (p. 36)
- 5) The applicant has policies with appropriate conflicts of interest standards of conduct to govern both staff and board of directors. All staff and board members are required to conform and inform the applicant if any conflict of interest as part of an annual review process. (p. 38)
- 6) The applicant explained an excellent work out plan for how they handled the default experienced with the Maurice Moyed Academy charter school.
- 7) N/A
- 8) The applicant addressed how they performed well according to the performance report for previous ED grants. A performance report was submitted.

Weaknesses:

- 1) The applicant experienced a loss when the Maurice Moyer Academy lost its charter and the school closed. This default is an on-going concern for the applicant.
- 2) The applicant does not have an in house education expert to evaluate the success of a charter school.

Reader's Score: 30

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 community facilities lending team will be supported by the full infrastructure of the applicant's executive team. The team will receive additional expertise from the Board of Directors and the community advisory board. The key members of the team, including the project manager have relevant training and experience in charter school lending, NMTC program management, real estate finance and school management. (p. 38-39)

2) The staffing team includes, Don Hinkle-Brown, President of the Community Investment & Capital and Sara Vernon Serman, Executive Vice President of Community Investment & Capital Market. She will serve as the Program Manager for this project. Also serving on the team are two other loan officers with experience in charter school lending, energy lending, and real estate financing. (p. 38-40)

Weaknesses:

None noted

Reader's Score: 15

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:

1) The applicant works with struggling schools districts where elementary and secondary schools do not meet the Annual Yearly Progress. The target market includes school districts where less than one-quarter of schools have met AYP and more than have been flagged for corrective action or restructuring. (p. 3)

2) The applicant will target primarily school district in larger inner city markets in the Mid-Atlantic area that scored low on the state's academic assessments proficient exams. (p. 4)

3) The applicant primary market is the low-income market. The charter school lending is also a mission to assist schools serving low-income population. Their tract record provides evidence of their ability and experience in targeting and meeting the financing needs of these schools in low-income communities. (p. 5)

Weaknesses:

The applicant did not provide a targeted percentage of schools for corrective action or restructuring under the Title I Act.

Reader's Score: 13

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Technical Review Coversheet

Applicant: The Reinvestment Fund (U354A110003)

Reader #3: *****

	Points Possible	Points Scored
Questions		
Quality of project design and significance		
Selection Criterion		
1. Question 1	35	27
Sub Total	35	27
Quality of project services		
Selection Criterion		
1. Question 2	15	11
Sub Total	15	11
Capacity		
Selection Criterion		
1. Question 3	35	33
Sub Total	35	33
Quality of project personnel		
Selection Criterion		
1. Question 4	15	15
Sub Total	15	15
Priority Questions		
Competitive Preference Priority		
Competitive Preference Priority		
1. CP Question 1	15	13
Sub Total	15	13
Total	115	99

Technical Review Form

Panel #1 - Panel 1 - 1: 84.354A

Reader #3: *****

Applicant: The Reinvestment Fund (U354A110003)

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 presents six goals, most with measurable objectives. For example, the applicant identified closing on \$75 million on new loans over the next five years to 23 or more charter schools.

A timeline was provided on page 17. It outlines many of the activities of the program.

TRF will use \$2.5 million of ED funds to credit enhance NMTC funds (to leverage \$25 million). It will blend a junior and senior loan to average 5.27%. No origination fee is charged on this product. These loans are below market rate. It will also leverage \$7.5 million of ED funds with \$50 million in conventional debt in a subordinate status.

The applicant utilized CER to identify the strength of the charter school laws in its target states and the District of Columbia.

The applicant presents a chart which identifies the types of assistance to be given to charter schools.

The applicant provided a solid project implementation plan in the form of a table with details of specific tasks.

The applicant will attempt to leverage other quasi-public funds (NMTCs) and private funds to increase the number of charter schools served. Letters of Intent are included.

Relative to the terms of the products, TRF will offer schools an interest rate of 7.39% (200 points above the rate at which it obtains a loan), and will charge a 1% origination fee (on \$7.5 million of ED funds leveraging \$50 million in conventional debt).

The goals and objectives were stated clearly. The applicant will also be able to provide higher loan-to-value ratios than the banks since the risk is very high.

The applicant presented a funding plan which included measurable activities that should further the purpose of the program. The plan it presented is based on their past program and is an extension of this successful program.

Weaknesses:

Although most of the goals and objectives had measurable criteria, some did not. For example, "by year 5 of financing a majority of charter schools will have standardized state reading and math scores exceeding the average scores in their district." The applicant should define "majority."

With the exception of attempting to use standardized rates, the applicant did not discuss program replicability. Furthermore, NMTCs cannot be used in every area or by any charter school thus reducing the likelihood of replicability.

The applicant will attempt to leverage other quasi-public funds (NMTCs) and private funds to increase the number of charter schools served. There are no firm commitments that have been made to this application.

Real data in the form of a table or a list of the applicant's selection criteria would have addressed the question about which charter schools would receive assistance.

The applicant did not address how the requested grant amount and the project costs are reasonable in relation to the objectives, design, and potential significance of the project. The applicant should have summarized any points it believed to be pertinent to this factor.

The applicant does not identify the amount of assistance to be given to charter schools or explain how it will determine the amount of assistance to be given to charter schools.

There is no market rate information presented so that a comparison of the terms can be made.

Reader's Score: 27

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 applicant provided 21 letters of support from charters schools, state Departments of Education, funders, and other education-related organizations. Each explained their relationship with TRF. Needs were identified.

TRF offers a value added service which is energy financing. This service leads to lower operating costs for school facilities.

With a subordinated loan product, TRF can bring the LTV ratio up from 60%-80% to 90%. This product represents 11% of the prior school lending. Using the New Markets Tax Credit Program, TRF can offer LTV ratios up to 95%.

TRF will also offer Technical Assistance for real estate feasibility studies, energy reviews, and organizational assessments. They anticipate that 10 TA projects will be performed, and these projects will help start-up schools.

Weaknesses:

Relative to assisting charter schools with a likelihood of success and the greatest need, the applicant discussed two charter schools in Philadelphia. The applicant addresses this section of the application with anecdotes. It should provide examples or break out the factors that define success and greatest need.

It is not clear if authorizers were involved in the writing of the application.

Reader's Score: 11

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:

TRF has experience providing finance to charter schools by using previous ED funds to enhance credit. Since its inception it completed 2,500 lending or investment transactions worth over \$1 billion. As a CDFI, it has other finance-related experience.

The applicant has a low charge-off rate of 1.16% of its total portfolio over its history.

Although the applicant has a delinquency rate of 6.3%, it maintains a loan loss reserve of 6.6%.

The applicant demonstrated strong financial stability as demonstrated by its audited financial statements.

The applicant developed a comprehensive system of internal accounting, risk mitigation strategies, and operational controls to safeguard assets. Although it uses underwriting guidelines, it attempts to remain flexible in making loan decisions based on underwriting criteria by assigning risk by rating grids, which uses other information about the borrower.

The applicant provided its primary Loan Policy, which included its policies for lending, risk diversification, conflicts of interest, and allowances for possible loan losses. The applicant also provided a copy of its Financial Management Policy, which included its policies for the treatment of cash, maximizing returns on idle funds, risk management, loan loss reserves, financial reporting, budgeting, payroll, and insurance.

TRF's Board authorized two loan committees to approve loans. The committees comprise investors, civic representatives, and professionals in finance, lending or real estate experience.

TRF provided a separate Code of Conduct and Conflict of Interest Policy and procedures, and a Whistleblower Policy. It administers an annual survey to its governing Board.

The applicant maintained in-house expertise in education to evaluate the likelihood of success of a charter school, directly relative to financing and indirectly for operating purposes.

Weaknesses:

TRF experienced delinquencies of 6.3% on \$151 million of loans receivable. There are concerns about this rate. The applicant did not address the approach it is taking to correct this high delinquency rate.

In the most recent ED Performance Report, the applicant identified the Moyer School as losing its charter and defaulting on a loan due. This default is a concern about the applicant's ability to manage risk and monitor its portfolio.

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:

Some of the applicant's staff have many years of experience working at the organization, so they bring knowledge of policies and procedures.

Personnel have professional experience in banking, loans, mortgages, accounting, auditing, philanthropy, program analysis, project management, social work, credit and portfolio analysis, teaching, and law.

TRF's staff and consultants are assigned to supplementary duties in addition to lending and fund management: energy analysis and architecture.

Weaknesses:

No weaknesses were identified.

Reader's Score: 15

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's historical service to charter schools demonstrated that it served 89% of schools located in low-income areas.

Data about the target areas is provided for all three competitive preference priorities.

Target percentages are set to target services to geographic areas in which a large proportion of students perform below proficient on State academic assessments.

Target percentages are set to target services to communities with large proportions of students from low-income families.

Weaknesses:

Target percentages are not set to target services to geographic areas in which a large proportion or number of public schools have been identified for improvement, corrective action, or restructuring.

The applicant should define "majority" for schools identified for corrective action.

Reader's Score: 13

Status: Submitted

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Status: Submitted

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Technical Review Coversheet

Applicant: The Reinvestment Fund (U354A110003)

Reader #2: *****

	Points Possible	Points Scored
Questions		
Quality of project design and significance		
Selection Criterion		
1. Question 1	35	26
Sub Total	35	26
Quality of project services		
Selection Criterion		
1. Question 2	15	11
Sub Total	15	11
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Selection Criterion		
1. Question 3	35	33
Sub Total	35	33
Quality of project personnel		
Selection Criterion		
1. Question 4	15	15
Sub Total	15	15
Priority Questions		
Competitive Preference Priority		
Competitive Preference Priority		
1. CP Question 1	15	13
Sub Total	15	13
Total	115	98

Technical Review Form

Panel #1 - Panel 1 - 1: 84.354A

Reader #2: *****

Applicant: The Reinvestment Fund (U354A110003)

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;
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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:

According to the narrative, the applicant will offer relatively new charter schools access to financing for leasehold improvements and subordinated debt loans. These products will be offered with higher than standard LTV and more favorable interest rates and fees when possible. The applicant will not charge an origination fee when a loan converts from construction to permanent, saving the charter schools substantial money. Peg. 11

The applicant proposes to continue a successful grant program by providing a variety of financing options to charter schools including leasehold improvements and sub-debt offerings. Through the use of both private and public funds, the applicant will develop this loan pool. Because of current market conditions banks are more conservative in LTV ratios, causing charter schools to seek financing to fill the gap. This program design will demonstrate different financing alternatives for charter schools in this troubling market.

Goals and objectives are clearly stated and measurable. It is evident that the applicant understands charter schools by the requirement of goal #6; charter schools will be allowed up to 5 years to bring state test scores above the state average. Pegg. 10-11

Given the varying types of financial assistance the applicant can provide and the amount of time the applicant has been working with charter schools, they have a wealth of knowledge to share with other lenders. This sharing is done through presentations, regionally and nationally, and through electronic and print publications. Peg. 11

The applicant will structure the program using funding from outside sources, including state government specialty grants, banks, investment companies and the applicant itself. Letters of intent are provided that , upon grant approval, will help to establish a \$75 million loan pool from which to draw. Peg. 9, Attachment #10

The implementation plan as provided lists tasks and projected completion dates for the tasks. The narrative indicates the current loan committee will oversee the decisions relative to lending and portfolio oversight. Peg. 17

The states the applicant is targeting for assistance have strong charter laws as evidenced by ranking from the Center for Educational Reform. Even though one of the areas targeted for assistance has a very weak charter law (ranked 35 out of 41) the applicant acknowledges this fact and has worked with the chartering agency to help improve the landscape in that particular state. Peg. 8-9

The applicant is targeting specific geographic areas and is estimating that 23 charter schools will be assisted through this new loan program, with program costs being absorbed by the applicant. The request for \$10 million is appropriate given the amount of charter schools assisted. (Executive summary)

The timeline provides clear tasks to be initiated during the program. This timeline provides a clear picture as to the implementation plan for the project. Peg. 17

Weaknesses:

While the timeline as provided gives tasks and projected completion dates, assigning individuals responsible for the given tasks would have made the application stronger. Pg. 17

No information is given regarding the amount of assistance that will be provided to charter schools.

While the lending policies in Attachment #2 discuss assigning risk ratings to applicants during the underwriting of a loan in order to determine how close the loan will be monitored, there is little discussion about specific criteria that will be utilized. The narrative does address the competitive priority and indicates charter schools that are in these areas will be considered. The applicant could have been much more specific about criteria to be used to select charter schools.

Repeatability is not discussed with the exception of using NMTC, where applicable. Since NMTC are not available in all parts of the country, it is not truly replicable.

The applicant did not provide the market rate terms for comparison to terms being utilized in the loan pool. It is difficult to determine if the rates and terms are indeed better.

Reader's Score: 26

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 applicant has structured a program to meet the needs of charter schools in varying degrees of need - from start-up to expansion to replication. Products will be offered for each different stage of development - leasehold improvements to subordinate debt and then permanent financing. Pg 20

Charter schools that have worked with the applicant were surveyed to provide input for the new program. In addition, start-up schools were also surveyed at state charter school conferences to ascertain their needs. Pg. 17, Attachment #10

Sincere letters of support from charter schools that have received assistance from the applicant indicate a good working relationship with the applicant. In addition, letters of support are offered from state departments of education, charter school associations, and charter school support organizations. Many letters of commitment are provided from financial institutions that will work with the applicant on this new loan pool. Attachment #10

The applicant will provide technical assistance to charter schools by funding real estate feasibility and energy reviews. Organizational assessments of charter schools will be provided and paid for from interest earning from the bond pool. In addition, several states that work with the applicant have additional assistance programs that the applicant will assist the charter schools in receiving. Pg. 25

The narrative states that start-up charter schools will be provided assistance to help identify needs and stabilize operations. These high need charter schools, along with established charter schools seeking to replicate, will be targeted by the applicant. Pg. 27-28

Weaknesses:

The narrative is not convincing that charter schools with the most need i.e. start-ups, will be assisted by this program. There is not a clear definition of high need charter schools.

It is not clear how charter school authorizers and support organizations had input into the specific design of the project.

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 is a well established financial development company that has been in business for 25+ years. They have completed 2500 transactions totaling over \$1 billion. Loan loss to date is 1.16%. The applicant has managed several credit enhancement grants from USDE with good leveraging results, works with NMTC awards and partners with energy financing loans with the state of Pennsylvania. Pg. 29-31

The applicant is a well seasoned lender that has completed 2500 transactions totaling over \$1 billion dollars, since it was organized in 1985. They have a strong performance on their loan portfolio with a loss rate of just 1.16%. The applicant has a CARS rating of 1 indicating a financially stable company.

Attachment 2 contains the applicant's underwriting guidelines and lending policies. Loans are approved by a committee comprised of representatives from the applicant and civic and financial entities. Charter schools applying for loan products are screened not only for financial viability, but also using criteria that will speak to the mission of the organization, specifically academic performance and percentage of students qualifying for free and reduced lunch.

Policies are in place to closely monitor the investments of the applicant with quarterly reviews by a committee. Investments are strictly regulated and handled by an outside agency. Financial reviews are done on a monthly basis by the management. Pg. 34

The applicant has in-house educational experience through the Director of the Community Facilities Lending Group. In addition, an outside agency is sometimes used to help assess the performance and leadership of start-up charter schools and charter schools with mixed performance reviews. Pg. 37

Policies and procedures are in place to prevent conflicts of interest. If a conflict should arise, procedures are in place to work through that conflict. Pg. 38, Attachment 3

Previous grant results have been good, enabling the applicant to leverage in excess of \$58 million for charter school facilities. During this grant cycle the applicant experienced a loan default due to one charter school losing its charter. With patience and diligence, the applicant has worked with the state Department of Education while they have approved an interim provider and ultimately a new charter for this facility. Pg. 2 & 32

Weaknesses:

Lessons learned from the loan default should have been included in the narrative. While it appears that a good solution was found for this default, it would have strengthened the application to include details that might assist underwriting

procedures/selection criteria for charter school applicants in the future.

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:

The applicant indicates that current staff within the organization will continue to work in present capacities to implement this grant. Pg. 40-41

The project manager has significant experiences with financing charter schools. She has worked with the applicant for 13 years in various capacities. In addition, she has been an elementary school teacher, worked as a program director with Teach for America and done social work within a school setting. Pg. 39, Attachment 9

Members of the Board of Directors and the Community Advisory Board have various experiences financing charter schools and also working with charter schools in various capacities. Pg. 40-41

Weaknesses:

none noted.

Reader's Score: 15

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 has addressed each area of the competitive priority. Each criterion is included in the project goals with targeted percentages in place. Good data is included that highlights geographic areas targeted by the applicant indicating student and school academic performance and percentages of students qualifying for free and reduced lunch. Peg. 3-5, 10-11.

Weaknesses:

The applicant needs to identify a percentage of low performing charter schools that will be targeted for assistance instead of indicating a "majority" will be targeted.

Reader's Score: 13

Status: Submitted

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