

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

Status: Submitted

Last Updated: 07/03/2017 02:18 PM

Technical Review

Applicant: Building Hope...A Charter Schools Facilities Fund (U354A170013)

Reader #1: *****

| | Points Possible | Points Scored |
|---|------------------------|----------------------|
| Questions | | |
| Selection Criteria | | |
| Quality of Project Design and Significance | | |
| 1. Project Design | 35 | 35 |
| Quality of Project Services | | |
| 1. Project Services | 15 | 15 |
| Capacity | | |
| 1. Capacity | 35 | 35 |
| Quality of Project Personnel | | |
| 1. Project Personnel | 15 | 15 |
| Sub Total | 100 | 100 |
| Priority Questions | | |
| Competitive Preference Priority | | |
| Competitive Preference Priority | | |
| 1. Competitive Preference | 15 | 15 |
| Sub Total | 15 | 15 |
| Total | 115 | 115 |

Technical Review Form

Panel #2 - CSP Credit Enhancement - 2: 84.354A

Reader #1: *****

Applicant: Building Hope...A Charter Schools Facilities Fund (U354A170013)

Questions

Selection Criteria - Quality of Project Design and Significance

- 1. Quality of project design and significance. In determining the quality of project design and significance, the Secretary considers-**
 - 1. The extent to which the grant proposal would provide financing to charter schools at better rates and terms than they can receive absent assistance through the program;**
 - 2. The extent to which the project goals, objectives, and timeline are clearly specified, measurable, and appropriate for the purpose of the program;**
 - 3. The extent to which the project implementation plan and activities, including the partnerships established, are likely to achieve measurable objectives that further the purposes of the program;**
 - 4. The extent to which the project is likely to produce results that are replicable;**
 - 5. The extent to which the project will use appropriate criteria for selecting charter schools for assistance and for determining the type and amount of assistance to be given;**
 - 6. The extent to which the proposed activities will leverage private or public-sector funding and increase the number and variety of charter schools assisted in meeting their facilities needs more than would be accomplished absent the program;**
 - 7. The extent to which the project will serve charter schools in States with strong charter laws, consistent with the criteria for such laws in section 4303(g)(2) of the ESEA, as amended by the ESSA; 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:

BH plans to enhance its current lending portfolio with a new tool, the Investment Note, to attract capital from high net worth individuals raising \$25 million in funds that will leverage \$75 million in senior bank debt. (e16& 22) BH estimates it will increase their lending ability by 50%. (e30) This concentrated effort to involve a specific venture capital approach based on individual philanthropy has not been utilized systematically in charter funding initiatives and this strategy has been successful in other nonprofit endeavors including establishing legacy funding to sustain a specific charitable cause.

BH has a strong history based it on its decade in charter financing where it has provided \$225 million in investments to 225 schools and leverage \$1.3 billion in construction utilizing an initial Credit Enhancement grant where the original \$5 million has provided a leverage ratio of 112:1. (e15)

Based on its logic model (e78) and the details shared in the narratives contained in each of the consolidated financial statements (e86), the reviewer could assess the growth of the organization over time and how their past credit enhancement strategies are enhanced with new components (Investment Note) into the design of the present proposal which builds on their past successes.

BH is uniquely qualified to focus on the charter market niche of novice freestanding schools that are often the most needy and least supported. They have identified states with strong charter laws which was documented in Appendix B entitled Building Hope State Analysis (e191). This comprehensive document contains the current charter laws and impacts to ESEA for each geographic area they are working in or plan to work in. Based on their current funding projections, BH will enable full support for participating charters based on their decision to utilize a 100% loan-to-value ratio providing access

to 100% of costs. (e17) which is critical to new charters who do not have any equity to utilize. This is especially critical for low-income communities where BH will provide subordinate debt for all or part of the loan. (e34) Their model would be replicable to other organizations who wanted to provide a focus on individual charter funding because it would provide an example to share with lenders.

The goals are measurable, appropriate and tied to the purpose of the newly requested funding. (e19-22) BH clearly defined the characteristics of the schools they serve. The outcomes are clear and the targets are significant and written into the timeline which included serving 44 charters and leveraging \$297.5 million in loan capital with a 37:1 leverage. (e21) The timeline (e20-21) defined the specific outcomes and dates for completion receiving and utilizing the financial capital. This could be enhanced with private dollars totaling \$56 million for Program Related Investments (PRI) with estimated growth within the new target regions. (e30)

One indicator of BH's abilities to replicate to new sites is based on their history of past achievements, infrastructure, and partnerships/contacts that has already generated a pipeline of charters who desire services in these new locales. The charters being identified (e24) who will be served by this grant have a variety of needs identified via weekly reviews of projects (e25). The schools in the pipeline will have access to the implementation of the new Investment Note with its online trading platform (ImpactUS) and the loan management system (e25) matched with BH's place-based facility model. (e27) Based on their needs a specific funding plan will be developed for each of them. These specific tools will translate well into a rural charter environment which will be supported by these grant funds and by other funds from the Program Related Investments (PRI) generated from private funders. (e53)

Weaknesses:

No weaknesses were identified.

Reader's Score: 35

Selection Criteria - Quality of Project Services

1. Quality of project services. In determining the quality of 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:

A significant advantage of BH's services is its capacity to provide 100% of funding needs and with its fixed-rate financing and purchase options. These tools are used to address the needs of its niche market – new charter startups with stability of financial obligations. (e34) This is paired with a customized set of free technical assistance covering a wide range of topics (e36) resulting in the establishment of a long-term relationship with the charters. These variety of tools allows BH to have specific strategies to apply to the identified needs of the charters they serve over the life cycle of charter growth.

BH utilized focus groups with lenders, charter associations, funders, charter schools and their advisory board to provide input into the design which assisted in generating the design of the new investment loan tool. (e35)

One significant strength of this proposal is how the applicant demonstrated the strength of their technical assistance. The applicant provided data supporting that at least 80% (between 80%-90%) of all sites receiving technical services open schools. (e36)

Another significant strength of this proposal is the detailing of the applicant's history of BH's offering customized technical assistance and support for over 400 schools. Some of the outstanding components of the comprehensive technical assistance model is based on their unique ability to match BH's services to the schools needs matched with continuous feedback modeling the use of data driven decision making. These technical assistance components that are clearly defined by BH can be shared and replicated.

Weaknesses:

No weaknesses were identified.

Reader's Score: 15

Selection Criteria - Capacity

- 1. Capacity. 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:

Building Hope's proposal provided a model of excellence that can serve as a model for the charter credit enhancement field.

BH has over a decade of history and with America's Charter it has funded 54 charters with over \$556,815,348 in financing with a leverage ratio of 112:1 for all financing with no delinquencies. (e39) 1, 4 & 8 BH has guaranteed leases, leasehold improvement loans, senior mortgages, lines of credit, subordinate loans, bridge loans, and gaps in collateral value.(e38)

The institution is fiscally sound with \$88 million in total assets and \$49 million in net assets. (e39)

BH received the USDA Community Relending loan of \$25 million based on their evaluation of the strength of their financial program and institutional infrastructure. (e40)

BH has an approved policy dealing with conflicts of interest in their employee handbook. (e45)

The processes for loan management are clearly defined within a process of continual review that establishes and internal comprehensive reporting system used to inform the Board, produce portfolio and fiscal management reports that fuel the entire risk rating system. (e42-43) 3 It is also documented in the narratives attached to the consolidated financial statements (Appendix).

BH submitted documentation of specific risk factors that details risk in relation to notes, loans and leases to charters which provided a concise analysis of their past practices and outcomes. (e164-168)

Weaknesses:

No weaknesses were identified.

Reader's Score: 35

Selection Criteria - Quality of Project Personnel

1. Quality of project personnel. 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:

Building Hope has established an infrastructure of support that is bolstered by its thoughtful and through approach to staffing who have the capacity to provide a personalized services to a wide variety of charters.

The staff of 23 has a wide range of expertise – including educational experience - and have longevity with the institution. (e44-45) 1 BH's staff included multiple employees who had direct educational experience which is crucial in evaluating the likelihood of a charter growing and being renewed in the current high stakes accountability environment

Staff will be assigned onsite to new regions in Texas as well as Tennessee and North Carolina. (e48) 2 Providing staff within the new geographic focus areas is one way to support the creation of a long-term technical assistance role in both finance and technical assistance.

The Board has the expertise and experience to support both an advisory and governance role. (e48) 1 A comprehensive, detailed descriptor of the board and its duties was included in the application which supports the national implementation of BH's work.

Weaknesses:

No weaknesses were identified.

Reader's Score: 15

Priority Questions

Competitive Preference Priority - Competitive Preference Priority

1. In accordance with 34 CFR 75.105(b)(2)(ii), this priority is from 34 CFR 225.12. For FY 2017 and any subsequent year in which we make awards from the list of unfunded applications from this competition, this priority is a competitive preference priority. Under 34 CFR 75.105(c)(2)(i), we award up to an additional 15 points to an application, depending on how well the application addresses the priority.

This priority is:

The capacity of charter schools to offer public school choice in those communities with the greatest need for this 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 by the No Child Left Behind Act of 2001 (NCLB).
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.

Note: With regard to paragraph (1), consistent with the transition authority in section 4(b) of the ESSA, through the 2017-2018 school year, the Department will allow applicants to target services to geographic areas in which a large proportion of public schools are, at the time of submission of an application under this competition: (i) elementary and secondary schools identified as in need of improvement, corrective action, or restructuring under the ESEA, as amended by NCLB; or (ii) elementary and secondary schools identified as a priority or focus school by the State prior to August 1, 2016 under ESEA flexibility.

After school year 2017-2018, the Department will require an applicant that receives points under this priority and receives a grant under this competition to amend its approved application, as needed, to describe how it will target services to geographic areas in which a large proportion of public schools are elementary and secondary schools identified for comprehensive or targeted support and improvement under the ESEA, as amended by the ESSA.

Strengths:

Building Hope submitted an extremely well developed proposal that specifically and comprehensively addressed the criteria identified in the competitive preference.

Building Hope provided specific performance data on each of its targeted five states that included the number of identified Focus and Priority schools, academic achievement on the NAEP with all below the national average, percentages of students below proficient and graduation rates (e 51-52)

BH has raised over \$11 million in private philanthropic funds with \$45 million new dollars from three funders who expressed an interest in charter school development in rural areas supported by a specialized loan pool supported by the Credit Enhancement funds. (e 53)

BH clearly defined in its goals their focus on schools, with less than 3 years of operating history, in communities of greatest need with 80% meeting 4 specific criteria based implicitly on proficiency, poverty, and identified schools in corrective action. (e19)

Weaknesses:

No weaknesses were identified.

Reader's Score: 15

Status: Submitted
Last Updated: 07/03/2017 02:18 PM

Status: Submitted

Last Updated: 07/05/2017 12:47 PM

Technical Review

Applicant: Building Hope...A Charter Schools Facilities Fund (U354A170013)

Reader #2: *****

| | Points Possible | Points Scored |
|---|------------------------|----------------------|
| Questions | | |
| Selection Criteria | | |
| Quality of Project Design and Significance | | |
| 1. Project Design | 35 | 31 |
| Quality of Project Services | | |
| 1. Project Services | 15 | 15 |
| Capacity | | |
| 1. Capacity | 35 | 34 |
| Quality of Project Personnel | | |
| 1. Project Personnel | 15 | 14 |
| Sub Total | 100 | 94 |
| Priority Questions | | |
| Competitive Preference Priority | | |
| Competitive Preference Priority | | |
| 1. Competitive Preference | 15 | 14 |
| Sub Total | 15 | 14 |
| Total | 115 | 108 |

Technical Review Form

Panel #2 - CSP Credit Enhancement - 2: 84.354A

Reader #2: *****

Applicant: Building Hope...A Charter Schools Facilities Fund (U354A170013)

Questions

Selection Criteria - Quality of Project Design and Significance

- 1. Quality of project design and significance. In determining the quality of project design and significance, the Secretary considers-**
 - 1. The extent to which the grant proposal would provide financing to charter schools at better rates and terms than they can receive absent assistance through the program;**
 - 2. The extent to which the project goals, objectives, and timeline are clearly specified, measurable, and appropriate for the purpose of the program;**
 - 3. The extent to which the project implementation plan and activities, including the partnerships established, are likely to achieve measurable objectives that further the purposes of the program;**
 - 4. The extent to which the project is likely to produce results that are replicable;**
 - 5. The extent to which the project will use appropriate criteria for selecting charter schools for assistance and for determining the type and amount of assistance to be given;**
 - 6. The extent to which the proposed activities will leverage private or public-sector funding and increase the number and variety of charter schools assisted in meeting their facilities needs more than would be accomplished absent the program;**
 - 7. The extent to which the project will serve charter schools in States with strong charter laws, consistent with the criteria for such laws in section 4303(g)(2) of the ESEA, as amended by the ESSA; 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:

BH owns the America's Charter credit enhancement program and leads the effort to close the gap between private lenders requiring 15-25% equity per transaction. Each transaction the school receives 100%. (page e16) This is below the current market rate.

The applicant, sees loan-to-value of 100% versus the ratios of 70%-85% initiated by CDFIs and other traditional lenders. There is no traditional collateral requirement and finance leasehold improvements will be financed. (page e17) This is currently below market.

The grant will afford the applicant to structure financing packages with interest rates in the 4-7% range for schools (200-300 basis points below 7-9% market rates) This is below market and helps those that would not normally meet the credit standards or collateral requirements of traditional lenders. (page e 18)

The expected rate on the Investment Note is 2%-3% which is less expense as the interest rate of most CDFIs who raise funds by 50-150 basis points. Their target rate will be approximately 250 basis point above their cost of capital 4.5-5.5%. They note that most charter schools cannot access subordinate loan capital for less than 7% and lenders will not subordinate loan capital to 100%. Each of these elements leverages funds and is beneficial for the target market. (page e18)

BH project goals, measurable objectives, and timelines are described in detail. To assure progress in achieving goals they will collect and analyze data, document best practices and market the program to their core communities. (page e18)

This is an indication that strategic planning has taken place in connection with this grant. They will also use their loan management system to collect data in monitoring these goals. (page e22) This will ensure that they have a pipeline to meet goals. The applicant summarizes the timeline for five years. (e21)

BH has successfully replicated their results. They have supported 54 different charter schools in \$556,815,348 in total financing and lease payments leveraged (a 111:1 ratio). Grant funds have been recycled 5.3 times for a total of \$26,458,000. This demonstrates their ability to design and execute the project.

The application addresses the risk factors associated that have been their key to their success. This supported their loan loss ratio of 0% for over 180 projects that required facility financing. (page e28-e25)

In accordance with BH's portfolio servicing policy each loan is subject to annual review. The payment record, covenant reports, academic performance, status with the authorizer, and financial performance. They also have internal protocols for loans that require restructuring and revised terms. The application outlines the risk potentials which requires the review and monitoring of measurements. (page e29)

Their research indicates that approximately 250,000 students are on charter school waiting list in their target areas in the District of Columbia, Florida, North Carolina, Tennessee and Texas. (page e53) They have non-federal partners which include Kauffman foundation, Daniels Fund, Calvert fund, Communities at Work Fund, Innovative Schools, and Walton Family Foundation, and most recently the Katherine Albertson Foundation committing to PRI.

They have clearly assessed the characteristics shared by the schools in their target market. They are within the required program guidelines. Without this program, they would not qualify for traditional lending criteria. (page e37) Especially those that are in low-income urban communities with severely depressed real estate values.

Weaknesses:

The applicant references partners with non-federal funds, but they are not listed. (page e53)

The staff needs experiences in strategically aligning with philanthropic partners. As the organization continues to grow this will align them with additional resources.

Reader's Score: 31

Selection Criteria - Quality of Project Services

1. Quality of project services. In determining the quality of 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 programs will be designed to offer schools “one-stop shopping” for their financing needs. They have been helpful to start-ups and small charters allowing them access to funds in the marketplace giving them access to funds that would otherwise be unavailable. They also have fixed rate financing and purchase option. The products assure that they can identify and serve the specific needs of the charter school. (page e35)

The applicant has letters of support from the following strategic partners: 1) City Bridge; 2) Friends of Choice in Urban Schools (FOCUS); 3) DC Association of Charter Public Schools; and 4) Choose to Succeed. (page e35)

The staff works with school staff conducting research; to identify weaknesses and identify strategies for improvement. By performing this technical assistance at no cost, 80-90% of all schools participating in this service eventually open. (page e36) Their low default rate of 0.3 is an indicator of stability.

They will be charging 1% loan origination fee, interest only periods, and fixed interest rates during construction of 4-7% at closing. (page e36) These are comparable to banks and other CDFI rates charged on real estate loans.

For this project, they have decided that many of their loans will be sub debt and leasehold improvement loans. (page e37) This explains why the rates are high while they attempt to keep their cost of funds low.

The applicant has designed a project that meets characteristics shared by schools having challenges accessing private sector capital. This includes: 1) little or no credit history; 2) underfunded compared to district counterparts; 3) financial challenges; and 4) limited real state or financing-related experience. (page e36) This will enable them to assist charger schools with a likelihood of success and the greatest demonstrated need for assistance.

Weaknesses:

No weaknesses were found in this area of the application.

Reader's Score: 15

Selection Criteria - Capacity

- 1. Capacity. 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 long history of providing credit enhancements to charter schools. (page e38) They were funded with a \$28 million grant from Sallie Mae Corporation. This capitalized their funding until 2011. The Walton Family Foundation made an investment as a strategic partner. Their current cost of capital less than 1%. (page e 39)

In the 14-year history they've only had 4 loan charge-offs totaling \$678,500 representing .3% of the total loan activity. Despite only having .3% of their loans charged off in 14 years, they have a 2.9% loan loss reserve. (page e40) They are financially stable.

BH has sufficient portfolio monitoring and financial practices in place. The policy also includes quarterly board reports to monitor lending activities and policy exceptions for approved loans. A "watch list" is included as part of their risk management system. (page e43) This includes their portfolio servicing procedures as another form of compliance. They can protect against unwarranted risk.

The Conflict of Interest policy apply to all decision-making and contractual arrangements within Building Hope. This includes the checks and balances at different management levels. (page e45)

The applicant has letters of support from the following strategic partners: 1) City Bridge; 2) Friends of Choice in Urban Schools (FOCUS); 3) DC Association of Charter Public Schools; and 4) Choose to Succeed. (page e35) They have strategic partners who can help implement and ensure the success of their projects.

A \$25 million loan from the USDA Community Relending Program was awarded. Prior to receiving this award, they are required to undergo a thorough evaluation of internal controls, policies and procedures for safeguarding assets, and risk mitigation strategies. (page e40) In absence of a credit rating it shows the stability of the organization.

Weaknesses:

Two of the board members work for real estate companies that provide brokerage services and are paid typical brokerage commissions. (page e49) There should be additional language in the Conflict of Interest policy to addressing this issue.

Reader's Score: 34

Selection Criteria - Quality of Project Personnel**1. Quality of project personnel. 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:

Staffing and qualifications include the original Project Director. They have worked with them for 13 years.

Other employees have worked with the company between 5–10 years demonstrating the stability and depth of the organization's talent. (page e 46-47) These are highly qualified professionals.

Weaknesses:

The plan for the project implementation could have had more structure. (page e49)

Two of the board members work for real estate companies that provide brokerage services and are paid typical brokerage

commissions. (page e49) There should be additional language in the Conflict of Interest policy to addressing this issue.

Reader's Score: 14

Priority Questions

Competitive Preference Priority - Competitive Preference Priority

1. In accordance with 34 CFR 75.105(b)(2)(ii), this priority is from 34 CFR 225.12. For FY 2017 and any subsequent year in which we make awards from the list of unfunded applications from this competition, this priority is a competitive preference priority. Under 34 CFR 75.105(c)(2)(i), we award up to an additional 15 points to an application, depending on how well the application addresses the priority.

This priority is:

The capacity of charter schools to offer public school choice in those communities with the greatest need for this 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 by the No Child Left Behind Act of 2001 (NCLB).
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.

Note: With regard to paragraph (1), consistent with the transition authority in section 4(b) of the ESSA, through the 2017-2018 school year, the Department will allow applicants to target services to geographic areas in which a large proportion of public schools are, at the time of submission of an application under this competition: (i) elementary and secondary schools identified as in need of improvement, corrective action, or restructuring under the ESEA, as amended by NCLB; or (ii) elementary and secondary schools identified as a priority or focus school by the State prior to August 1, 2016 under ESEA flexibility.

After school year 2017-2018, the Department will require an applicant that receives points under this priority and receives a grant under this competition to amend its approved application, as needed, to describe how it will target services to geographic areas in which a large proportion of public schools are elementary and secondary schools identified for comprehensive or targeted support and improvement under the ESEA, as amended by the ESSA.

Strengths:

The applicant has serviced the program target areas for 14 years. BH has been successful and known nationally for lending to the riskiest charter schools by targeting states demonstrating a need for corrective action. (page e31) As ranked by the National Alliance for Public Charter Schools 80% of BH grants have been deployed in "A" or "B" rated states by the Center for Education Reform. Additionally, over 80% have been deployed in the top 50th percentile of states ranked. (page e31) And for the purposes of this grant BH continues to use that strategy. Four of these states and the District of Columbia have received an ESEA Flexibility waiver from the Department of Education. The accountability framework designates schools as "Reward," "Priority" or "Focus" schools. (page e52)

The applicant provides an analysis as to how each state measures against section 4303(g)(2) of ESEA. (pages e191-e194)

According to NAEP the District of Columbia, Florida, North Carolina, Tennessee and Texas all perform below the U.S. average in 8th grade reading and math. While each state has adopted its own form of assessments, the proficiency rates remain low. (page e51) The applicant is focusing in this specific need.

Based on a report from the National Center for Children in Poverty 21% of all children live in families where incomes below the federal poverty threshold. The percentage of students living in poverty in the District of Columbia exceed the national average. (page e52) They are focusing on a clear market in need of assistance.

Their research indicates that approximately 250,000 students are on charter school waiting lists in their target areas in the District of Columbia, Florida, North Carolina, Tennessee and Texas.

The success of a previous credit enhancement application has increased the numbers of partners with non-federal funds. (page e53) History and this data confirms that they are positioned to enter an important market for high-quality charter schools.

The application does not address upcoming requirements for ESSA, however nothing has officially been approved.

Weaknesses:

The staff needs experience in strategically aligning with philanthropic partners

Reader's Score: 14

Status: Submitted
Last Updated: 07/05/2017 12:47 PM

Status: Submitted

Last Updated: 07/05/2017 02:19 PM

Technical Review

Applicant: Building Hope...A Charter Schools Facilities Fund (U354A170013)

Reader #3: *****

| | Points Possible | Points Scored |
|---|------------------------|----------------------|
| Questions | | |
| Selection Criteria | | |
| Quality of Project Design and Significance | | |
| 1. Project Design | 35 | 35 |
| Quality of Project Services | | |
| 1. Project Services | 15 | 15 |
| Capacity | | |
| 1. Capacity | 35 | 35 |
| Quality of Project Personnel | | |
| 1. Project Personnel | 15 | 13 |
| Sub Total | 100 | 98 |
| Priority Questions | | |
| Competitive Preference Priority | | |
| Competitive Preference Priority | | |
| 1. Competitive Preference | 15 | 15 |
| Sub Total | 15 | 15 |
| Total | 115 | 113 |

Technical Review Form

Panel #2 - CSP Credit Enhancement - 2: 84.354A

Reader #3: *****

Applicant: Building Hope...A Charter Schools Facilities Fund (U354A170013)

Questions

Selection Criteria - Quality of Project Design and Significance

- 1. Quality of project design and significance. In determining the quality of project design and significance, the Secretary considers-**
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 - 4. The extent to which the project is likely to produce results that are replicable;**
 - 5. The extent to which the project will use appropriate criteria for selecting charter schools for assistance and for determining the type and amount of assistance to be given;**
 - 6. The extent to which the proposed activities will leverage private or public-sector funding and increase the number and variety of charter schools assisted in meeting their facilities needs more than would be accomplished absent the program;**
 - 7. The extent to which the project will serve charter schools in States with strong charter laws, consistent with the criteria for such laws in section 4303(g)(2) of the ESEA, as amended by the ESSA; 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 offers financial products that are expressly suited to new charter schools that lack the cash flow / equity to meet traditional underwriting requirements for acquisition, renovation or construction costs. The applicant also offers these products under flexible terms with longer amortization rates & maturity dates. Traditional lenders want to see loan to value ratios of 79%-85%. The applicant's programs provide 100 % loan to value lending. Traditional lenders also place great value upon collateral. Through the applicant's programs, a school can finance leasehold improvements, something rarely considered by banks.

The applicant's goals are specific and measurable. (see pg. e19-e22) For example, a minimum of 80% of the Charter Schools served during each project year must meet at least one of the ESEA waiver criteria. Additional goals are to serve new and early stage charter schools with less than 3 full school years of operating experience. (pg e-19)The applicant has worked closely with Charter School management organizations, their own internal advisory board, and the cumulative experience they have realized serving previous charter school applicants to design the program. Letters of support that focus on the applicant's role in providing affordable facilities financing are included with the application and begin in Appendix C at page e196.

The applicant offers 1 on 1 counseling to prospective and client schools free of charge. The applicant charges a loan origination fee of 1%, offers interest only payments during construction and charges 4%-7% interest rates at closing.

The applicant is focusing on a select market niche, meeting the facilities financing needs of early stage charter schools. Their due diligence and underwriting process is extremely detailed, and they appear to be able to hone in on the

specific facts these schools need to exemplify in order for them to be successful.

Weaknesses:

Weaknesses- none

Reader's Score: 35

Selection Criteria - Quality of Project Services

1. Quality of project services. In determining the quality of 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 offers financial products that are expressly suited to new charter schools who lack the cash flow / equity to meet traditional underwriting requirements for acquisition, renovation or construction costs. The applicant also offers these products under flexible terms with longer amortization rates & maturity dates. For example, the applicant assists charter schools through providing fixed rate financing that brings stability and predictability to debt repayment. (pg e-34-35) This results in more effective long term facilities financial planning.

The applicant has worked closely with Charter School management organizations, their own internal advisory board, and the cumulative experience they have realized serving previous charter school applicants to design the program. Letters of support are included with the application and begin in Appendix C at page e196.

The applicant offers 1 on 1 counseling to prospective and client schools free of charge. The applicant charges a loan origination fee of 1%, offers interest only payments during construction and charges 4%-7% interest rates at closing.

The applicant is focusing on a select market niche, meeting the facilities financing needs of early stage charter schools. Their due diligence and underwriting process is extremely detailed, and they appear to be able to hone in on the specific factor these schools need to demonstrate in order for them to be successful.

Weaknesses:

Weaknesses- none

Reader's Score: 15

Selection Criteria - Capacity

1. Capacity. 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 been involved in charter school financing since 2003 and has wide and deep experience in the field. Since 2003, they have provided over \$225 million in investments to over 225 schools, and their direct investment has leveraged over \$1.3 billion in construction funds. They have guaranteed leases, leasehold improvement loans, and covered gaps in collateral value.

Collectively Building Hope is 4 organizations, consisting of the Holding company Building Hope, and the Building Hope Parkside Foundation, America's Charter School Finance Corporation and Building Hope Hercules which is solely focused on supporting high quality low cost charter schools in Pinellas County, Florida. The organization's share a common BOD and are under common control. A review of the consolidated financial statements & accompanying notes reveal no significant risks. The approach enhances financial stability in that it limits risk to regional stakeholders. The applicant is profitable and financially stable. (See page e94)

The applicant has a strong understanding of the key risk factors in underwriting and focus on the evaluation of market risk, school operator risk, and project risk as the three key variables in closing a transaction. Portfolio and financial management practices track key performance indicators quarterly. Each loan is subject to an annual review which prompts and adjustment in the loan risk rating and a corresponding adjustment in the loan loss reserve calculations of the portfolio.

The applicant's staff has wide and deep experience in education and education policy. One of the applicant's financial products is a Charter School Investment Note. This will be used to raise funds that will be utilized as subordinate debt to further leverage senior bank debt. Mark Medema, one of the project team is the Managing Director for the Note. Mark has held substantial positions with the Kipp Foundation, Kipp Real Estate Foundation and other leadership positions with Kipp schools. Because of this focused expertise and sound underwriting practices, the company has experienced a 0.3% loan loss ratio in 14 years.

The applicant has a comprehensive conflict of interest policy, a copy of which is included in the application at Appendix E, page e79

8. Previous grantee performance has been outstanding. They received a grant of \$5 mm in 2002 and leveraged that to provide over \$300mm in direct loans. The award has been recycled over 5 times over 14 years without a loss.

Weaknesses:

none

Reader's Score: 35

Selection Criteria - Quality of Project Personnel

1. Quality of project personnel. 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's project team has outstanding credentials; complete bios are attached. Richard Moreno is a member of the project team. Mr. Moreno has over 20 years experience in loan origination, deal structuring and capital markets. Mr. Moreno has served as the CFO of Charter Schools USA and is the former Commissioner of the Florida State Charter School Committee.

The staffing plan is included with Tom Porter overseeing project implementation. Mr. Porter has 13 years of experience as a credit enhancement grant manager.

Weaknesses:

The applicant's proposed project staff has no school based leadership experience.

Reader's Score: 13

Priority Questions

Competitive Preference Priority - Competitive Preference Priority

1. In accordance with 34 CFR 75.105(b)(2)(ii), this priority is from 34 CFR 225.12. For FY 2017 and any subsequent year in which we make awards from the list of unfunded applications from this competition, this priority is a competitive preference priority. Under 34 CFR 75.105(c)(2)(i), we award up to an additional 15 points to an application, depending on how well the application addresses the priority.

This priority is:

The capacity of charter schools to offer public school choice in those communities with the greatest need for this 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 by the No Child Left Behind Act of 2001 (NCLB).
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.

Note: With regard to paragraph (1), consistent with the transition authority in section 4(b) of the ESSA, through the 2017-2018 school year, the Department will allow applicants to target services to geographic areas in which a large proportion of public schools are, at the time of submission of an application under this competition: (i) elementary and secondary schools identified as in need of improvement, corrective action, or restructuring under the ESEA, as amended by NCLB; or (ii) elementary and secondary schools identified as a priority or focus school by the State prior to August 1, 2016 under ESEA flexibility.

After school year 2017-2018, the Department will require an applicant that receives points under this priority and receives a grant under this competition to amend its approved application, as needed, to describe how it will target services to geographic areas in which a large proportion of public schools are elementary and secondary schools identified for comprehensive or targeted support and improvement under the ESEA, as amended by the ESSA.

Strengths:

The applicant is highly committed to supporting charter schools in underserved low income communities and/or low academic achievement. The four states and the District of Columbia utilize the ESEA waiver from the Department of Education and have transitioned their accountability framework to designate Reward, Priority, and Focus schools. Priority schools are the lowest 5 % of Title 1 schools. The applicant is focused on addressing the education needs of this segment in Washington DC, Florida, Texas, North Carolina, and Tennessee.

Weaknesses:

None

Reader's Score: 15

Status: Submitted
Last Updated: 07/05/2017 02:19 PM