

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

Status: Submitted

Last Updated: 07/03/2017 12:22 PM

Technical Review

Applicant: California School Finance Authority (U354A170009)

Reader #1: *****

	Points Possible	Points Scored
Questions		
Selection Criteria		
Quality of Project Design and Significance		
1. Project Design	35	30
Quality of Project Services		
1. Project Services	15	11
Capacity		
1. Capacity	35	30
Quality of Project Personnel		
1. Project Personnel	15	12
Sub Total	100	83
Priority Questions		
Competitive Preference Priority		
Competitive Preference Priority		
1. Competitive Preference	15	11
Sub Total	15	11
Total	115	94

Technical Review Form

Panel #1 - CSP Credit Enhancement - 1: 84.354A

Reader #1: *****

Applicant: California School Finance Authority (U354A170009)

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:

The applicant proposes an \$8MM grant award to reduce school pre-development costs associated with the receipt of proceeds from General Obligation (GO) bonds of up to \$500MM designated for the California Charter School Facilities Program (CSFP). The CSFP is 50% grant and 50% loan; charter schools may have to wait 6-12 months to receive cash to pay for costs at Advance and Final Appointment. The proposed program, entitled Project Acceleration Notes and Credit Enhancement Alternatives (PANACEA), is a means to provide interim financing for charter schools to meet the pre-construction conditions associated with the GO bonds (pg e18-e21).

Based on how PANACEA is projected to lower pre-development costs and streamline access to capital with a projected 6.25:1 leverage, the federal grant amount and project costs seem reasonable (pg e19).

Weaknesses:

The applicant specifies only an initial timeline through February 2018 and does not elaborate on several of the identified implementation steps (pg e25).

The applicant includes a grid of measures for tracking performance, but does not tie them to goals or milestones (pg e28-29).

The applicant only address how a program like PANACEA could be replicated within California, but not more broadly to other states (pg e27).

While addressing the financial strengths of the California charter school law, the applicant does not mention how other aspects of the law regarding authorizing, governance, or academic accountability contribute or not to the State being regarded as having a strong law. The applicant also does not address criteria under ESSA amendments (pg e41-50).

Reader's Score: 30

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 is experienced in providing low-cost capital through tax-exempt bond financings. It identifies the need for PANACEA to bridge a financing gap in time related to the CA bond process and demonstrates the support from a variety of charter school support organizations (pg e19-20, 27, 34-35, Attachments).

The applicant includes examples of how borrowing costs could be reduced under PANACEA. Transactions that receive a guarantee from PANACEA will not require reserve funds, thus achieving higher credit ratings and/or lower interest rates as compared to transactions without the guarantee (pg e26).

Weaknesses:

The applicant does not explain the technical assistance it will provide under the grant. While the applicant makes one brief mention of providing informational and technical workshops throughout the state, it provides no details as to what these workshops will entail and how they will support PANACEA (pg e25).

While the applicant includes letters of support from partners and others in the charter school community, neither in the narrative nor in the attached letters is there reference to how such supporters were involved in the design of PANACEA. The letters from supporting charter management organizations, for example, were nearly identical and none referenced involvement in the program design (pg e30, Attachments).

Reader's Score: 11

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, founded in 1985 has extensive experience in carrying out the activities it proposes to undertake in its application in service to the State of California, which over time has adopted a multi-faceted approach to assist charter schools in meeting their facilities needs in the form of grant, loan and bond financing programs. The applicant has disbursed \$2.5B in charter school funding since 2002 through the 1) \$1.4B CSFP, 2) the \$150MM federally-funded State Charter School Facilities Incentive Grants Program, 3) the \$8.3MM Credit Enhancement Grant, 4) the \$100MM annual Charter School Facility Grant Program, 5) the \$12MM annual Charter School Revolving Loan Fund, and 6) the Conduit Bond and Note Program, which has issued \$900MM in bonds (pg e31, e45-e50).

The applicant oversees six programs related to charter schools facility financing and has designed PANACEA to fill a State-inflicted gap due to liquidity issues and stringent pre-approval requirements for bond financing eligibility under the State (pg e18, 26).

The applicant has standards of conduct consistent with the State's Political Reform Act that appropriately address Conflict of Interest issues (pg e39, Attachment).

Weaknesses:

The role of the education partners relative to PANACEA is not clearly defined (pg e34-36). The organizations are described, but it is not clear how their expertise is being tapped to benefit the implementation or success of PANACEA.

The applicant refers to how its stringent selection criteria under existing facilities programs would apply to PANACEA, but does not elaborate on the criteria or how its monitoring will ensure it is assisting charter schools with a likelihood of success from an academic metrics standpoint (pg e28, Attachment B).

The applicant has not initiated rule-making on PANACEA, so while the applicant references its intent behind policies and procedures to be drafted for evaluating creditworthiness, risk rating and monitoring and other risk mitigation processes, these were not provided as part of the application.

The applicant received an audit finding across the past three years regarding the same material weakness related to internal auditing controls (pg e412, e417, e470).

Reader's Score: 30

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 project director has 25 years of municipal financing experience and has been associated with the applicant since 2000. She oversees 12 professionals and 3 support staff with the requisite experience in capital markets, real estate financing, lending and related fields (pg e32-34, resumes).

Weaknesses:

While the stakeholders have been identified, clarification is needed as to the interactions of roles between the California School Finance Authority, the State Treasurer and the Office of Public School Construction and whom the charter schools interact with for technical assistance and other support (pg e31-36).

The applicant does not maintain project staff directly involved in K-12 education (pg e32-34, resumes).

Reader's Score: 12

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 will assign preference points to applicants based on (pg e22):

* traditional schools identified for improvement, corrective action or restructuring under Title I of ESEA as amended by the NCLB Act of 2001 in the geographic region of the applicant ...”

* State academic assessments of students compared to those attending traditional schools in the geographic region of the applicant;

* number of low-income students qualifying for Free & Reduced Price Meals

Weaknesses:

The applicant did not provide details of how preference points will be allocated for the “at risk” categories as compared to two other non-federal priorities. Descriptions and regulations in the application of two existing facility financing programs managed by the applicant show only a fourth and a third of all preference points being aligned to the competitive priority (pg e22-23, 27, 46, 48, Attachment B).

The applicant did not specify any target for what percentage of the CEP funding will be allocated to the “at risk” categories. (pg e22-23, 27).

The applicant did not address targeting related to comprehensive or targeted support and improvement under ESSA amendments.

Reader's Score: 11

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Technical Review

Applicant: California School Finance Authority (U354A170009)

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	10
Capacity		
1. Capacity	35	31
Quality of Project Personnel		
1. Project Personnel	15	13
Sub Total	100	85
Priority Questions		
Competitive Preference Priority		
Competitive Preference Priority		
1. Competitive Preference	15	12
Sub Total	15	12
Total	115	97

Technical Review Form

Panel #1 - CSP Credit Enhancement - 1: 84.354A

Reader #2: *****

Applicant: California School Finance Authority (U354A170009)

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:

The California School Finance Authority ("CSFA") proposes (pages e19-20) a creative new pre-development lending program that would provide important needed interim funding for approved charter projects to proceed with construction planning while waiting for final proceeds from the issuance of CA general obligation bonds.

The goals of the PANACEA (Project Acceleration Notes and Credit Enhancement Alternatives) program are important (page e20) because they will allow charters to proceed with necessary pre-construction planning and avoid costly delays in launching construction projects. The anticipated results are quite measurable and realistic.

The proposed timeline (page e25) chart is very good because it indicates a plan to begin the first grant awards by February, 2018, or approximately six months after the receipt of funding from USDOE. This will help insure that grant recipients receive funding on a timely basis.

This new and innovative program should be quite replicable in several states across the country.

The proposed criteria for selecting the charter schools for assistance (page e22) are clearly stated in applicant's Charter School Threshold Eligibility Requirements. Applicant proposes to follow the guidelines from the Competitive Preference Priority: schools identified for improvement by USDOE, schools with under-performing test scores, and schools with large percentages of low-income students.

Weaknesses:

While it may be assumed that there will be a higher rate of leverage owing to the short-term nature of the loans, applicant did not fully explain how \$8MM in USDOE credit enhancement funds would leverage \$500 million in general obligation bonds. (See page e19.)

Applicant notes (see page e22) a preference for schools where a "large proportion of schools" are identified as being in need. However, this does not address how the program would increase the "variety" of participating charter schools assisted via PANACEA, such as rural schools in California.

Applicant did not discuss California's charter laws and whether or not they are considered "strong" as required in this section of the proposal.

There was no discussion about the potential participation of commercial banks, etc. in the purchase of these tax anticipation notes and why the federal guarantee is necessary for this program to succeed.

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:

In addition to language from the Competitive Preference Priority section of their application (page e22), applicant also discussed a system of preference points (page e46) in which charter school funding applicants are evaluated for funding based on: overcrowding in the school district where the project will be located, the percentage of low-income students, whether the school is a non-profit entity, and whether the schools are rehabilitating facilities owned by the school district.

CSFA notes (pages e30-31) the participation of lawmakers and capital market officials in the design of this program.

CSFA noted their letters of support (page e31) from two key State of California agencies: California State Treasurer and the State Board of Education. They also included other letters including one from the California Charter Schools Assn. (page e206) that states the award "...would greatly assist California charter schools, as well as their students, by lowering planning and pre-development costs"

Weaknesses:

Applicant has not completed the necessary rule-making approval process (page e30.) This may result in a delay to begin the new PANACEA program..

Applicant provided no data to support the statement (page e30) about the "high level of involvement" of charters in the design of the program. Furthermore, there was no data provided about the number of proposed charter projects, where the schools are located, etc.

There was no discussion in the proposal of technical services to be provided.

Reader's Score: 10

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:

Since 2002, charter school financing has been the primary objective of CSFA, underlying approximately \$2.5 billion in financing for charter schools. (See page e32.)

Applicant's financial stability is evidenced by the fact that California General Obligation bonds, the source of funding for the PANACEA program carry an "Aa3" rating from Moody's and a "AA-" rating Standard & Poor's. (See page e40.) These bond ratings are critical for the marketing of California bonds to individual and institutional investors at competitive rates of interest.

Applicant notes (pages e36-37) that lease financing is one their main programs for charter schools. California charters must finance 50% of construction or renovation costs with the CSFA lease financing program or via an external source.

Applicant has submitted a well-organized and realistic timetable to begin disbursement of funds in February 2018. As the PANACEA program augments an existing program, the organizational requirements should be considerably less than with a new-to-market loan product. (page e32.)

The participation of the CA State Treasurer's office Public Finance Division with CSFA in PANACEA (page 33) is also an important consideration re the capacity of the applicant.

CSFA also has demonstrated grant management capabilities via their three previous USDOE awards for charter school financing. (page e39.)

CSFA adheres to the California Political Reform Act (see page e39) with detailed conflict of interest monitoring policies.

CSFA, as a California State government agency, explained (pages e44-46) explained in detail the steps taken to insure funding for charter schools. This includes access by charters to property tax revenues and general state education program funding.

Weaknesses:

Applicant could have better explained their experience with guaranteeing leases in addition to lease financing. (pages e36-37.)

Applicant did not sufficiently explain (page e39) their expertise re evaluating the likelihood of success of charter schools.

The audit report for June 30, 2016 (page e470) questions CSFA's internal controls over financial reporting.

Reader's Score: 31

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:

Applicant outlined (p.e32) the management of CSFA and their participation in charter school financing programs.

The CEO, Ms. Johantgen, has served in that capacity since 2001. (See page e32.) Therefore, she has been at the helm for all three of the previous USDOE charter school financing grant awards to CSFA. This is important because she would also serve as the Project Director for PANACEA. (page e33.)

Another key player on the management team will be Mark Paxson, the General Counsel to the State Treasurer. He has worked with the CSFA program since 2002. It may be inferred that he also has the necessary experience to participate in the management of a new USDOE charter school enhancement grant. Their respective resumes are included in the Appendix. (See pages e505-508.)

CSFA will also engage the services of two outside advisors, Mitchell D. Kremer, a municipal finance advisor, and Barbara Lloyd, financial analyst and policy advisor (pages e35-36) to provide consulting services for the new bond financing program.

Weaknesses:

The staffing plan (page e32) did not provide many details other than to note that the CEO will work with a group of "12 professionals and three support staff" in the CSFA office to administer PANACEA.

There was no discussion whether additional staff might be necessary to administer this new program.

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 California School Finance Authority ("CSFA") application states (page e22 and e27) that the Competitive Preference Priority for funding will be: charter schools identified for corrective action pursuant to NCLB; charter schools with students performing below proficient standards on state tests; and charter schools serving low-income students based on the Free and Reduced Price Meals.

Weaknesses:

Applicant does not indicate what percentage of students with low assessment scores and what percentage of low-income students will constitute the standard for the Competitive Preference Priority. (See page e22.)

Reader's Score: 12

Status: Submitted

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Technical Review

Applicant: California School Finance Authority (U354A170009)

Reader #3: *****

	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	11
Capacity		
1. Capacity	35	30
Quality of Project Personnel		
1. Project Personnel	15	14
Sub Total	100	86
Priority Questions		
Competitive Preference Priority		
Competitive Preference Priority		
1. Competitive Preference	15	11
Sub Total	15	11
Total	115	97

Technical Review Form

Panel #1 - CSP Credit Enhancement - 1: 84.354A

Reader #3: *****

Applicant: California School Finance Authority (U354A170009)

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:

The design of the program allows schools to borrow funds at a lower interest rate. Although specific terms and rates are not provided, an example is provided on page e26. One school borrowed funds to acquire a site to construct its facility. The cost associated with traditional borrowing including interest, costs of issuance, and the underwriter's discount was \$3.4MM. With the applicant's proposed new PANACEA Program, the cost for the same project would be \$1.6MM.

The program also allows schools to save money because predevelopment and construction time is reduced, shortening the time needed to borrow money on which interest is charged (page e26).

The timeline on page e25 is specific for preparing the program's regulations, posting the application for funds, and awarding the first grants.

The project is replicable due to its simple design: to create a loan/leverage fund to advance future obligations of general obligation bonds to charter schools.

The activities will increase the number of charter schools served. The variety should be increased using the criteria and sub-criteria the applicant established for selecting schools.

California is a state with strong charter laws. The applicant explained the multitude of legislative and regulatory actions the state took in: 1985 (pages e30, e38, e49); 1992 (page e41); 2000 (page e47); 2001 (page e47); 2002 (page e45); 2004 (page e48); 2013 (page e48); and 2014 (page e48).

Weaknesses:

The applicant stated that rates and costs would vary based on market conditions, credit ratings, the size and duration of the transaction, and the type of issuance (page e24). It simply states that fees would be reasonable and within or below existing ranges. It should have provided these ranges for comparison.

The applicant did not provide an explanation of how other fees and costs would be reduced (page e26).

While the structure of the program is clear, the applicant did not clearly define the objectives or the metrics by which to measure each objective (pages e24, e28-e29).

The timeline is not specific when addressing the type and number of schools that will be financed under this program (page e25).

If the primary goal of the program is to increase access to cost effective financing, the applicant should clearly list the objectives, actions, and metrics to be used to measure each.

On page e27 the applicant discusses replicability defined as grant funds being recycled to be reused on subsequent projects. This is not the definition for replicability associated with being able to take the program/project and have it used in other states.

The applicant uses the general criteria from the Competitive Priority section without numbers (page e27). It plans to later develop program regulations that are consistent with the criteria for assisting schools with the greatest needs (page e27).

The applicant is general about the criteria to select schools and projects (pages e23 and e27). No figures are provided to define: "large proportions" of schools; the number of schools identified for program improvement; the number of students performing below proficient on state testing; or the number of low-income students.

The design of the program utilizes public funds only. No private funds are utilized. The applicant plans to work with private lenders to create similar funding mechanisms for non-CSFP charter school facilities (page e37).

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 services provided by this program addresses one need of charter schools: gap financing at the beginning stage of facility development. Other needs are addressed through the manner by which California ranks and scores charter school applicants for financing (pages e46-e47).

The applicant presented letters of support from the state's Department of Education, the state's Treasurer's Office, the state's charter school association, and charter schools.

The funds will provide access to \$500MM set aside for schools which can access the state's general obligation bonds. Once the permanent financing is available, the applicant will recycle the funds to other schools.

The applicant uses a scoring system with preference points so a variety of project types are funded (page e46). Preference is given to four categories (with a maximum of 40 points for each): 1) the percentage of overcrowding for the school district where the project will be located; 2) the percentage of low-income pupils in the school district or in the school district where the project will be located; 3) whether or not the school is a non-profit entity; and 4) whether the charter school is rehabilitating facilities owned by the school district (page e46). The applicant then subdivides school awards into state geographical areas, urban/rural/suburban areas, large/medium/small-sized schools, and grade level categories (page e47).

Weaknesses:

Although letters of support were provided by The California Treasurer's Office, the State Board of Education, the Charter School Development Center, the California Charter School Association, and three charter schools, the applicant did not explain how the supporters were involved with the development of this proposal (page e31).

The applicant does not explain how technical assistance is provided.

Reader's Score: 11

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:

Since the State of California provides the general obligation bond funds, its ratings were reviewed. Moody's rating for the State of California is AA3, a high-grade rating (page e40). Standard & Poor's rating for the State of California is AA- a strong rating.

The California Department of Education previously managed the Charter Schools Revolving Loan Program, and it was transferred to the California School Finance Authority during 2014 (page e373). For 2014, aside from problems with the lack of proper documentation of the loans previously disbursed by the California Department of Education, the information in the financial statements were fairly presented and had no additional findings (page e373). The same statement was made for 2015 (e417-6) and for 2016 (page e422).

The net position of CFSA, restricted for educational purposes, was \$35MM in 2014 (page e377); \$34MM in 2015 (page e417-6); and \$35MM in 2016 (page e426).

The applicant provided the Political Reform Act of 2016 in which Chapter 7 addresses conflicts of interest (page e312-89 through e338-115).

Each partner is identified: the Office of Public School Construction (page e33), the California Treasurer's Office (page e33), the California Charter Schools Association (page e34), and the Charter Schools Development Center (page e35) to provide a range of services to the program: construction management, bond management, and charter school support and technical assistance.

The applicant listed the laws and regulations the state has worked on for 20 years: 1985 (pages e30, e38, e49); 1992 (page e41); 2000 (page e47); 2001 (page e47); 2002 (page e45); 2004 (page e48); 2013 (page e48); and 2014 (page e48).

In Table 4—Risk Level of Charter Schools Served (required of past grantees only) on page e219, the applicant displays the number of charter schools served through all credit enhancement activities which is 35. Seven of those served schools that were less than three years old. One school held a leasehold. In the most recent year—2016, the applicant had no credit enhancement activities (debt issues or clients served—page e218).

In the 2016 CE Program Report, the applicant displayed that it leveraged and credit-enhanced over \$148MM. No delinquencies were experienced (pages e524-e536).

Weaknesses:

The applicant will involve numerous partners including end-users to provide input when the program is initiated (page e31). The activities for evaluating credit worthiness, setting the criteria for receipt of program guarantees, risk rating and monitoring, debt work-outs, and internal financial management and risk mitigation have not been prepared (page e31).

There was a material weakness identified for Internal Control over Financial Reporting in 2014 (page e412) that related to the Charter Schools Facilities Incentive Grants Program and Credit Enhancement Program (page e412). A recommendation was made on page e413.

In 2015, the auditor identified a material weakness identified for Internal Control over Financial Reporting (page e417-47) related to the Charter Schools Facilities Incentive Grants Program. The auditee did not qualify as a low-risk auditee (page e417-47). A recommendation was made on page e417-49.

In 2016, the auditor identified a material weakness identified for Internal Control over Financial Reporting (page e470) related to the Charter Schools Facilities Incentive Grants Program. The auditee did not qualify as a low-risk auditee (page e470). A recommendation was made on page e471).

The applicant is not financially weak, but it does need to fix internal auditing controls and errors from the past, as identified

by the last three years' audits.

The applicant was general about its ability to protect against unwarranted risk in loan underwriting, portfolio monitoring, and financial management.

For three years the applicant had a same finding in its audit relative to internal controls. The findings related to charter schools, and the applicant did not address the issue.

The applicant has experience operating a financing program for charter schools. It did not explain the experience it had evaluating the success of charter schools (e39).

Reader's Score: 30

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 created a team including itself, the Office of Public School Construction (page e33), the California Treasurer's Office (page e33), the California Charter Schools Association (page e34), the Charter Schools Development Center (page e35), Montague DeRose and Associates (page e35), and IMPACTS USA Advisory Services (page e36). The experience and training for staff in these organizations is solid, and should cover all of the needs of the proposed project.

The resumes provided information that each of the five individuals from the applicant and four of the partners has excellent qualifications (pages e505).

Weaknesses:

It is not clear how all the organizations will communicate. With so many partners and the number of staff each partner provides, the applicant should have provided an explanation about the communication and decision-making hierarchy to be managed by each partner's different skills.

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 identified the priorities, in each of the three areas, it would give for serving schools with the greatest need.

Weaknesses:

The applicant discusses Proposed Preference Priority on page e22. In the table, it refers to the Federal Competitive Priorities 1, 2, and 3. A general reference is made to all three, but no numbers, percentages, or proportions are defined. It is important to know how the applicant will target services to each of the three criteria.

Reader's Score: 11

Status: Submitted

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