Charter Schools Development Corporation
Credit Enhancement for Charter School Facilities Program
Grant Application

“Subordinate Loan Fund”

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Competitive Preference Priority

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

In 2010, CSDC was certified as a Community Development Financial Institution (CDFI), and specifically a Community Development Loan Fund, with a primary mission of providing financial services and technical assistance to the most underserved charter schools nationwide - those with significant low-income student populations in economically distressed communities, or in communities with a large number of poorly performing district schools - with an added organizational priority of supporting new and early-stage schools (those in their first three years of operation). CSDC's Board approved mission directly correlates to all three of the Competitive Preference Priority categories as follows: CSDC promotes community development nationally by targeting and providing financing to 1) public charter schools enrolling and serving a majority of students eligible for federally subsidized free or reduced price lunches under the Federal Free and Reduced School Lunch Program; 2) public charter schools located in economically distressed census tracts; and/or, 3) public charter schools located in communities with a large number of poor performing district schools.

CSDC does not limit its geographic coverage, but it has a significant track record serving charter schools in states with strong laws. 60% of CSDC's cumulative credit enhancement and facilities projects have been located in 5 of the 6 top ranked states by CER.

<u>Colorado</u>

CSDC has closed more transactions in Colorado than other state, with 28 financings completed to date. According to the Colorado Department of Education, 37 school districts were identified for in need of improvement in 2015-16, with another 9 identified for Priority Improvement and 1 in turnaround. Combined, these districts represent over 25% of the school districts in the state. In Denver Public Schools, where CSDC has served the most schools, the graduation rate is a mere 64.8%. CSDC intends to continue to focus on Colorado with this grant.

As mentioned in the narrative application, CSDC is working with local harbormasters in select cities to bring more high quality options to students and families. One such partnership is with Opportunity 180 in Las Vegas, Nevada where the "Clark County Achieve" initiative is underway in direct response to the habitually poor performance of the local public schools.

Nevada

In the 21st annual edition of Education Week's *Quality Counts* publication, Nevada earned a D on the state report card and ranked 51st in the nation.

The Clark County School District (CCSD) is the fifth largest district in the country, yet only 10% of high school graduates are prepared for higher education. In 2015, the Nevada state legislature voted on a bi-partisan bill that passed almost unanimously that mandated that CCSD be reorganized no later than the 2018-19 school year. CCSD schools started the 2015-16 school year with 900 teacher vacancies in high-need subject areas like science, math and special education. Based on the Nevada School Performance Framework, only 17% of students attend a five-star (the highest rating) public school, while 25% are zoned to the lowest performing schools. Worse, 76% of African-American and Latino students are enrolled in low-performing schools, compared to only 15% of Caucasian students.

Opportunity 180 focuses its efforts on those zip codes with the greatest need for high-quality public schools by recruiting high performing CMO's and operators to start new schools. Opportunity 180 has a goal of creating 25,000 high quality student seats by 2025, and acknowledges that accessing an affordable building is one of the greatest barriers to launch a public charter school in low-income communities. CSDC was selected through a competitive bidding process to develop the first facility for the first new school under this initiative - Futuro Academy. With this grant, CSDC will continue to have a sustained commitment to serving the needs of new operators as they prepare to launch.

The U.S. Department of Education School Improvement State Grants (SIG) are given to the nation's persistently lowest-achieving schools to support school turnaround strategies. Of the states receiving the largest SIG grants as of fiscal year 2016, CSDC has assisted schools in eight of the top ten states and will continue to focus where it has an understanding of the local market.

(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

CSDC will continue to focus on geographic areas in which many students perform below proficient on reading and math assessments. CSDC made a concerted effort to expand its reach to the neediest schools. Parenting magazine ranked the places with some of the worst educational options for families based on graduation rates, test scores, per-pupil spending and more. CSDC has served schools in 5 of the 10 geographic locations identified, namely Las Vegas, Oklahoma City, Phoenix, Tucson and San Antonio . Similarly, in August 2016, WalletHub published a comprehensive ranking of the states with the best and worst performing school systems. Louisiana, New Mexico and Washington, DC have both the lowest math and reading test scores in the nation, and CSDC has invested credit enhancement and owned real estate in both states and DC.

CSDC, consistent with its CDFI mission, is currently serving a disproportionate number of schools in geographies with low proficiency ratings and will continue to target these states as part of this grant. During the application process, CSDC will make a determination as to whether the charter school will recruit students from local districts in which a large proportion of students do not meet proficiency on state academic assessments.

The following geographies are illustrative examples of the types of states and districts where CSDC concentrates its services:

Arizona

Of the 43 schools in the current portfolio for CSDC, the most concentration is in the state of Arizona (21%). Arizona is located in the bottom third of states for 4th and 8th grade proficiency rates in both math and reading according to the most recent U.S. Department of Education "Education Dashboard." New Schools for Phoenix was created to address the void of high quality options and has incubated and supported the development of 17 schools, serving 3,800 students, including Self-Development Academy – Phoenix and Create Academy. However, thousands of children are still waiting for the great school they deserve. The organization's mission is to have 25 additional "A" rated low income schools serving 12,500 Phoenix students by 2020. CSDC has an office and personnel on the ground in Phoenix and will continue its historical focus on the state with this new grant.

Oklahoma

CSDC has established a close working relationship with the Oklahoma Public School Resource Center. For the 2015-16 school year, Oklahoma City School District, the largest in the state, earned straight F grades in all performance indicators, with the exception of overall student growth in reading where it earned a D. Further, overall results from the 2015 NAEP show only 37 percent of 4th graders and 23% of 8th graders were proficient in math – so the longer they are in school the worse they perform. Similarly, 33% of 4th graders and 29% of 8th graders were proficient in reading. Worse, low-income students had an average score that was 17-20 points lower across the board. According to the Oklahoma Policy Institute, the state has a poverty rate of 16.1% with even higher rates in Oklahoma City (17.3%), well above the national average of 14.7%.

Indiana

The Mind Trust (TMT) in a nonprofit founded and launched to provide every Indianapolis student, regardless of income, access to a great, high-performing school. CSDC has a collaborative working relationship with TMT with the overarching goal to maximize coordinated facility and financing support to TMT Fellows to accelerate the expansion of high-quality educational options for children and families in Indianapolis. In addition, all schools selected for services under this effort must meet the following criteria: operate in a high needs area where the average free and reduced price federal lunch ("FRL") population is 75% or higher, serve socio-economically and racially diverse schools, and finally, serve schools that are part of transformational place-based communities designed to turn around high poverty communities.

Indianapolis Public Schools (IPS) has historically low proficiency rates among students in both math and language arts and at all grade levels. Prior to the 2015-16 school year when the state adopted a new growth model of accountability, IPS received F letter grades for performance from 2010-11 through 2012-13. Since then, the district has not shown much improvement, achieving only a D in 2013-14. Results remain consistent through the most recent school year in which data is available: only 34.1% of elementary & 13.7% of high school students passed the state assessment in math and only 42.4% of elementary and 33.4% of high school students passed in reading in 2015-16. The IPS district once again received a "D" as its final letter grade for school accountability.

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

The primary goal of this application is to target schools serving a low income target population nationwide. As stated in Goal #2 of the application, at least 70% of the schools financed through this grant will meet criteria including having a majority of low-income students. It is well documented that children living in poverty are almost three times more likely to attend low performing neighborhood schools. CSDC requires all schools to complete our standard application in which we collect data including the anticipated or actual FRL student population to be served both by the school, as well as the local public school district. CSDC believes educational opportunity and choice are critical to revitalizing distressed and educationally underserved communities, and CSDC will leverage its real estate expertise to help charter schools in these communities find and finance appropriate facilities.

Historically, 68% of the schools served by CSDC's CDFI programs have a majority of low-income students, consistent with the organization's mission and CDFI target market. While CSDC's program is national in scope, this grant will be deployed in a similar fashion to our prior awards where there is the greatest need, as well as in districts where CSDC has strategic partners. The following is a snapshot of the districts where CSDC has served the greatest number of schools and is illustrative of our ongoing efforts as a CDFI:

School District	FRL%
Denver	67%
District of Columbia	76%
Indianapolis	68%
Minneapolis/St. Paul	63%
Oklahoma City	84%
Phoenix	60%

**** Invitational priority***

The applicant proposes a grant project that demonstrates its ability to partner with new actors and/or leverage new sources of capital and untapped non-Federal programs in order to finance charter school facilities. Projects proposing the development of one or more partnerships that will enable the applicant to leverage newly created or previously untapped sources of capital or other assistance, which may include non-Federal programs, in financing charter school facilities.

CSDC has had a track record of success expanding the number of sources of capital to finance charter schools. The success of the previous credit enhancement applications has led to an increase in the number of partners with non-Federal funds, primarily commercial lending institutions. The national reputation of CSDC has attracted the following strategic partners: the Kauffman Foundation made a $5 million Program Related Investment (PRI), the Daniels Fund made a $3 million grant, the Calvert Foundation made a $1 million PRI, the Communities at Work Fund made a $1 million PRI, Innovative Schools made a $1 million PRI, the Walton Family Foundation made a $5 million PRI, and Opportunity 180 recently made a $1.5 million PRI in CSDC to help launch the first charter school under that new initiative. These philanthropic investments have been deployed across CSDC's lending and development programs and result in further leverage of our federal dollars. As discussed in the narrative, CSDC has achieved 20:1 leverage with its prior federal funds. Lacking the philanthropic contributions just noted, leverage would be significantly less at less than 16:1.

We will continue to solicit new financial organizations to invest in charter schools. For example, the Walton Family Foundation recently launched a Building Equity Initiative (BEI) with the goal to provide charter schools with access to capital paired with a network of real estate resources and facilities technical assistance. CSDC, along with IFF, The Mind Trust (TMT), and the Institute for Quality Education (IQE)/ Network for Quality Education (NQE) have been working on a joint proposal to launch a **Comprehensive Facility Development Program (CFDP)** for charter schools in Indianapolis, Indiana. The overarching goal of CFDP is to maximize strategic partnerships to provide comprehensive and coordinated facility and financing support to Mind Trust Fellows and/or high-performing operators to initiate a successful school launch. This collaboration, if successful, will accelerate the expansion of high-quality educational options for children and families in Indianapolis and complement local education reform efforts already underway.

Similarly, CSDC has begun discussions with SchoolSmartKC, a new organization funded by the Kauffman Foundation, the Hall Family Foundation and the Walton Family Foundation which was established with a goal of having at least 65% of all public schools in Kansas City Public School District boundaries be outperforming or within 10% of statewide averages by 2026. SchoolSmartKC works with both traditional public and charter schools, resource providers and other stakeholders to empower families, expand the number of quality schools and foster a policy environment for improvement. In order to fulfill its mission, these schools, like in other cities across the countries, will first need to solve the facilities challenge. CSDC is pursuing a partnership with SchoolSmartKC similar to the established relationships with Opportunity 180 and the Mind Trust to attract additional private investment and capital to these cities.

Quality of project design and significance

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.

The Charter Schools Development Corporation (CSDC), a 501(c)(3) tax-exempt, nonprofit corporation and Community Development Financial Institution (CDFI), has helped public charter schools acquire and finance facilities at the lowest possible cost, first as a credit enhancement provider, then as a nonprofit developer of facilities for lease with purchase option, and most recently, as a lender to charter school organizations. CSDC's mission is to support quality school choice for underserved students by developing and financing affordable charter school facilities. While there are many CDFIs who lend to the charter school market, CSDC believes it is one of only 4 CDFIs with an exclusive charter school mission, and possibly the only CDFI that works exclusively with charter schools nationwide. CSDC assists charter schools with the acquisition and financing of educational facilities appropriate to the school's mission, design, student population and enrollment, both current and projected. CSDC has been contributing to the charter school movement by providing highly leveraged facility financing and turnkey real estate development solutions and has received five prior federal credit enhancement grants ($10 million in 2002, $5 million in 2004, $6.6 million in 2006, $2 million in 2011 and $5 million in 2016).

As CSDC served more schools over the years through its "Building Block Fund," a $29.6 million national revolving credit enhancement program initially capitalized with three of our prior federal grants and philanthropic funding from the Ewing Marion Kauffman Foundation of Kansas City and the Daniels Fund of Denver, we successfully met the financing needs of a wide range of charter schools, from start-up and newly formed schools with less than three years of operating history seeking to secure leases, leasehold improvement loans and mortgage financing, to those that are growing and expanding into permanent facilities. However, through that experience, we noticed a proliferation of schools entering into less than attractive lease agreements, for example, leases with no purchase options or purchase options at rates that resulted in economic burdens on school budgets once exercised, and leases from private landlords that passed on real estate taxes to schools in the form of higher lease rates. In 2008, CSDC identified the need for a nonprofit organization to develop, own and lease facilities to schools with much more attractive terms as an alternative solution in the market.

CSDC created its non-profit turn-key facilities development program, the Turnkey Development Program (TDP), to help charter schools focus on their true mission –providing the best education possible for every student. At CSDC, we know that accomplishing that mission requires a safe, comfortable, and inspiring learning environment that meets the needs of students, teachers, and administrators – right now, and as schools continue to grow. Under CSDC's TDP "lease-to-own" model, we remove the burden of financing, designing and constructing facilities built to suit the unique needs of each school model, student population and budget from educators and school leader so that they can focus on the business of operating a high quality school. The CSDC team understands the complexities of real estate development and finance and how to deliver a customized "turnkey" solution to each charter school client. Some key attributes of CSDC's TDP model are:

- Short or long term lease terms, with options to extend
- Fixed, below-market rent escalations
- Fixed-price purchase option set at commencement of the lease and exercisable at any time

- A development process that is completely transparent using an “open book” approach to account for all project costs

Leasing from CSDC as an interim step to ownership enables our tenant schools to establish a record of sound business practices and good academic results, setting the stage for long term stability and success. As evidenced in the attached Letter of Support from Tommy Reddicks, Executive Director of the Paramount School of Excellence:

> In reviewing our journey of growth since 2010, we can’t help but be reflective on our start with CSDC, and the impact of their initial funding efforts.
>
> To meet the need for responsibly starting our school, we utilized CSDC’s help with funding and support for our charter school facilities. This process was the only avenue available to us that allowed for a financially viable school rollout. Other financing options involved multiple layers of legal obstacles and crippling debt service. As a result, we can clearly say that our current, sound financial position is due to a lower debt service which, in turn, has allowed our organization to use its financial flexibility to pay down debt and support further growth.
>
> The trickle-down impact of a strong financial start for our organization impacted the effectiveness of the organization’s ability to achieve its goals. So, our school’s academic and community success is directly connected to its financial flexibility, and its ongoing partnership with organizations like CSDC.

The bottom line is that the “nonprofit developer difference” translates into a cost savings that is passed directly through to our charter school clients, resulting in more affordable facilities and more facility for the taxpayer buck. CSDC’s charter school tenants enjoy the equivalent of facility ownership without the debt and management headaches associated with owning a facility. With CSDC in the role of developer and landlord, its charter school tenants can more easily access educational space that meets their needs – and their budgets. Too often, charter school founders find themselves devoting an inordinate amount of time to real estate issues in the pre-opening phase and crucial early years of operation. Even in those rare instances where a school has the financial means to qualify for financing directly, educators are forced to become real estate experts which can lead to project overruns and time delays. As a result, many financial institutions, such as Boston Community Loan Fund (BCLF), a fellow credit enhancement grantee and CDFI, include as a standard part of their loan evaluation an assessment of the charter school's development team's financial and real estate expertise. If not satisfied with the school's internal capacity to undertake the proposed real estate development project, BCLF will often make referrals to experienced real estate developers like CSDC to alleviate that burden from operators.

CSDC provides charter schools with facilities at below-market lease rates in which they can gain operational experience, grow enrollment and concentrate on their educational programs, setting the stage for the school(s) to purchase the facility when it becomes more established and creditworthy. Under the TDP program, CSDC performs the following three primary activities: purchases, renovates and leases the educational facilities to charter schools on beneficial terms and conditions; obtains favorable financing using credit enhancements for these transactions; and provides a turn-key real estate solution to charter schools with the tax and financing advantages that CSDC enjoys as nonprofit owner "passing through" to its charter school tenants in the form of lower rents. We do this as a 501(c)(3) that is often eligible for property tax exemption which can result in annual savings equivalent to funding a teaching position, as well as pricing the initial base rent on the total annual cost to finance 100% of the project. To the extent the debt payments to CSDC are lower due to lower interest rates on the senior or sub-debt, longer amortization or interest-only periods, the resulting rent to the school will also be proportionately reduced. CSDC also fixes its rent for the first two lease years, with modest 1% escalations beginning in the third lease year.

CSDC has developed over 2.7 million square feet of turn-key facilities valued at almost $250 million to 53 charter schools (57 individual projects/campuses). However, the majority of CSDC's existing grant funds that leveraged these impacts are already obligated, limiting the ability to grow and serve more schools under this program. A new grant would enable CSDC to provide more turn-key facilities to schools by funding the subordinated debt that is the most difficult layer of the financing stack to secure.

CSDC is requesting a $5 million grant to expand its capacity to deliver nonprofit turnkey real estate development projects to 23 charter schools nationally by using credit enhancement to leverage an initial subordinated loan pool of $10 million that, in turn, further attracts and leverages approximately $115 million in new private sector senior financing at better terms and lower cost to finance 100% loan-to-value ("LTV"), and thereby reduces the overall facilities costs to schools.

The grant will serve as a first loss loan reserve to leverage a new $10 million subordinated debt fund ("FUND") for CSDC's TDP charter school facility projects. FUND loans, combined with traditional senior debt, will provide 100% financing. John Kinman of the National Bank of Indianapolis (NBI), and other banks, have expressed interest in the FUND, "It is our intention to build upon our existing relationship with CSDC by increasing our support of charter schools through CSDC as the nonprofit intermediary and landlord as well as expanding the existing line of credit facility with credit enhancement support allowing CSDC to fund debt for real estate projects on a national level."

While there are other CDFIs lending to charter schools for facility projects, they typically price their programs at market rates, or between 6-7% for senior debt and 7% or higher for sub-debt. CSDC's programs, however, utilize credit enhancement funds in such as a way as to induce senior lenders, such as NBI, to indirectly support new schools and offer terms that these schools would otherwise not be able to attract without a solid track record of financial and operational results. The FUND will provide below market rates for subdebt (5%) into TDP projects resulting in more dollars going directly to classroom learning.

CSDC has proven that the proposed model is effective and in demand. We designed and implemented the Mountain West Charter Schools Fund (MWCSF), a lending initiative focused on Colorado, New Mexico, Wyoming and Arizona. CSDC pledged $2.5 million of its 10 million credit enhancement grant, plus a portion of its philanthropic funds, as loan loss reserves which then leveraged a $13.5 million revolving credit facility from Great Western Bank (GWB). CSDC then relends these funds to its charter school borrowers. Similarly, CSDC used its most recent $5 million credit enhancement grant to leverage a $4 million line of credit from Mutual of Omaha and a $4 million line of credit from the National Bank of Indianapolis, which will begin deploying for 2017-18 projects, demonstrating the model works.

Based on CSDC's successful track record of leveraging private capital and deploying funds into charter school projects, CSDC is confident in its ability to replicate that model, and the corresponding leverage, with this new grant. The only proposed distinction is that in lieu of making loans directly to charter school borrowers, the FUND will make loans to our TDP projects which benefit our charter school tenants.

Better Rates and Terms

This program will result in better rates and terms than schools would otherwise receive in four distinct ways: 1) access, 2) lower lease rates and purchase options and 3) for New Market Tax Credit (NMTC) projects long term equity for school tenants.

Access

Often “access” to facilities or financing equates to “better rates and terms.” Pursuant to its previous grant performance agreements, CSDC is using a portion of its $16.6 million in prior credit enhancement grants to partially guarantee debt financing from commercial banks for TDP projects when that is the most affordable solution for the charter school. CSDC has demonstrated that it is able to finance, develop, construct and lease with an option-to-purchase to brand new schools with no operational experience in large part due to the credit enhancement and its impact on our strong balance sheet. CSDC will leverage our balance sheet to secure the senior financing at a reduced rate (average 4.5%) compared to what a start-up or early stage school lacking a track record or strong balance sheet of their own could otherwise secure, if at all (see Letter of Support from Great Western Bank). With CSDC as the intermediary, commercial bank debt is indirectly financing these schools creating access where it would not otherwise exist (see letter of support from NBI).

CSDC knows first-hand that some of the leading for-profit developers working with charter schools impose restrictive and untenable conditions in their leases. One of the biggest burdens often placed on schools working with these organizations is a requirement for a personal guaranty. CSDC has never in its history, in any of its program, required a school leader or board member to personally guarantee debt or a lease. In the attached Letter of Support from the

Greater Heights Academy in Flint, MI that commenced operations in the fall of 2013, the Executive Director Lisa Leimeister sums it up best: “Lenders and landlords in this depressed area require security other than a building that they do not want to hold in the event of a foreclosure. This often necessitates a personal financial guaranty of a school founder or board member. Such guarantees are rare and extremely limiting in attracting new and independent charters. CSDC never asked for, nor required a personal guaranty which was one of the most compelling aspects of their lease with option-to-purchase program. Without CSDC’s support, Greater Heights Academy, in its successful current structure, simply would not exist.”

Lower Lease Rates and Purchase Options

Not only does credit enhancement create access, the FUND will enable CSDC to provide subordinate debt at substantially lower rates, typically up to 200 basis points lower, than a bank or other CDFI would lend in the current market. The FUND will make subordinated loans to TDP projects at 5% interest. CSDC has established collaborations with over 40 banks, many of whom have provided letters of support for this application, to make affordably priced senior capital available for the remainder of the project.

According to “The Finance Gap: Charter Schools and Their Facilities” from the Institute for Education and Social Policy, most start-up charter schools incur debt initially to make leasehold improvements on rented space and later to finance the purchase of land and/or a facility. While financiers generally agree that charter schools should not commit more than 12-15% of their per pupil revenue to debt service (or facilities expense), charter schools spend an average of 20-25% of their instructional revenue on repaying loans and bonds. To open or expand, charter schools often surrender to predatory, high-interest lending or acceptance of substandard facilities. A typical CSDC lease is priced based on CSDC's actual debt service rather than the prevailing market rent conditions or private developer returns or cap rates, allowing CSDC to offer more affordable lease rates. On average, CSDC tenant schools spend about 12% of total revenue on lease costs at lease commencement when enrollment is usually at its lowest, and over time as grades are added and enrollment grows, that decreases to an average of 9% which is well below recommended industry standards.

As mentioned throughout this application, CSDC offers a fixed price purchase option in all of its leases unless prohibited by state law. Our development process is completely open book, with the school having input and approval rights throughout to control project scope and cost. Once the total project cost is determined, the purchase option is also locked in and does not escalate over time. As a result, school tenants know the day the lease commences the exact price to purchase their facility whether that be in lease year one or lease year ten. There are no surprises, no hidden costs and schools benefit entirely from any appreciation as purchase price is not tied to market value. In contrast, most for-profit developers are unwilling to fix a purchase price, limit the period of time of when it can be exercised, or have escalations that are so punitive that schools can never purchase their leased facilities. Intrepid College Prep witnessed this directly when they were first working with a for-profit developer prior to terminating that relationship and engaging CSDC instead. Mia Howard, the school's Founder and ED confirms "the for-profit developer's option pricing for purchase would have put the school in an untenable position in 3-4 years. We had a limited window to exercise the options, with a 30% markup on the building. The only alternative was to pay quickly escalating lease costs. CSDC offered us an opportunity to lease the facility more affordably with an option that gives us more flexibility to determine how and when we will buy the facility."

4th Sector Solutions also describes CSDC as "consistently transparent, cost-effective, and mission-aligned with the public charter schools it funds. CSDC is the ideal partner for any public charter school seeking a facility solution that will allow the school to devote the highest percentage of its revenue to improving educational outcomes over the long term."

Access to NMTC Financed Projects

In the most recent round of allocations, the CDFI Fund made $7 billion in New Markets Tax Credits ("NMTC") available to attract private capital into low-income communities like those CSDC serves. Many of the tax credit recipients specifically identify charter schools as a program focus, however, the majority of schools that can directly qualify for this attractive financing are those with an established credit history and background. McCurdy Charter School in Espanola, NM encountered this constraint firsthand. Director Janette Archuleta writes "Since prior to opening of the school, the founders of the charter had been searching for viable options for funding with no success. It was not until we began our discussions with CSDC that we had a glimmer of hope that our school could continue." Not only did CSDC successfully complete a $10 million NMTC financing for McCurdy in 2016 resulting in 19x leverage of our credit enhancement funds, we completed a similar project for $12 million in Oklahoma City that combined, created more than 1500 student seats in two very distressed and high needs communities. CSDC used its prior credit enhancement grant to collateralize the subordinate debt into these projects. Under the NMTC structure, a portion of the overall debt is forgiven at the end of the 7 year term resulting in instant equity for the borrower. Even though CSDC is the borrower, both of these school tenants will realize “instant equity” when they exercise their purchase options as a result of CSDC passing through the majority of the tax credit benefit to them in the form of reduced purchase price.

The demand for organizations like CSDC to act in the Owner/Developer role under a NMTC financing structure continues to grow. We were encouraged by the Las Vegas Community Investment Corporation (City of Las Vegas) to apply for an allocation under their program for a project CSDC has already obtained commercial financing for from Vectra Bank. While the Vectra terms are attractive and affordable, they do not have the added benefit of the loan forgiveness and instant equity that the NMTC structure offers. At the time of this application, CSDC has a NMTC application pending in Las Vegas- this project will achieve 40x leverage and will create more than 325 seats. Combined with our 2016 NMTC financed projects, we will have financed over $30 million in project costs and created $7 million in equity for our school tenants.

Without the critical role CSDC provided to each of these schools in developing, facilitating and financing the NMTC, neither would have had the opportunity to reap the significant benefit that the NMTC program affords. However, unlike our traditional model where schools exercise their purchase options on average every 3.5 years, the NMTC program has specific tax criteria that prevent any payoff or refinancing during the first seven years. As a result, CSDC will not be able to recycle grant funds as often with this structure. CSDC has factored this into projections and will still be able to achieve its measurable results as described further herein.

2. The extent to which the project goals, objectives, and timeline are clearly specified, measurable, and appropriate for the purpose of the program.

CSDC has developed a robust "Logic Model" which is attached to this application with realistic assumptions that will result in the intended outputs and outcomes that ultimately result in lower cost facilities available to charter schools. CSDC's Logic Model was used to develop the project goals, measurable objectives, and timeline that are more fully described throughout this application, but summarized below. To assure progress in achieving these goals, CSDC will collect and analyze data monthly, quarterly and annually, as well as market the program to new communities and other stakeholders as further described below to ensure adequate pipeline to meet the stated goals.

Goal 1. Increase the volume of affordable capital available for charter school facility development projects.

<u>Measurable Objectives</u>:

- CSDC will raise new capital to provide subordinate debt per the following timeline:
    - Create the FUND by securing $5 million in lending capital within 120 days of executing a performance agreement with the DOE.
    - Secure an additional $5 million in lending capital by the end of project year two.
- Leverage $20 million in new NMTC financing no later than project year 4
- All loans made by or through the FUND will have the following financial terms:
        - Term - 1-5 years
        - Amortization - up to 25 years
        - Interest only during construction and initial enrollment periods
        - Interest rates - Competitive and fixed at closing, projected at 5% depending on CSDC's cost of capital

- Replicate and expand the FUND model in years 5-10 by working with new philanthropic or other partners to leverage new sources of capital for TDP projects.

Goal 2. Serve Communities/Schools in Need.

Measurable Objectives:

- A minimum of 70% of the Charter Schools served during each project year will meet at least one of the following criteria
    - Located in a district where more than 50% of students do not meet the standard for proficiency in either math or language on the state assessment, or
    - Located in a district with 50% or more of the student population eligible for free or reduced-price lunch, or
    - Have more than 50% of current or projected student enrollment who are eligible for free or reduced-price lunch, or
    - Located within economically distressed census tracts under the New Markets Tax Credit program.

Goal 3: Serve new and early stage charter schools.

Measurable Objective:

- At least two-thirds of the schools served under this grant will have less than 3 full years of operating history at lease commencement with CSDC.

Goal 4: Provide leased facilities under CSDC's TDP program model.

Measurable Objectives:

- A minimum of three TDP projects will commence by September 2018.
- A minimum of two TDP projects will be completed and operational by the end of project year one, or by September 2018, as defined by a certificate of occupancy and executed lease agreements.
- A minimum of three TDP projects will commence in project year 2.
- A minimum of two TDP projects will commence in each of project years 3, 4 and 5.

Goal 5: Provide attractive lease options and long-term facilities solutions to tenant schools.

Measurable Objectives

- Sub-debt provided by the FUND to TDP projects will reduce the overall financing cost by an average of 150-200 basis points resulting in lower lease rates to charter school tenants.
- All CSDC leases will contain fixed purchase options that are exercisable beginning at lease commencement, as allowable under state law.
- Real-estate tax exemption will be made available to all tenant schools to the extent obtainable under state law.
- At least two charter schools will exercise its purchase option no later than year 5 of the lease agreement.

Goal 6: CSDC will build its internal staff capacity to support this program.

Measurable Objectives

- CSDC will hire at least one additional full time staff person primarily responsible for TDP project management to assist in the implementation of this program no later than March 2018.

Goal 7: Serve 23 charter schools and leverage a minimum of $115 million in private sector capital during the grant period achieving 23:1 leverage per the following timeline.

Measureable Objectives:

- Serve six schools during the first two project years.
- Leverage approximately $4.375 million in private sector financing plus $625,000 in FUND loans for each TDP project.
- Serve seven additional schools in years 3-5 of the grant project.
- Originate $6.25M in FUND loans for 10 schools leveraging a minimum of $50M in financing during the remaining term as funds revolve and recycle.

3. The extent to which the project implementation plan … are likely to achieve measurable objectives that further the purposes of the program.

This project is likely to achieve the objectives based on the history of the applicant in administering prior grant awards and the time tested methodology proposed herein. CSDC is a five-time federal credit enhancement grantee with a nationally recognized track record of providing credit enhancements, loans and turnkey facilities in a timely, affordable and efficient manner. We are proposing to replicate and expand our current program to enable greater impact than would be possible without additional credit enhancement funds. As a result, we are well positioned to immediately implement the program upon receipt of an award. We have leveraged prior grant funds 20:1 with a historical loan loss rate of 1.8%, consistent with the goals outlined in this proposal.

Upon notification of the award, CSDC will work closely with its current relationships, including community organizations and state associations, to ensure awareness of the program. For example, the Indiana State Department of Education already alerted all Indiana authorizers that they were submitting a letter of support for CSDC's application and will continue to provide direct access to help launch and market this new grant program to help create a ready pipeline. Similarly, CSDC has a close strategic relationship with the Oklahoma Public School Resource Center (OPSRC). OPSRC provided critical input into this application by way of surveying its members and new charter applicants and documenting the need within the state for future facility needs which was factored into the projections and measurable objectives of this proposal. OPSRC is projecting the creation of 34 new charter schools between 2017-21. Of these schools, 50% will require new facilities while another 25% will have expansion needs.

The project team will review pipeline projects prioritizing those meeting the competitive priority preference and begin the formal evaluation and underwriting process. CSDC has developed a proprietary Excel-based spreadsheet to track the annual performance of its charter school clients and the overall performance of its portfolio. Portfolio monitoring conforms to CSDC's ongoing policies with each new school loan risk -rated at the time of approval and tracked to assure diligent performance monitoring and data collection.

4) The extent to which the proposed grant project is likely to produce results that are replicable.

This grant will encourage other financial institutions to become active participants in charter school real estate lending by mitigating risk when working through an experienced intermediary and facilities partner like CSDC. In 2008 when CSDC first launched its nonprofit development program, there were few, if any, similar options available to charter schools. The terms and methodology by which CSDC implements all of its programs are completely open book to our charter school clients. Over time, awareness and demand for our program have grown, and because CSDC widely promotes its model, other nonprofit and for profit organizations have attempted to replicate the services we provide.

In LISC's "2014 Charter School Facility Finance Landscape" only four nonprofit developers (including CSDC) were actively in this market. In just a few short years since that publication, CSDC has witnessed an increase in the number of for-profit developers – Highmark, Turner Impact, EPR, Charter School Capital, Red Apple Development– entering the market, which is an indicator of the pent-up demand for turnkey facilities solutions. However, CSDC does not consider for-profit developers as "replication" as these entities use private funds with higher return requirements in lieu of federal grant funds, and price their leases and purchase options accordingly. The handful of nonprofit developers in this market – Pacific Charter School Development, Civic Builders and others– have emerged with geographic concentration in a couple of cities or regions while CSDC has owned and developed real estate in 15 states and D.C.

We envision that continued replication of our program will happen with this grant as our existing lenders have cited interest in expanding capacity with CSDC. CSDC has also been working with LISC to include information on the terms and conditions of our program on LISC's new "School Build" research portal which is searchable by thousands of charter schools and any other interested stakeholder. Additionally, CSDC participates in regional and national charter school conferences and workshops to disseminate information on all of its programs, and actively participates in round table discussions with the aforementioned nonprofit developers seeking similar impacts to identify best industry practices for future expansion and replication.

5)The extent to which the grant project will use appropriate criteria for selecting charter schools for assistance and for determining the type and amount of assistance to be given.

CSDC's reputation for successfully serving the highest (perceived) risk segment of the charter school sector - new and early stage schools serving predominately low-income students - is based on its highly flexible underwriting criteria which is the hallmark of this success, including student recruitment and enrollment, governance and administration, budgeting and finance, and relationship with the school's authorizer/sponsor.

In addition, CSDC prides itself of working with schools throughout their growth lifecycle and often provides facilities not only for their initial needs through final campus build out, but for replication sites as well. In the attached letters from City on a Hill and Self Development Academy, both schools were encouraged to replicate based on their initial successes and turned to CSDC to secure new locations. Self Development Academy – Mesa consistently ranks in the top 5% for student achievement year after year and recognized a need to provide a similar high quality education to low socio economic neighborhoods in Phoenix. As Asif Majeed, President of the Board of Self Development Academy – Phoenix attests in the attached letter of support, "We looked for almost a year but could not close the deal as either the building was not adequate, or if it was, it was financially impossible to procure it…Finally, at almost just the right time, we were introduced to Laura Fiemann (CSDC's SVP)…We would have not been able to acquire this building had this been a private lessor…There was no way we could have done this without their assistance."

In addition to working in states with strong charter school laws as described further herein, CSDC targets its TDP program in geographic areas with strong authorizers supportive of growing the number of charter schools in those communities. A healthy charter school movement mitigates vacancy risk by ensuring a ready supply of new schools in need of space. In Cleveland, OH, Wilmington, DE and Washington, DC, CSDC's original charter tenants lost their charters for differing reasons and ceased operations. In all three locations, CSDC was quickly able to either identify replacement schools and enter into new leases, or in the case of the DC property, sell the facility to high performing and replicating school. CSDC is less likely to work in areas with caps on the amount of charters allowed to operate or in areas with single hostile authorizers where there are scarce alternatives in the unlikely event our initial charter school prove to be unsuccessful.

Ultimate project size, and related FUND loans will be based on a combination of factors, including, but not limited to, LTV of the senior bank financing and the percentage of the total school tenant's budget being spent on lease and occupancy costs. For example, if a project budget results in more than 20% of the school's revenue being spent on lease or rent once enrollment has stabilized, than the project cost and related FUND loan amount may be adjusted down. Ultimate project and FUND loan size will result in schools incurring a declining percentage of their budgets spent on facilities and occupancy costs.

CSDC conducts direct outreach to charter authorizing agencies, CMOs and ESPs, state charter school associations and harbormasters, education philanthropies and capital providers to cultivate relationships and obtain introductions to school leaders who have created, or are considering creating, new schools to determine demand for its programs. CSDC participates in regional and national charter school conferences and workshops to gain anecdotal evidence that confirms that CSDC's nonprofit development program is consistent with charter school's most pressing needs (i.e., lack of credit history to obtain financing and lack of funds to cover upfront development costs remain the biggest challenges that early stage schools face in finding and securing a facility) and utilizes Governing Board members to generate referrals of charter schools that meet CSDC's mission driven criteria. CSDC has repeatedly demonstrated its versatility by working with a variety of charter schools with varying academic missions, curricula and student demographics, as well as independent and charter/education management organizations that manage multiple charter schools.

6) The extent to which the proposed activities will leverage private or public- sector funding...

CSDC's nonprofit development model is predicated on attracting private sector senior financing to every project. To date, over 25 separate lending institutions have provided almost $200 million in senior debt to CSDC for its facilities projects, with another 27 providing close to $50 million in subordinate loans resulting in 100% LTV. CSDC projects that this grant will achieve similar results and be leveraged at 23:1 times to provide $115 million in financing to 23 charter schools during the grant period. CSDC is nationally regarded as having established the standards for effectively leasing to what are perceived by traditional, and many for-profit developers as the most risky of charter schools. Its national reputation has attracted strategic partners like the Kauffman Foundation ($5M PRI), Daniels Fund ($3M grant), Calvert Foundation ($1M PRI), Communities at Work Fund ($1M PRI), Innovative Schools ($1M PRI), the Walton Family Foundation ($5M PRI), Opportunity 180 ($1.5M PRI) and numerous lending institutions. These philanthropic investments have been deployed across CSDC's lending and development programs and result in further leverage of our federal dollars. Many of CSDC's existing lenders in our current loan fund initiatives have already expressed interest in increasing their investments in charter schools through CSDC as the nonprofit intermediary and landlord and have provided letters of support for this proposal (See NBI and GWB letter of support).

7)The extent to which the project will serve charter schools in States with strong charter laws

As of the date of this application, CSDC has provided financing for over 170 separate charter school facility projects in 26 states including the District of Columbia. The Center for Education Reform is a recognized authority for analyzing the nation's charter laws and assigns each state a letter grade based on a combination of factors. Similarly, the National Alliance for Public Charter Schools ranks each state in order of its relative strength based on 20 components. Historically, over 66% of CSDC's grants have been deployed in "A" or "B" rated states by CER, and 79% has been deployed in the top 50th percentile of states ranked by the Alliance.

For this proposal, CSDC expects to maintain similar levels of investment. CSDC has set a goal of deploying at least 70% of FUND loans into projects located in states with a rating of "A" or "B" or in the top 50th percentile. CSDC already has a significant track record serving charter schools in states with strong laws with 60% of CSDC's cumulative credit enhancement and facilities projects being located in 5 of the 6 top ranked states by CER:

State	State Rank	# School Projects Funded
DC	1	6
AZ	2	21
IN	3	23
MN	5	16
CO	6	28

As a result, charter schools located in these states will also be prioritized for assistance through this grant.

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

The demand for programs and services specifically targeted to the needs of new and early stage schools is critical to the continued growth of the charter school movement. As Dr. McCormick, Superintendent of Public Instruction in Indiana states in the attached letter of support, "The number one barrier to charter school growth in Indiana is the identification and development of an appropriate facility."

During the most recently completed project year, CSDC committed over $3 million in new enhancements on behalf of 9 schools and has obligated an additional $3.6 million on behalf of six schools during the current project year. The demand for projects both for the 2017-18 and 2018-19 school years will quickly deploy most of CSDC's remaining unobligated federal funds across all of its previous grant awards. As of the date of this application, only $150,000 of CSDC's FY05 $5 million grant is available for new projects. Based on average annual deployment, without new capital to leverage, CSDC's ability to continue to meet the needs of schools will slow significantly. CSDC has the pipeline and resources to serve 23 new schools over the grant term.

This grant will reduce CSDC's overall cost of funds for sub-debt to approximately 5% (based on current market rates) and enable CSDC to pass the cost savings directly through to its client schools in the form of lower annual lease expense. Project costs as outlined in the attached budget are nominal and related to the hiring of one additional full time staff person dedicated to providing real estate development services under this grant. CSDC covers administrative costs in excess of the grant's 2.5% through revenue generated from its existing programs, for example, loan origination fees, spread income and the development, leasing and sale of TDP projects outside of this grant to charter school tenants (See Table 1).

The grant proceeds will be deposited in a similar fashion as previous grants, i.e. with an FDIC-insured or other deposit account pursuant to program regulations. Projections in the attached Cash Flow Proforma are conservative and reflect the historically low interest rate environment. To the extent that interest rates improve, income to the grant will increase while expenses will decline pursuant to the proposed budget. Total revenue from the reserve account is projected at $1.2 million for the ten-year contract period, well in excess of the $975,000 in expenses expected to be charged to the reserve account.

Quality of project services

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

For over a decade, demand for CSDC's TDP services has outpaced demand for any other CSDC program or offering. Lack of access to either financing or high quality lease arrangements has been widely documented throughout the industry. CSDC has been addressing this discrepancy by providing credit enhancements and facility programs designed to offer schools "one-stop shopping" for their financing needs so that our borrowers and tenants do not have to secure other sources of equity nor divert educational funding to satisfy commercial lending requirements.

In the attached letters of support, there are ample testimonials as to the consistent needs of new and early stage schools for CSDC's programs. Perhaps the most compelling example is from the Oklahoma Public School Resource Center (OPSRC) in which Brent Bushey confirms that they "surveyed our charters, and without question, the most significant issue that these schools face is access to facilities." As discussed earlier in this application, banks are willing to lend to CSDC that otherwise would not lend directly to schools seeking to launch new schools thus creating access where there otherwise would be none. Jefferson Bank explains in their letter of support that when a start-up charter school applied for construction and mini-permanent financing the bank had no choice but to decline the loan request. The school's lack of experience developing real property was the driving factor. However, subsequent to the denial, CSDC became involved and loan officer Mitchell Walker goes on to say how the bank ultimately provided the loan to CSDC resulting in “a new school to be leased by the charter operator previously declined by the bank” was made possible.

CSDC has collected anecdotal evidence of the lease traps schools have found themselves in and designed its TDP program as a solution and alternative to fill the void of national nonprofit developers, as perfectly illustrated in the attached letter of support from Tindley Accelerated Schools:

> Tindley has worked with a for-profit developer in the past and the results are proving to be detrimental to the long term financial stability of our organization. There are many of these developers in the market that are ready and willing to fund projects such as ours, but all with their own interests and financial profitability in mind. Working with CSDC, however, the interest and needs of the schools have always been the top priority. And the financial plans that CSDC works to create are ones that are realistic and achievable for the schools.

Our experience with charter school board members further confirms the needs of schools. As board members remind us, the primary responsibility of a charter school governing board is to monitor the cash flow and financial operations of the school and it is essential to be able to accurately predict rent and occupancy expense during the first five years when enrollment is growing. CSDC’s fixed lease rates and purchase options empower school governing boards by bringing this predictability to their facility/occupancy expense. CSDC’s lease terms assure boards that school leaders can focus on producing strong educational programs and solid academic results without the stress of having to relocate from one leased facility to another to accommodate enrollment growth, financial pressure of fluctuating interest rates or the need to refinance short-term debt. CSDC’s support makes a true difference. Desert Star Community School knows firsthand and testifies in their letter that “our early support from CSDC has enabled the school to effectively serve a unique student population, establish solid reputation and academic results, and build a stable financial position in a part of the nation that ranks low in public education funding. That foundation has enabled us to successfully pursue other channels for facility support." This sentiment is reiterated by Self Development Academy – Phoenix: "The lease rate and purchase option provided in the lease were hugely favorable for someone like us with limited start-up funds and which allowed us to acquire the building in later years."

2) The extent to which charter schools and chartering agencies were involved… and demonstrate support for the grant project.

Charter schools, chartering agencies, and charter support groups were consulted for this grant proposal. CSDC's Governing Board includes members with direct experience founding, leading, and authorizing charter schools (see also "Capacity"). Members are responsible for providing input and feedback regarding CSDC's services and ensuring that CSDC's financial products are tailored to the needs of the members' constituents. Nina Rees, president and CEO of the National Alliance for Public Charter Schools and recognized leader in this area confirms "By providing charter schools security in their facilities, this effort helps lift a burden many schools face and will enable schools to focus, as they should, on their students and their academic results. School administrators will be better able to direct their scarce resources and time toward educating students rather than worrying about real estate needs."

The proposed FUND evolved based on input from many sources, including testimonials from recognized leaders in the charter school movement and existing CSDC funded schools, as illustrated by the extensive letters of support. In addition, the charter sector has seen a proliferation of harbormasters, like Opportunity 180 in Nevada or SchoolSmartKC in Kansas

City who have both received tremendous philanthropic support to attract and launch high-performing schools in their cities. Opp 180 strives to provide a better option to the 83,000 children living in Clark County who are currently attending a low-performing school. The organization has four priority areas, three of which focus on engaging families and attracting leaders and operators to the city, with the last one focused on creating an affordable school building pathway by working with non-profit facility partners who can offer affordable lease rates. CSDC was selected through a competitive bidding process to develop the first such school in Las Vegas which is expected to open in Fall 2017.

3) The extent to which the technical assistance and other services to be provided by the proposed grant project… including the reasonableness of fees and lending terms.

The grant project team consists of experts in charter school finance who regularly provide one-on-one counseling free of charge to both prospective and client schools. CSDC's technical assistance is customized to address each school's specific area of need. Topics often focus on financial modeling, growth and business planning, budgeting and forecasting, cash flow analysis, cost benefit analysis and financial performance monitoring and evaluation. Technical assistance also includes, but is not limited to the following:

- Site feasibility analysis
- Affordability analysis
- Construction budget review
- Short vs long term facilities planning (lease vs. purchase, determining square footage need, developing project plans, etc.)

A perfect example of the type of technical assistance we provide our tenants in particular is AXL Academy. AXL embarked on a feasibility study to determine if the school was in a position to exercise its purchase option, something CSDC encourages and tries to facilitate. "In AXL's most recent quest to possibly purchase the current building CSDC provided primary advice and counsel and we looked at all options for a potential purchase. Our financial personnel have relied on CSDC as the primary negotiator in exploring the school's options to move from a lease to a purchase," writes Dan Cohen, the school's ED.

CSDC's services help prospective and current clients accurately assess their potential and develop business plans to support the achievement of their goals. CSDC helps schools avoid crisis management by requiring schools to address the following during the application process: Leadership and Board succession, financial contingency planning, marketing and student recruitment strategies, and academic accountability plans. In many cases, young schools with energetic founders and leaders are not thinking about longer term succession, and appreciate CSDC's probing of these issues early on.

CSDC's relationship with its tenant schools and borrowers goes well beyond that of a business transaction; we are invested in the financial viability and long term success of our schools. For example, Academy 360 best describes CSDC's technical assistance in their letter of support: "Beyond the funding partnership to complete our first round of renovations in our current facility, CSDC has been invaluable as a thought partner given their expertise with real estate, the market, and charter school facilities. We have benefitted from their knowledge of the charter real estate landscape as we negotiated our lease and as we plan for future facility renovation phases, including the eventual exercise of our purchase option. This knowledge sharing and willingness to support in negotiations has been a huge asset, since our facility is a key driver of our annual budget."

Some charter school applicants may not be deemed immediately qualified for CSDC's programs. As part of the initial due diligence process, staff works with school management to identify weaknesses and strategies for improvement. CSDC's no cost technical assistance is highly effective, as between 80-90% of all schools receiving such services eventually become its clients. Further, CSDC has incurred a nominal default rate of 1.8%, establishing a direct link between the level of technical assistance provided and the sustained quality of its portfolio.

4) Focused on assisting charter schools that have the greatest needs for assistance under the program.

The focus of this project on new and early stage schools meets a need that is currently unfulfilled. As described earlier, most other CDFIs are focusing on mature schools or those that are part of a CMO/EMO. This leaves new and independently managed schools with less access which is shortsighted because these schools may become the CMOs of tomorrow. Purpose Preparatory Academy in Nashville, TN is a perfect example. Lagra Newman, the Founder and Head of School confirms "CSDC supported Purpose Prep to secure a permanent facility in our early years, which is a difficult feat for new charter schools, especially ones without the support of a larger network…"

According to Nina Rees in a 2016 article written for the New York Daily News , "About $2.3 billion is spent annually on charter school facilities. Projections show spending will need to jump more than 50% in the next three years to meet demand — an increase of $1.4 billion dollars." To meet the demand for new student seats, potential operators first need to figure out where to commence operations. Start-up charter schools usually do not have access to facilities and must rent space. To open or expand, charter schools often surrender to predatory, high-interest lending or acceptance of substandard facilities. 4^{th} Sector Solutions has worked with over 50 charter schools nationally on their facilities needs and attests “The most distinguishing characteristic of CSDC is its commitment to providing the most cost-effective and flexible financing solution for its public charter school partners. Other lenders and developers charge high fees, impose aggressive rent escalations, and force onerous transaction conditions on the schools they finance.”

Traditional lenders deem startup charter schools to be risky, according to the 2014 Charter School Facility Finance Landscape report commissioned by LISC. As startups, they typically do not have credit strength, collateral, established cash flow, or organizational infrastructure necessary to conform to standard underwriting policies. Further, school properties are considered cumbersome collateral that is hard to repurpose or sell. As noted earlier in this application, lenders such as Jefferson Bank, routinely decline requests from schools directly precisely for these and other risks.

Through the new FUND, CSDC will remove these barriers to success for start-up and expanding charter schools in distressed communities by providing high quality and affordable facilities as an interim owner and landlord. Banks that otherwise would not lend directly to young schools will lend to CSDC based on its track record, balance sheet and proven model. Great Western Bank is able to lend to CSDC at “advance rates, interest rates, and terms that would not be otherwise available to these schools based on our credit and underwriting standards.” As a result, schools with the greatest need, i.e. new, small or early-stage schools, will be indirectly supported by traditional sources as a direct result of CSDC’s FUND model. Ms. Newman goes on to say “CSDC served as the landlord of our building for our initial years, which was critical … We now own our building, and this reality would not have been possible without the support of CSDC."

CSDC's new and early stage client schools are defined by the characteristics they share: a) they do not meet traditional lending underwriting standards; b) they have limited assets and little or no operating experience or credit history; c) they are significantly underfunded as compared to district school counterparts; d) cash flows, operating margins, and reserves are neither adequate nor stable, as the school's enrollment growth and the addition of more classes, grades, and students does not stabilize until the 3^{rd}-5^{th} year of operation; e) management, while strong in educational matters, has limited real estate or financing-related experience; f) they cannot obtain long term financing due to traditional lenders' fears of 'charter renewal risk;' and g) the appraisal gaps confronting schools, especially those locating in low-income urban or rural communities with severely depressed real estate values, often prevents them from accessing private sector capital absent credit enhancement. See Table 4 for CSDC's risk rating of charter schools served to date.

CSDC will also assess the rate at which its applicant charter schools anticipate using strategies that research has proven are often effective—smaller schools, smaller class size, more school time, and greater parent involvement – in determining likelihood of success. Most of the schools served are launched by educators and school administrators and are independently managed (not contracted with an outside education services provider). CSDC has developed a proprietary Excel-based spreadsheet to track the performance of its charter school clients and the overall performance of its loan portfolio both quarterly and annually. Portfolio monitoring conforms to CSDC's ongoing policies with each new school loan risk -rated at the time of approval and tracked to assure diligent performance monitoring and data collection.

Capacity

1) The amount and quality of experience of the applicant….

CSDC has an exemplary track record of serving high impact, high quality charter schools, especially new and early stage schools (see letters of support). CSDC has received the most individual grants under this program to-date, and is the second largest recipient of credit enhancement grant funding by dollar amount, having received a total of $28.6 million from five separate funding rounds. The organization is uniquely prepared to seamlessly implement a new grant given its familiarity with the statute, legislative intent and reporting requirements. The cumulative experience to-date in administering very successful and impactful programs, in addition to high quality underwriting and successful leveraging of private sector capital, as a direct result of its federal funding is evidence of its capacity and knowledge to manage this proposed program.

With the prior credit enhancement grants, CSDC designed products in conjunction with its client schools to induce, leverage and partially secure funding from private capital investors and traditional funding sources. These existing products take the form of: a) first loss/debt service payment reserves; b) lease payment reserves equivalent to 6-12 months' rental payments; c) gap collateral to secure a lender's financing that typically cannot exceed 70-75% LTV based on appraisal; and, d) collateral to secure leasehold improvements. CSDC's programs often enable client schools to secure their first leased facility, commence operations, and fulfill their student recruitment and pre-enrollment commitments. Without CSDC's assistance, these schools would not have been able to open, thus losing the opportunity to provide quality educational opportunities to low-income students in their home communities.

The success and demand for CSDC's TDP program, as well as the qualifications of CSDC staff to underwrite, finance, manage and deliver complex real estate projects with multiple types and sources of financing are well documented in the letters of support and track record as reported each year in the annual performance reports to the DOE attached to this application.

2) The applicant's financial stability.

The CPA firm of Matthews, Carter and Boyce, P.C. has audited the organization annually since its inception. All of its audits, which are prepared on a consolidated basis for CSDC and its subsidiaries and affiliates, to date have been unqualified and confirm full compliance with reporting requirements, cite no internal control deficiencies, and no instances of non-compliance with Government Auditing Standards. Because CSDC receives Federal funding, the auditor's reports also opine on the company's Internal Controls over Financial Reporting and Other Compliance matters. The organization's three most recent annual audits and Form 990 are attached to this application. Also attached are organizational documents.

As a 501(c)(3) and CDFI financial intermediary, CSDC is not required to have a credit rating, nor has it gone through the CARS rating process which is expensive and onerous for a small organization with a relatively small staff as compared to larger CDFI's who have obtained the rating. However, in 2016, CSDC successfully completed the U.S. Treasury Department's rigorous process for CDFI recertification indicating a determination of CSDC's financial stability, community development mission focus, and managerial competencies. CSDC exceeded all of CDFI's performance standards.

CSDC is a financially sound non-profit that controls expenses and generates revenue in order to be entrepreneurial and self-sustaining and serve more charter schools. As of 12/31/16, CSDC reported $174 million in Total Assets and $44 million in Net Assets. Average deployment levels as of the fiscal year-end were high at 85%, which is a strong indicator of demand for our products. The portfolio's delinquency rate at 12/31/16 was 1.8%, which is substantially below CDFI's industry standard of less than or equal to 7%. CSDC's annual debt service coverage ratio is a covenant of most of our lending agreements, and was at a comfortable 1.36x as of the end of our most recent fiscal year.

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

Charter schools seeking assistance must successfully complete CSDC's rigorous pre-qualification and extensive application and underwriting process. CSDC's due diligence begins with determining if the school is a mission fit, and if so, the extent to which the following characteristics of high quality schools are present: capacity, character, curriculum, collateral, and external conditions such as the strength of the state's charter laws, community support, demographics, location, condition and accessibility of the facility, enrollment and the terms of the charter. In addition to examining staffing and administrative costs and financial contingency plans, CSDC requires all applicants to provide a leadership and succession plan for the School's daily leader and key Board members. CSDC also requires all schools to provide marketing plans demonstrating how they intend to meet or exceed enrollment goals, as well as an accountability statement detailing how they plan to ensure individual student achievement.

Throughout the underwriting process, we examine more than seventeen different aspects of a charter school's business plan. These items provide the means to predict, and later track a school's academic and operational outcomes and performance. This data, when coupled with the underwriting process, informs CSDC and its financing partners of how to assess credit risk and make sound credit decisions. The company relies on the thoroughness of its upfront analysis and underwriting and on-site visits with school administrators to identify quality borrowers and mitigate against future defaults. Once satisfied, the project staff prepares and presents its recommendations regarding the TDP project for Board review and approval.

CSDC's Portfolio Servicing procedures are reviewed by the Board with input from the Credit Committee. The Board also reviews portfolio quality reports at least quarterly, and more frequently as needed. Write-off provisions and delinquency protocols are specified in the policies. CSDC's servicing, monitoring and risk assessment procedures strengthen its internal capacity to assess the portfolio's ongoing quality, identify watch credits early-on and provide immediate technical assistance to mitigate delinquencies or defaults as evidenced by its historically low default rate. The frequency of periodic reviews increases if the loan's risk rating is not in the highest category. The project team monitors quarterly/annual financials, covenant requirements, and all academic reports provided to the authorizing entity. Based on an analysis of this data, CSDC determines what follow-up action, if any, is required.

CSDC is deeply supportive of its clients' challenges and works with them to address unforeseen occurrences. However, protecting capital is of the utmost importance, and staff interacts with any school who is 15 days late with payments to devise and implement a workout plan to cure the delinquency. CSDC has only experienced three vacancies in its TDP history. In two instances, when the original tenant ceased operations, CSDC was quickly able to identify a replacement school tenant to take occupancy. In the third situation, the facility was listed for sale during the vacant year and is currently under contract with a replicating charter school. It is important to stress that in every instance where the leasing income stream stopped, CSDC – because of its strong balance sheet and financial stability – continued to make the loan payments to our lenders so that at no time was the federal credit enhancement at risk or drawn upon.

The Board reviews and approves the financial accounts policies and procedures. On a quarterly basis, the Financial Controller internally produces financial statements for management reflecting the portfolio's quality and the company's pipeline of potential new borrowers to gauge the adequacy of CSDC's reserves.

4) Applicant's expertise in education to evaluate the likelihood of success of a charter school.

Inherent in working with this niche (new and early stage schools) is an elevated level of risk in terms of enrollment, academic results and charter renewal, coupled with lack of a fund balance or other sources of capital to be used as equity or other required collateral. However, indicative of CSDC's credit underwriting rigor, specialized expertise in evaluating a school's likelihood of success and ability to mitigate the "start-up" risk, is its modest, historic 1.8% default rate. The Project Director has prior education experience, working for several years as a substitute teacher in Arlington County Public Schools, Arlington, Virginia, as well as a Master's Degree in Education Policy from George Washington University. While other members of the project team do not have direct teaching experience, project staff has acquired extensive and specific education industry knowledge regarding curricular models, academic performance, classroom management protocols, governance best practices and other factors needed to evaluate the likelihood of success of the schools applying for CSDC's programs. As evidenced by the letters of support, CSDC staff's ability to make upfront credit decisions regarding future success of a school is well supported.

In addition, the project team described below supplements the in-house expertise by utilizing Governing Board members, many of whom have direct experience in education as it relates to establishing curriculum, staffing, managing operations and good governance practices. The members provide input into CSDC's loan policies and underwriting guidelines ensuring they reflect the characteristics that contribute to school success. Examples include Tom Nida, CSDC's Board Chair who is recognized nationally as a pioneer in the movement and was appointed to the DC Public Charter School Board in 2003, was elected Chairman in 2004, and served in that capacity until 2010. Ember Reichgott Junge, CSDC's Vice Chair, is the former Minnesota State Senator who authored Minnesota's 1991 first-in-nation charter school law. She is a national spokesperson on charter public schools and provides board governance training to charter schools across the country. James Goenner who currently serves as President/CEO of the National Charter Schools Institute which supports the growth of the charter schools movement in Michigan and throughout the nation. Mr. Goenner was the former Executive Director at The Center for Charter Schools at Central Michigan University, the nation's largest university authorizer of charter public schools. Both Ms. Reichgott Junge and Mr. Goenner are elected members of the National Charter Schools Hall of Fame.

5. Conflicts of interest by employees and board of directors in a decision-making role.

CSDC ensures against any real or perceived conflicts of interest from the board level through the staff in two ways. CSDC has established, and the Board has adopted, (1) the attached Standards of Conduct policy that applies to both the Board and corporate officers, and specifically addresses conflicts of interest at the board governance level, and (2) the attached "Business Ethics" policy excerpted from CSDC's Employee Handbook which governs potential conflicts of interest at the staff level. Prior to the beginning of any employment with CSDC, each staff member was provided a copy of the Employee Handbook and certifies that it was read and understood. Both policies prohibits directors, officers or staff from participating in any vote involving any issue, decision or transaction in which they or any family member or business associate has a conflict of interest. Conflicts of interest are defined as any situation in which an officer, director, family member or business associate has or reasonably appears to have a material financial or economic interest in a matter affecting CSDC or its affiliates. Violators are subject to all appropriate legal and corporate sanctions and remedies, including removal from office.

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

CSDC submits annual performance reports for all five of its current credit enhancement grants. Each report reflects compliance with the contracted performance agreements, the most recently submitted of each is attached for reference. Of particular note is that as of 9/30/16, CSDC funded over $62 million in credit enhancements from its original $23.6 million in grants (the most recent $5 million grant was not implemented as of that date and not included in this calculation) – evidence of its ability to revolve and recycle its prior grants as projected – on behalf of 165 school transactions leveraging over $482 million in total private capital, and leased commitments resulting in over 20:1 cumulative leverage of its federal grants. Pursuant to Table 4, 69% of CSDC's client schools served through its credit enhancement grants have had less than three years of operating experience, and 41% of schools received enhancements for leasehold improvements. CSDC is responsible for financing, credit enhancing or developing over 60,000 student seats and over 6 million square feet of safe and affordable educational facilities across its programs in 25 states plus D.C,.

In addition, in August 2016, the DOE conducted a two-day onsite monitoring visit during which the monitoring team conducted interviews with key staff who have responsibilities related to grant implementation and oversight, as well as a member of CSDC's board and credit committee. The team also collected extensive information regarding CSDC's performance with respect to each of four areas, with 19 related "indicators" of compliance: (1) program operations, (2) grant performance, (3) oversight of the charter school portfolio, and (4) financial management. CSDC was then rated either "Low Risk," "Moderate Risk," or "High Risk" on each indicator. CSDC received a "Low Risk" rating in 14 of the 19 indicators, and a "Moderate Risk" on the other 5 indicators. However, the reason cited most often for the moderate risk rating in certain areas was not due to noncompliance, but rather due to the fact that CSDC has received the most individual grants under the program "which increases the overall level of risk and need for understanding and monitoring of their operations."

Quality of Project Personnel

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

The Grant Project Team – (Complete resumes are attached)

Michelle Liberati, EVP, is the Project Director who has effectively managed CSDC's prior credit enhancement grants. She will continue to serve in that capacity under this proposal and will have general oversight responsibility, including 1) ensuring all program goals and objectives are met; 2) marketing and replicating the program; 3) identifying new sources of capital; and 4) overseeing the portfolio monitoring process. She is responsible for the program's overall management and evaluation, including the preparation of the annual performance reports. She has a Master's in Education Policy and worked as a substitute teacher in Arlington County Public Schools, Arlington, Virginia for several years prior to joining CSDC.

As mentioned earlier, during CSDC's onsite monitoring visit, one of the "indicators" which was reviewed was that a "qualified project director is managing the program… the person should have extensive knowledge of the CE program, finance, education and charter schools." The monitors conducted lengthy interviews with Michelle Liberati and ultimately determined that she met this indicator and CSDC received a "Low Risk" rating in this area.

Laura Fiemann, SVP, is the Senior Project Manager and administers the organization's existing CDFI and real estate programs. Ms. Fiemann has over 25 years of experience in loan origination, deal structuring and the capital markets and will report to the Project Director. The Project Manager will be primarily responsible for conducting due diligence, structuring and presenting transactions for approval, and providing additional support and technical assistance pre and post-closing as needed. Ms. Fiemann's track record of delivering projects across all of CSDC's programs is well documented in the letters of support.

Rebecca Secrest, Vice President, is primarily involved with CSDC's Turnkey Development Program, performing the role of Project Manager on facility development projects from the initial feasibility study through full underwriting, credit analysis and predevelopment through financing, acquisition and project completion. She represents CSDC and its charter school clients with commercial banks, CDFIs and landlords and will be responsible for delivering TDP projects under this and other CSDC grant programs.

Mark Zeizel, Assistant Vice President, is the project's credit manager primarily responsible for the upfront financial analysis, as well as monitoring and servicing the portfolio once transactions close and fund. Specifically, he will create pro-forma projections, analyze governance and academic performance, interview charter authorizers and draft, in consultation with the Project Manager, the formal credit memo/recommendation presented to the Credit Committee.

<u>Support Staff</u> – CSDC's staff consists of 11 full time employees which is adequate staff capacity to meet the increased demand for services. In Q12017, CSDC hired both a Staff Accountant and a Credit Analyst/Underwriter to ensure the organization's staff capacity is sufficient relative to the increasing the volume of its products and service. The expanded accounting team ensures fiscal accountability related to the tracking, deployment and reporting of existing, and any future, grant funds. The Organizational Chart depicting their principal rolls and functions is attached. The project team outlined above has been, and will continue to be, indirectly supported by the other members of the CSDC staff.

<u>Governing Board</u> - CSDC's seven member Board of Directors has broad expertise that guides CSDC's strategic vision and mission for supporting the expansion of high quality and high potential charter schools. CSDC's Credit Committee approves funding requests and consists of five Board members with experience in lending, education, real estate development and nonprofit governance. The Credit Committee also includes one independent member with a background in underwriting and deal structuring. Full biographies are attached.

2) The staffing plan for the grant project.

This grant project is sufficiently staffed with Michelle Liberati overseeing project implementation and ensuring accountability, and day to day activities carried out by the project team identified above. As mentioned above, CSDC recently hired both a staff accountant and a credit analyst & underwriter to ensure the organization's staff capacity is in line with its objective of increasing the volume of its products and services. Further, CSDC strives to achieve minimal turnover and due to its in-depth hiring and training program, CSDC's current staff members average 6.5 years with the organization.

The staffing plan anticipates hiring a new project manager in Q1 FY18 whose primarily responsibility will be the overall development and completion of multiple real estate development projects on-time and within budget. Development includes, but is not limited to, completing financial analyses and modeling for proposed projects, conducting site visits and performing assessments and evaluations of potential properties, overseeing and coordinating due diligence and predevelopment on potential properties. Current staff can address the short term needs of implementing this program, to continue to meet the proposed annual deployment goals and maintain CSDC's commitment to quality, however, the organization identified a need for an additional staff person dedicated to delivering projects supported by the FUND. We project the grant fully supporting the new position in the first two years, with declining percentages over time as non-grant program income is generated to support the position as further explained in the attached Budget Narrative.

With the addition of a new full time Staff Accountant, the daily workflow related to project accounting, accounts receivable and payable and extensive cash reconciliations will be spread across 2.5 FTE accounting positions in anticipation of the growth in number of schools served each year. Similarly, as CSDC's portfolio of active schools increases year-over-year, the burden of collecting and analyzing monthly, quarterly and annual financial, academic, operational and governance reports of client schools also increases. Currently, almost half of the Assistant Vice President's time is spent on portfolio monitoring rather than growing the pipeline and closing transactions. The new Credit Analyst position will alleviate this burden by shifting responsibility for portfolio monitoring and credit analysis to the new hire so that the Assistant VP will be freed up to market CSDC's lending and real estate development programs, as well as underwrite, originate and oversee more projects.

CSDC will grow from 11 FTE to 12 FTE over a 12-18 month period and be well positioned to meet or exceed its growth targets.