Application for 2014 Credit Enhancement for Charter School Facilities Grant
Community Loan Fund of New Jersey, Inc.
Project Narrative

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Attachments

Part I: Introduction

Community Loan Fund of New Jersey, Inc. (CLFNJ)[1] requests an $8 million credit enhancement grant from the U.S. Department of Education to enhance and diversify its provision of loan and lease guarantees that will empower 40 charter schools in need to a) either move into new facilities or expand their current facilities and b) reduce the amount of operating revenues they spend on their facilities. Over the next five years and beyond, CLFNJ will target this credit enhancement to early-stage and independent charter schools (i.e. charter schools that are not part of a national network), which face especially high barriers to financing and procuring affordable leases for such expansions and are especially critical to the growth of the charter school industry.

CLFNJ's target geography consists of four New Jersey cities—Newark, Jersey City, Trenton, and Camden—that are typified by a) high numbers of historically underperforming traditional public schools, b) large low-income populations, and c) a critical mass of locally-endorsed early-stage and independent charter schools. However, CLFNJ will also offer loan and lease guarantees to charter schools in need in other underserved areas of New Jersey, where over 20,000 students are on a charter school's waiting list and charter schools are forecast to grow by over 70% in the next five years. The New Jersey schools to which CLFNJ offers guarantees will include a) schools it finances directly (via acquisition loans, construction loans, mini-permanent loans, or permanent financing) and b) those that are financed by third party entities such as its banking partners and other sources of private capital. Finally, CLFNJ will use its grant to offer loan and lease guarantees to early-stage and independent charters schools located in supportive and friendly charter school markets outside of New Jersey. CLFNJ will identify and build relationships with these schools via support from NeighborWorks America, a national network of 235 high-impact community development organizations in all 50 states including CLFNJ.

[1] CLFNJ and its affiliated entities operate under a trade name of New Jersey Community Capital

CLFNJ will continue to offer an array of free technical assistance to charter schools that it finances and/or provides loan and lease guarantees, including financial training and guidance on budgeting, fiscal management, and school readiness to undertake a real estate project (as determined by capacity and experience). CLFNJ will employ Community Asset Preservation Corporation (CAPC)—its nonprofit real estate subsidiary—to offer these schools substantial aid in lease negotiations, project feasibility studies, environmental surveys, and other technical support that empowers them to effectively complete their facility acquisitions or expansions.

CLFNJ, a nonprofit community development financial institution (CDFI) certified by the U.S. Treasury Department, is New Jersey's foremost community development lender. Since its creation in 1987, CLFNJ and its affiliated entities have provided over $300 million in financing, along with a range of technical assistance, to foster the creation of tens of thousands of opportunities for New Jersey residents to live, learn, work, in quality homes, schools, and businesses. CLFNJ is also a leading innovator of large-scale solutions to the ongoing foreclosure crisis—including the bulk-purchase of abandoned housing and the purchase and modification of large nonperforming mortgage pools—and has implemented several strategies to support the recovery of homeowners and small businesses from the impacts of Hurricane Sandy.

CLFNJ has established itself as the leading charter school lender in New Jersey. In the last 10 years, CLFNJ has provided loans to 22 charter schools totaling $51.5 million, leveraging over $225 million and creating or preserving over 10,800 charter school seats (37% of all seats in New Jersey). The New Jersey Charter School Association (NJCSA) selected CLFNJ Lending Team Leader Joseph Palazzolo as 2013 Advocate of the Year, one of the state's most prestigious charter school awards, an acknowledgement of CLFNJ's indispensable role in developing and strengthening New Jersey charter schools. CLFNJ has also provided $48 million in financing to support early care facilities, creating or preserving over 6,700 early care slots across the state.

Part II: Project Selection Criteria

A. Quality of Project Design and Significance

Charters schools have become critical resources for mitigating educational gaps in New Jersey, especially in school districts where traditional public schools are failing. A recent study showed that in urban areas of New Jersey—where a disproportionate number of underperforming public schools are located—students enrolled in charter schools performed significantly better than their traditional public school peers in both reading and math. Furthermore, charter school students in poverty performed better than their peers in math and equally in reading, and both Black and Hispanic charter school students outperformed their peers in both math and reading.[2]

Yet the facilities in which New Jersey charter schools operate are typically outdated, lacking in physical education space, and smaller than average (in terms of both site size and square feet per student) by more than 20%. The challenge that facilities pose to charter schools is exacerbated by the fact that many of them must spend money from their operating budgets (over $1,400 per student) to pay for facility needs and mitigate deficiencies.[3] These disparities threaten the long-term effectiveness of these schools in a) meeting the needs of their almost 30,000 students and b) improving outcomes of over 20,000 students who are on a charter school waiting list in New Jersey.[4] Despite the strong performance of the state's charter schools, their facility issues do impact student outcomes and hinder the future ability of these schools to counteract New Jersey's large achievement gap. Since 2004, CLFNJ has filled the financial gaps and technical issues of 22 charter schools in New Jersey (and one in Washington, D.C.), playing a pivotal role in their ability to overcome their facility challenges and serve their students.

[2] Center for Research and Education Outcomes. *Charter School Performance in New Jersey* (2012).
[3] Charter School Facilities Initiative. *An Analysis of the Charter School Facility Landscape in New Jersey* (2013).
[4] http://njcharters.org/index.php/advocate-for-charter-schools/testimony

CLFNJ seeks an $8 million credit enhancement to continue to address this growing need. Via this grant, CLFNJ will in the first five years provide loan and/or lease guarantees to approximately 30 charter schools in New Jersey—with a focus on the high-need cities of Newark, Jersey City, Trenton, and Camden—and 10 schools in other geographies where similar high need exists. CLFNJ will target guarantees to early-stage and independent charter schools that are especially disadvantaged in accessing affordable capital and lease rates, thereby meeting a critical need in the sector that has not yet been sufficiently addressed. CLFNJ will also provide these schools extensive technical assistance—ranging from financial guidance to support in lease negotiations and real estate feasibility studies—to ensure they successfully achieve and sustain the growth and opportunities that they are seeking for the benefit of their students.

1. Extent to which program will improve charter school access to improved rates and terms

By guaranteeing repayment on charter school loans, CLFNJ will empower each school to obtain financing (either from CLFNJ or from third party financing entities) for new or improved facilities that would otherwise be a) inaccessible due to the perceived or real risk associated with the project or b) at a higher interest rate that would diminish the resources the school has for available to spend on high quality program design and in-class instruction. Financing for which CLFNJ would guarantee repayment will include:

- Financing for the acquisition of a new facility that allows a high-performing charter school to serve more students and/or improve services for a school's existing students
- Construction financing for such new facilities or for necessitated expansions and/or enhancements to a charter school's existing facilities, including leasehold improvement financing for facilities that are being leased.

- Mini-permanent or permanent financing for a charter school's long-term occupancy costs, including rent or mortgage payments and facility upkeep.

Similarly, CLFNJ will use its credit enhancements as leverage to incentivize landlords to enter into more affordable lease agreements with recipient charter schools or lower the cost of rent in their existing lease agreements. This access to affordable loans and leases will allow approximately 40 charters schools to serve more students and/or provide more effective learning spaces to their existing students. Concurrently, it will allow the schools to lower their lease costs by approximately one dollar per square foot of facility space over the life of the lease, permitting them to spend more on educational program design and in-class instruction.

2. Specific Objectives and Process/Timeline of Implementation

The goals of CLFNJ's charter school credit enhancement program are threefold. First, by helping charter schools in areas of high need access financing to access new facilities or expand and improve their current facilities, and by lowering their rent and mortgage payments and decreasing their facility expenses, CLFNJ will position them to better meet their mission and improve their long-term outcomes. Second, by applying its loan and lease guarantees to foster the creation and expansion of facilities, thereby increasing the total number of charter school seats in underserved urban areas of New Jersey, CLFNJ will enable more disadvantaged students to access a high-quality education. Third, by using these guarantees and corresponding technical assistance to attract private resources to early-stage and independent charter schools—both in New Jersey and in targeted areas outside of New Jersey—CLFNJ will more broadly demonstrate their financial viability and the schools' double-bottom-line value to both public and private-sector investors. CLFNJ believes that these goals strongly align with those of the credit enhancement program as designed by the U.S. Department of Education.

In recent years, CLFNJ has taken steps to greatly enhance its capacity to a) identify practical objectives and impacts for its programs and to b) use strong data collection methods to measure them accurately. These steps have included an impact assessment study by a team of Rutgers University graduate students and the subsequent hiring of a full-time Impact Assessment Coordinator. CLFNJ now utilizes a series of data collection tools to compare the outcomes for charter schools it finances and credit enhances to traditional public schools, including a) number of low-income students, special needs students, and historically underserved populations served, b) total square feet of educational space available per student, c) occupancy costs per square foot of facility, and d) percent of budgets spent on facility costs. CLFNJ tracks these outcomes using a) national resources, such as the National Center for Education Statistics, b) state resources, such as the New Jersey Department of Education's (NJDOE) Fall Survey data and the NJDOE's Office of Special Education Programs' annual reports, c) its own reporting guidelines, which require charter schools to report on the specified outcomes on an annual basis, and d) an advanced tool developed by Public Impact that tracks proficiency rates, graduation rates, and other metrics that would be useful both in comparing charter schools to peer institutions and in establishing CLFNJ's credit enhancement program as a nationally replicable model.

To assess the five-year impact of its loan and lease guarantees and its accompanying technical assistance, CLFNJ will rely on the following bulleted performance measures and corresponding performance targets, which are measureable, suited to CLFNJ's data collection processes, and in alignment with the Performance Measures established by The U.S. Department of Education. These performance targets assume that CLFNJ will recycle 56% of the grant funds back into the credit enhancement program over the first five years of the grant.

- To provide $12.5 million in loan or lease guarantees to a) 25 high-performing charter schools in its four-city target market of Newark, Jersey City, Camden, and Trenton (all of which are Title I communities), b) 5 high-performing charter schools in other underperforming school districts in New Jersey, and c) 10 high-performing schools in other underperforming school districts outside of New Jersey.
- Improve facilities in each of the 40 schools that it supports by either a) allowing them to access larger or newer sites and buildings with larger classrooms or b) allowing them to repair or upgrade outdated buildings or improve their amenities (such as adding playgrounds, gymnasiums, auditoriums, libraries, technology and media centers, and performing arts spaces).
- To offer substantial financial guidance to all charter schools it supports, and to provide 10 of these schools with project feasibility studies, lease negotiations, and other real estate support via CAPC, CLFNJ's real estate subsidiary.
- To use its guarantees to leverage over $140 million in private sector financing from banks, insurance companies, and other institutions for the creation or improvement of facilities for early-stage and independent charter schools, a leverage ratio of 17.5:1.
- To reduce the rent payments for recipient charter schools by approximately $1 per square foot, allowing these charter schools to dedicate more of their operating revenue to educational programs and in-class instruction.
- To create new charter school seats (and corresponding learning opportunities) for 6,000 new students and to improve the learning environment for 2,500 students who are currently enrolled in charter schools. At least 70% of all students served will be low-income, measured by their qualification for free or reduced-price lunches.

The performance targets outlined above are both a) reasonably achievable and b) highly impactful in correspondence to the objectives set forth by the credit enhancement grant program. CLFNJ's Impact Assessment Coordinator will track and assess performance sin meeting targets on an annual basis, with quarterly updates. After five years, the organization will work with the U.S. Department of Education to extend these outcomes over a subsequent five-year period.

CLFNJ will begin outreach and engagement with early-stage and independent charter schools at the beginning of FY2015 (October 2014) and will provide its first loan and lease guarantees (and corresponding technical assistance) within three months of program operation. In New Jersey, CLFNJ expects to provide loan or lease guarantees to approximately four charter schools in year one, six in each of years two through four, eight in year five, and ongoing support for the foreseeable future. Meanwhile, CAPC will provide technical real estate assistance—such as project feasibility studies, lease negotiations, and owner's representative services—to approximately two schools each year for the first five years of the program.

Outside of New Jersey, CLFNJ anticipates partnering with NeighborWorks America to identify charter schools in need of loan or lease guarantees in other states. NeighborWorks is among the largest community development networks in the country, providing funding, training, and technical assistance over 235 members in all 50 states and over 4,500 communities to help them improve their service of low-income populations. CLFNJ President Wayne Meyer was recently named co-chair of NeighborWorks' Community Stabilization Committee, an indication of NeighborWorks' regard for CLFNJ and the strong relationship between the organizations.

In collaboration with NeighborWorks CLFNJ will seek states with climates in which charter schools are supported and in which advancing an early-stage or independent charter school could spur additional opportunities for their disadvantaged communities and strengthen their surrounding charter school market. Outside of New Jersey, CLFNJ estimates it will provide loan or lease guarantees to one charter school in year one, two in each of years two through four, three in year five, and ongoing support for the foreseeable future.

3. Likelihood that Implementation Plan and Activities Achieve Objectives

Over the previous eight years, CLFNJ has proven its capacity to effectively deploy credit enhancement funds from the U.S. Department of Education. Since receiving its $8.15 million credit enhancement grant in 2006, CLFNJ has provided 42 loan or lease guarantees to 21 different charter schools in New Jersey and one in Washington, D.C., guaranteeing facility loans and other financial services totaling $53 million and leveraging $179.5 million in total project costs. As the charter school climate of New Jersey strengthens, and as CLFNJ further establishes its in-state and national reputation as a reliable and friendly provider of capital to charter schools, it believes it is very likely to build on its outcomes to date and to achieve the benchmarks and objectives outlined above.

Of importance, CLFNJ has also established a track record of only providing guarantees in instances when the credit enhancement has truly made a substantial difference in the availability and cost of capital sought by a charter school. Indeed, CLFNJ has on several occasions declined to provide a guarantee when it has determined that the charter school in question would be able to access private capital—at a similar cost of funds—without its assistance. These decisions, however, have not always precluded CLFNJ from providing technical assistance to such schools.

CLFNJ's likelihood of successful deployment and outcome achievement is bolstered by the number of alternative schools that exist or are expected to be launched in its four-city target area. There are over 30 charter schools in Newark, over 10 in both Jersey City and Camden, and 7 in Trenton. CLFNJ has existing relationships with most of these schools, and its strong relationship with NJCSA provides ready access to others as they identify opportunities to launch or expand. As Camden, Trenton, and Newark each become home to new renaissance schools—variations on alternative public schools that are financed differently and must receive local approval—the climate for alternative education will only grow stronger, and while CLFNJ will not provide guarantees for renaissance schools, its support of charter schools in their district will buttress the education climate that they are entering. Currently, CLFNJ has 20 early-stage or independent charter schools in its pipeline of potential recipients of loan or lease guarantees.

As noted, CLFNJ's national prominence in charter school funding among CDFIs—and its relationships with expansive organizations such as NeighborWorks, the National Alliance for Public Charter Schools (NAPCS), and the Charter School Lenders' Coalition—should allow it to access well-positioned charter schools outside of New Jersey. In 2013, CLFNJ was one of three CDFIs selected to take part in a national webinar on charter school financing hosted by the Ten Square Group, and was one of four at a similar panel at the 2013 National Charter Schools Conference. CLFNJ's proven results in New Jersey and its growing national reputation position it for success in identifying needs and opportunities to provide impactful loan and lease guarantees in other states.

On both the state and national level, CLFNJ is confident that private capital will continue to be available for charter school facilities—especially as the private market shows further signs of recovery from the financial crisis—and has attached support letters from several financial institutions as an indication of this capital availability. Also, the waiting lists for many urban charter schools remain long—over 20,000 students are on waiting lists in New Jersey alone—which indicates that these schools will face a continuing need to invest in facility expansions to meet the ongoing demand for educational options in underserved urban areas.

4. Likelihood of Replicable Results

CLFNJ has demonstrated over its ten-year history of financing and credit-enhancing charter schools that it can replicate its results. CLFNJ has provided financing or guarantees to two-to-four new charter schools in each year that it has employed the credit enhancement it received from the U.S. Department of Education in 2006. CLFNJ has found most schools via word-of-mouth, direct references from NJCSA, or via its consistent presence as both a presenter and a sponsor at NJCSA's annual conference and other events. As the presence and variety of charter schools continue to grow in New Jersey—and as CLFNJ's capital and credit enhancements consistently continue to foster positive social outcomes while financially strengthening the recipient charter schools—further opportunities to support facility expansion should continue to emerge during and beyond the next five years.

On the national scale, CLFNJ will target states with the environment to foster replication, including permission of a variety of charter school types, availability of charter school facility financing, friendly-but-firm authorizer oversight, and strong performance. As one of the most successful CDFIs in financing charter schools and one of the few highlighted on recent panels for both the Ten Square Group and the NAPCS, CLFNJ anticipates that it will be capable of filling a niche in other states where loan and lease guarantees will make a meaningful impact in the advancement of early-stage and independent charter schools, and that this activity will showcase the feasibility of financing charter schools in these areas for future investors.

By working with a trusted partner like NeighborWorks to access schools in need on the national scale—via word of mouth and ongoing conference participation—CLFNJ expects to replicate its successful approach of working with NJCSA to access schools at the state level. CLFNJ also seeks to implement an assessment tool provided by Public Impact that will track proficiency rates, graduation rates, and other metrics that will demonstrate the replicable nature of its model for future charter school credit enhancement programs, whether it is implemented by CLFNJ or another charter school credit enhancement grantee.

5. Selecting Charter Schools and Determining Amount of Assistance

CLFNJ's lending team and senior staff members will continue to thoroughly vet charter schools seeking loan and lease guarantees in order to determine a) whether or not to provide assistance and b) the amount and/or percentage of the loan or lease to guarantee. For this credit enhancement grant, CLFNJ will use a specific set of criteria to make these determinations, which will combine existing underwriting criteria with new target market considerations.

CLFNJ will first ensure that the charter school is in each of the following categories related to geography and population served:

- The charter school must be either an early-stage school (i.e. in its first three years of operation) and/or independently-run school (as opposed to a member of a national network), both of which indicate an especially high barrier to capital for facilities.
- Charter schools in Newark, Jersey City, Trenton, and Camden will be prioritized as target locations due to their a) strong existing charter school environments with potential for further growth and b) significant need due to underperforming public schools and especially large low-income child populations.
- Whether inside or outside of CLFNJ's four-city target area, the charter school must demonstrate its service of high-need populations by either a) enrolling a student body in which a substantial number of students are eligible for free or reduced-price school lunch or b) serving a district in which an especially high number of traditional public schools have been identified for improvement, corrective action, or restructuring

under Title I of the Elementary and Secondary Education Act (or have been identified as focus schools under New Jersey's approved ESEA flexibility request).

- The students at the charter school must perform comparably to or better than their traditional public school peers (according to available test score data) and must demonstrate a reasonable demographic match with their local public school district.

Once CLFNJ determines that the charter school meets the above criteria, it will begin its underwriting process to determine the school's eligibility for a guarantee and amount needed. This process begins with one-on-one relationship building, in which CLFNJ meets with the charter school's business administrator to assess a) its financial and technical needs, b) its capability to complete or expand a new facility, c) the impact that a loan or lease guarantee will have on its achievement (including number of students served and increase in operating funds available per student), and d) amount of guarantee needed, if any, to move the project forward. If the project is viable, the lender also obtains credit checks, financial statements, appraisals, and any other documentation necessary for CLFNJ to assess project cost. If the project is outside of New Jersey, the lender will additionally assess the degree to which state laws and the broader charter school climate is conducive to success and future growth, especially as it relates to early-stage and independent charter schools.

The following are additional or more specific qualifications that CLFNJ will use to assess whether or not to provide a loan guarantee to a charter school applicant:

- Fit of application to U.S. Department of Education's program parameters
- Over two years of proven financial strength and achievement of financial projections
- Capable and proven leadership and business administration
- A board with strong community representation

- A waiting list that is at least 15% of total enrollment

When the lender determines that a qualifying charter school would substantially benefit from a specific amount of credit enhancement, they will draft and circulate a credit approval memorandum with all of the information listed above, as well as an opinion on the strengths, weaknesses, risk rating (using predefined rankings), mitigating factors, and overall mission fit of the project. The memorandum is reviewed by senior staff, and once any outstanding issues are addressed, it is sent to CLFNJ's Credit Committee for official review and approval.

The amount of each guarantee, and its percentage of the total loan or lease, will vary based on a range of circumstances related to the school, the third-party financer (if any), and the specific facility project (e.g. size, location, risk involved). This flexibility is critical to CLFNJ's continual success in providing effective and high-impact guarantees over the past eight years. However, while CLFNJ's lease guarantees may vary in nature, they typically will a) be provided to schools in their first three years of operation, b) equal roughly one year of their expected lease payments, and c) decrease over a five-year period. Meanwhile, the typical loan guarantee to an early-stage charter school will have a term that ranges from 12 months to 5 years, typically max out at $250,000, and may guaranty up to cover 100% of the loan (although it will decrease over the term of the guarantee). Guarantees to larger or more established schools will usually have terms between 3 and 5 years, range from $500,000 to $1 million, and guaranty 10-50% of the loan, which will also decrease over the term of the guaranty.

As a charter school successfully pays its lease or repays its loan—and as it incorporates the technical assistance it receives from CLFNJ into its operations—its financial strength will grow and its landlord or financer will be less needful of the assurance of a repayment guarantee. This evolution for successful credit enhancements allows CLFNJ to design its guarantees to decline over time. The capital dedicated to each guarantee then recycles back into the fund and is deployed by CLFNJ to other charter schools in need (hence CLFNJ's projection of providing $12.5 million in enhancements over five years). CLFNJ recaptures and recycles the entirety of the guarantee after a certain period of time (which will vary depending on circumstances). The fees and terms of a guarantee will not vary with the interest rate of a loan—both loan and lease guarantees will carry a 1% fee, which will be reduced to 0.5% if CLFNJ is also the lender.

Many of the schools that CLFNJ will approve for a guarantee will lack the expertise and/or resources to effectively negotiate their loans or leases or to manage debt. In these cases, CLFNJ will employ its financial experience to offer these schools free technical assistance in tandem with closing their loan and lease guarantee, ensuring they maintain their own financial stability. In instances when a New Jersey-based charter school lacks sufficient expertise or resources related specifically to an element of a real estate transaction, such as the creation of a project feasibility study or procurement of an environmental assessment, the CLFNJ lender will refer the school to CAPC, which will separately assess which real estate services are needed and will proceed with providing such services as necessary at no cost to the school. CAPC's services will be of no cost to the school, as CLFNJ will provide CAPC a $2,500 fee from the credit enhancement grant for each provision of technical assistance (approximately two per year).

6. Leveraging of Private Funds

As noted, CLFNJ used its prior $8.15 million charter school credit enhancement grant leveraged $179.5 million in total charter school project costs through 43 credit enhancements, a ratio of 22:1. While CLFNJ may not maintain this leverage ratio due to its shifting target market, it estimates that it will leverage at least $140 million in private capital to support facilities for the 40 charter schools to which it provides guarantees over the next five years, a ratio of 17.5:1. This capital will include loans for acquisition or leasing of new sites and facilities, construction of new or expanded facilities, and mini-permanent or permanent financing to cover mortgage and leasing costs.

CLFNJ has strong relationships with dozens of state and national financial institutions that serve New Jersey. Even in instances in which it does not end up providing a guarantee to a prospective charter school, it will often attempt to direct the school to potential investors that can move their development or expansion forward. To exemplify these relationships, CLFNJ has included a letter of support from Goldman Sachs in order to demonstrate a sample of a potential charter school financer from which it can solicit funding on behalf of the charter schools it provides with guarantees.

7. Serving States with Strong Charter Laws

According to a model developed by the NAPCS, the State of New Jersey ranks 32nd among 43 ranked states in the favorability of its charter school laws.[5] While New Jersey has the advantage of no cap on charter schools and charter school legal autonomy, its state funding provisions rank very low, including the adequacy of its authorizer funding and its equitable access to capital funding and facilities. CLFNJ has advocated for improvements to New Jersey's charter school laws to the extent permissible under its 501(c)(3) status, but it has been more successful in mitigating their negative impacts on charter schools simply by filling financial gaps for charter school facilities and improving the equitable access of charter schools to facility financing, largely via its credit enhancement grant. This role will continue to be especially critical for early-stage and independent charter schools in the state.

[5] http://www.publiccharters.org/get-the-facts/law-database/

While CLFNJ has thrived as a supporter of charter schools in a state with outdated laws, it will typically target its external guarantees to states with stronger charter school laws, where inroads will be more realistic and the likelihood of replicable results is higher. Depending on where CLFNJ and NeighborWorks identify ready schools in need, these states may include New York, Pennsylvania, Massachusetts, Georgia, Louisiana, Colorado, Nevada, and California, as well as Washington, D.C., where CLFNJ has provided a prior loan guarantee.

8. Rationale of Grant Request and Project Costs

Over that past eight years, CLFNJ deployed and recycled its $8.15 million charter school credit enhancement grant to provide over $14.4 million in loan and lease guarantees to charter schools in need, maximizing its use of funds. Presently, CLFNJ is exceptionally well-positioned to once again a) fully deploy, b) largely recycle, and c) maximize impact of another $8 million of credit enhancement funding, but in this instance it will be targeting early-stage and independent schools that are critical to the success of the charter school industry and especially in need of support for facility challenges and expansion needs. CLFNJ believes it is exceptionally well-positioned to deploy another $8 million grant from the U.S. Department of Education to meet the needs of this subset of charter schools due to the following factors:

- Its substantial experience in deploying such funds, which is detailed above
- Its current pipeline of 20 early-stage and independent charter schools, which is of an appropriate size to suggest that its will be able to fully deploy and recycle funds
- Its unmatched local reputation as a friendly lending partner of charter schools, and its growing national reputation as an especially strong charter school lender
- Its proven ability to provide strong in-house technical assistance, which is especially important to ensuring the success of these typically low-capacity schools.

The costs associated with the implementation of this project primarily consist of CLFNJ personnel expenses, which include approximately 75% of the staff time of CLFNJ's lead charter school lender and lesser amounts (5-20%) of staff time of other lenders, senior management members, and finance, compliance, and resource development staff members. CLFNJ will also incur project costs related to travel, occupancy, conference and sponsorship fees, legal fees, and fees that it will pay to CAPC for its provision of real estate technical assistance. Lastly, CLFNJ will have costs related to front-end program set-up, including an updated program guide, accounting systems, and reporting and data tracking systems.

These costs are appropriate and necessary for the implementation of a large-scale charter school credit enhancement program. Most of these costs are included in the project budget, but personnel expenses are omitted from the budget because CLFNJ will cover these expenses using other funding sources, including grant funds and the interest and fees it generates from lending and other activities. As the budget form shows, the cumulative operational costs that would be directly related to this grant represent a very small portion of the total grant amount and would be more than covered by CLFNJ's fees and reserve account earnings generated by this grant.

9. Extent to which Project is Supported by Strong Theory

The logic model that will guide all of CLFNJ's deployment of a charter school credit enhancement is included in this application (see Appendix B). As detailed in this model, CLFNJ will rely on several inputs (staff expertise, capital strength, reputation, partnerships and familiarity with the charter school industry) to provide loans, guarantees, and technical assistance that will allow charter schools to both a) access, develop, or improve new or existing facilities and b) reduce the operating costs they spend on facilities, which will allow the schools to dedicate more operating revenues to instruction and other operations.

As noted in the logic model and elsewhere in this proposal, CLFNJ will determine whether its loan guarantees are reaching their intermediate outcomes using indicators related to a) square footage of charter school space created, b) number of high-quality charter school seats supported, and c) reduction in cost per square foot of facility space (e.g. lease payments and mortgage payments). CLFNJ will attempt to track whether these outcomes lead to its desired end outcomes—i.e. increased student achievement as compared to peer schools and increased educational opportunities for low-income students—using the aforementioned tool developed by Public Impact. However, given the difficulties of collecting this data and attributing it to CLFNJ's investment, it will also rely on external studies on the importance of facilities to student success as a proxy to deduce that the facility improvement that it is enabling will lead to such positive end outcomes for thousands of disadvantaged students.

This rationale and theory for project implementation is supported by CLFNJ's extensive previous experience in deployment and by standard practices within the CDFI industry. While CLFNJ expects its approach to successfully lead from inputs to outcomes over the course of the project, it will reassess its model as rendered necessary by changes in political circumstances, market conditions, or large-scale charter school industry needs.

B. Quality of Project Services

As the leading lender to charter schools in New Jersey over the last ten years, CLFNJ has gained a wealth of understanding of the needs and challenges of charter schools, from inception to enrollment to expansion and long-term sustenance. Charter schools are consistently perceived by conventional financers as risky investments due to their short histories, their structural variations from one school to the next, and the short nature of their renewal periods.

Accordingly, many schools have difficulties accessing loans and other investments that are critical to their ability to grow and to fulfill their vital role of providing free high-quality educational alternatives. This scenario is especially prevalent in underserved low-income communities, where both public and private capital is already extremely scarce. Many charter schools are also disadvantaged by a deficiency in specific expertise in financial and facility management, which further hinders their ability to access capital for their needed expansions.

CLFNJ has used this knowledge to continually expand its ability to meet the financial and technical needs of more and more charter schools in the past several years, including 22 schools to which it provided critical loan and lease guarantees for facility improvements. These schools mostly consisted of independent schools, which had a range of experience, and a number that were in very low-income geographies of New Jersey. As the demand for CLFNJ's financing and guarantees continues to be high, it seeks to incorporate a series of new elements into its range of financial and technical services so as to further meet the operational and facility needs that are specific to early-stage and independent schools in underperforming and underserved areas.

1. Reflecting Needs Identified by Charter Schools

In January 2013, the Charter School Facilities Initiative—a collaboration that includes NJCSA and NAPCS—released a report entitled *"An Analysis of the Charter School Facility Landscape in New Jersey."* The report collected data from 72 percent of New Jersey's charter schools, which were generally representative of the schools across the state. The report found the following about New Jersey charter schools:

- They spend $1,418 per student from operating revenues on facility costs, which is enough revenue to hire eight additional teachers.

- Their facilities are 20% smaller per student than those of their traditional public school peers, and they have smaller classrooms and fewer specialized spaces (e.g. libraries and gymnasiums).
- 74% of them operate in buildings built before 1970, and 30% have access to nearby school buildings that are underutilized.
- 82% of them plan to increase enrollment by 2016, but 54% do not have space to do so effectively. 56% plan to construct or acquire more space in the next five years.

The report notes that "New Jersey currently provides little facilities support to public charter schools,"[6] with the deficiencies including a lack of direct funding and a lack of loans. CLFNJ has used this data to determine what gaps it can fill in order to meet these prevalent needs. This demand for capital for much-needed facilities improvements has been consistently echoed by the dozens of early-stage and independent charter schools that CLFNJ engages on a weekly basis through one-on-one meetings and at conferences and events, as well as by NJCSA, which CLFNJ regularly engages regarding the trends in charter school needs across the state.

CLFNJ's credit enhancement project will specifically meet the needs identified via both this data collection and its qualitative engagement—and to begin to engage early-stage and independent charter schools in other states with similar challenges—in the following ways:

- Providing facility loans to early-stage and independent charter schools that have especially high facility needs and especially high barriers to lending capital.
- Providing guarantees that entice private lenders to provide lending capital to such charter schools and to do so at a reduced cost of funds, thereby allowing charter

[6] Charter School Facilities Initiative, p. 13

schools to both a) fulfill their needs and plans to expand and upgrade their facilities and b) reduce the amount of operating funds they spend on facilities.

- Providing lease guarantees on new facilities or underutilized existing facilities to entice landlords to lease their buildings to charter schools in need.
- Assisting charter schools in identifying private capital providers that will lend to them and facilities that they may be able to renovate and/or occupy.
- Providing charter schools in need with several other forms of technical assistance that are identified in a subsequent subsection of this section of the proposal.

As noted previously, the forms of lending capital that CLFNJ will provide and/or guarantee to meet any of the above needs for a particular charter school include a) loans to acquire new facilities, b) loans to construct new facilities or to expand existing facilities (including leasehold improvement loans), and c) mini-permanent and permanent loans for a charter school's long-term occupancy needs.

2. Involvement of Charter Schools in Project Design and Support

As previously noted, CLFNJ's especially prominent role in supporting facilities for New Jersey charter schools has made it a central repository for substantial information about their financial and facility-related needs, including technical support needs. CLFNJ has incorporated this information into its approach to this program. For example, CLFNJ has heard from several of the early-stage charter schools it has engaged (and seen corresponding evidence in site-visits) that their most immediate need for a loan, loan guarantee, or lease guarantee relate less to major facility expansions or construction and more to basic needs such as interior reconstruction or reconfiguration of leased space to accommodate students, smaller facility upgrades to bring a building up to code, and covering the cost of a security deposit for a lease on a new facility.

Such needs will require CLFNJ to increase the number of its smaller loan and lease guarantee commitments to accompany the larger acquisition loans, construction loans, mini-permanent loans, permanent loans, and guarantees that will remain prominent in CLFNJ's charter school support both inside and outside of New Jersey.

As part of CLFNJ's ongoing implementation of new impact assessment practices (one of the primary goals of its 2012-2016 Strategic Plan), CLFNJ will further enhance and standardize its direct solicitation of guidance from charter schools it supports by integrating a "feedback loop" into all of its loans and guarantees. This system will encourage all charter schools to provide annual written feedback on the quality of CLFNJ's support and on other concerns that CLFNJ may be able to address in the future.

The nine support letters from charter schools that are included in Appendix J are representative of the broad-based support that CLFNJ has earned from a variety of local charter schools and their support networks over the last ten years. This support is further illuminated by the award that NJCC Lending Team Leader Joseph Palazzolo received from NJCSA as its 2013 Advocate of the Year and NJCSA's ongoing requests for CLFNJ to lead facility-focused conversations and presentations at their annual conferences.

3. Value of Technical Assistance to Charter School Success

As a fundamental component in the success of its charter school credit enhancement program, CLFNJ offers flexible, responsive, no-cost technical assistance to the charter schools to which it provides loans and/or guarantees. CLFNJ has a successful track record of providing such assistance, including implementation of several charter school capacity building programs and the ongoing direct financial guidance it provides to its borrowers and guarantee recipients. In the next five years, CLFNJ intends to enhance this provision in partnership with CAPC, its nonprofit real estate subsidiary. Since its foundation in 2009, CAPC has established itself as an expert in arranging large-scale acquisitions of abandoned real estate and working with local partners to rebuild them into productive affordable homes. Through the credit enhancement program, CAPC will expand to provide technical assistance related to charter school facilities. CAPC's Director, Jeffrey Crum, has extensive experience in real estate development for charter schools that he will bring to this project: as former Vice President of Real Estate Development at Build With Purpose, Mr. Crum directly managed and analyzed viability and risk of over $20 million in real estate projects, which largely consisted of charter school facilities.

Together, CLFNJ and CAPC will provide the following real estate technical assistance to foster the success of the early-stage and independent charter schools that will receive direct financing and loan and lease guarantees via this project, as well as to some of those who it simply engages to explore such options:

- Guidance on managing the complex finances related to building, operating, owning, and/or leasing facilities (e.g. budgeting, pro forma creation, short- and long-term capital improvement planning)
- Assistance in identifying and accessing affordable facility financing (from banks, insurance companies, or other CDFIs) with support of the provided loan guarantee
- Guidance on carrying out real estate transactions via CAPC leadership (e.g. risk assessment, project feasibility studies, lease negotiation, environmental surveys)

CLFNJ is confident its guarantees will help each recipient charter school access financing that a) would not otherwise be available and/or b) is significantly more affordable than it would be without the guarantee. CLFNJ will charge schools a 1% fee for a guarantee, which will not vary with interest rates and will be reduced to 0.5% if CLFNJ is also the lender for the project.

Charter schools will not be charged for technical assistance from CLFNJ or CAPC and will save approximately $1 per square foot of facility (which will recycle into their operating revenues) due to the provision of the guarantee. CLFNJ will provide $2,500 to CAPC from the credit enhancement grant for each provision of technical assistance (projected at approximately two per year). A sample project feasibility study is attached as Appendix N to exemplify the type of assistance that CAPC may provide to a recipient charter school.

4. Charter School Likelihood of Success and Demonstrated Need

As previously indicated, CLFNJ has an outstanding track record in its prior round of credit enhancement funding of identifying and successfully guaranteeing charter schools that are a) likely to succeed in carrying out a facility relocation, expansion, or upgrade with the support of a loan or lease guarantee and b) truly in need of the guarantee in order to access capital being provided by CLFNJ or a third party. With this grant, CLFNJ will exclusively target early-stage and independent charter schools in underserved and underperforming school districts. While credit enhancing these schools is more challenging than blending such schools with others that belong to an established national network, CLFNJ has the experience to identify those schools that are likely to succeed in carrying out a facility-related project with the support of a guarantee.

CLFNJ has already identified 20 such schools in underserved and underperforming areas of New Jersey that are interested in and likely qualify for a facility loan or lease guarantee as indicated in this application. CLFNJ will vet each school—and all subsequent schools that seek a guarantee—for likelihood of success based on their sufficient amount of a) financial strength, b) project administration personnel capabilities, c) community representation on board of directors, d) project feasibility, e) waiting list length (must be at least 15% of current enrollment), and f) academic performance compared to peer traditional public schools.

By targeting, vetting, and credit enhancing approximately 40 early-stage and independent charter schools, including 10 schools outside of New Jersey, CLFNJ will maximize the impact of a credit enhancement grant from the U.S. Department of Education on a) the individual schools served and b) market strength and financial reputation of charter schools at large, particularly in New Jersey. Between a) CLFNJ's four-city target area of Newark, Jersey City, Camden, and Trenton, b) other underperforming school districts in New Jersey, and c) underperforming school districts in other states that are supportive of charter schools, CLFNJ will have a sufficient breadth of potential early-stage and independent schools to ensure it meets its benchmarks while still only credit enhancing schools that either a) enroll a student body in which a substantial number of students are eligible for free or reduced-price school lunch programs or b) serve a school district in which a high number of public schools have been identified for improvement, corrective action, or restructuring under Title I of the Elementary and Secondary Education Act.

C. Capacity

CLFNJ is the largest and most impactful community development financial institution in New Jersey. With over $92 million in total assets and $300 million in assets under management, CLFNJ and its affiliated entities have established the financial capacity to have a large impact in bolstering the strength of New Jersey's charter school industry and in the other sectors it serves. With a proven track record of financial stewardship, high-impact investment, and exceptional capability in specifically deploying effective and meaningful loans and loan and lease guarantees to charter schools in need, CLFNJ is equipped to maximize the impact of an $8 million charter school credit enhancement grant to benefit students, families, and schools both within its service area of New Jersey and in other areas of the country.

1. Applicant Experience

As detailed in prior sections of this application, CLFNJ has gained a wealth of experience as the steward of an $8.15 million charter school credit enhancement grant since 2006, which it has successfully utilized to guarantee 42 loans and leases for 22 charter schools, guaranteeing facility loans totaling $58.6 million and leveraging $151.4 million in total financing. These guarantees are a critical component in CLFNJ's broader strategy to improve outcomes among charter schools in New Jersey and prove their financial viability. Since 2004, CLFNJ has provided acquisition, predevelopment, construction, and mini-permanent loans to 22 charter schools totaling $51.5 million, leveraging over $225 million in additional capital and creating or preserving over 10,800 charter school seats. CLFNJ has also successfully provided New Markets Tax Credits to five different charter schools (representing six different charter school campuses) to finance large-scale facility developments. CLFNJ is widely regarded as the most reliable and friendly lending partner in New Jersey's charter school industry and as an adept provider of financial and technical assistance to improve charter school capacity.

Charter school financing is part of CLFNJ' still broader strategy of comprehensively providing opportunities to low-income families and stabilizing underserved communities throughout New Jersey. Each year, CLFNJ and its affiliated entities deploy tens of millions of dollars to foster the creation or preservation of affordable homes, early care centers, charter schools, small businesses, and commercial facilities that provide housing, education, and employment to thousands of people in New Jersey. In 26 years of operation, CLFNJ has provided over $300 million in financing for over 700 high-impact projects. In each sector, CLFNJ supplies favorable lending terms, substantial technical assistance, and long-term partnerships in order to promote positive outcomes and enhance the sustained effectiveness of its borrowers. Virtually all outcomes of CLFNJ's investments provide opportunities to low-income families and/or underserved communities.

2. Financial Stability

CLFNJ has been able to grow to over $300 million in assets under management due to a long and steady history of strong financial performance and stability. Some current indicators of CLFNJ's overarching financial stability include the following:

- A diversity of income sources: in its FY2013, CLFNJ's fee income grew to 21% of its total earned income, which was largely due to a substantial increase in managed assets and the implementation of a series of new large-scale fee-based programs. Meanwhile, CLFNJ's interest and investment income accounted for 28% of total earned income. This diversity allowed CLFNJ to dedicate 80% of grant revenue to investment capital, reducing the cost of funds that CLFNJ offers to its borrowers.
- A growth in unrestricted net assets from $7 million in FY2009 to $16.3 million in FY2013, with continued growth projected over the next five years.
- Maintenance of one year's worth of operating expenses in cash and cash equivalents, which has strengthened its operating liquidity, and a self-sufficiency ratio of 67%
- Loan loss reserves close to 14% of all outstanding loans receivable, which is largely a result of CLFNJ's expansion into small business disaster recovery lending in the aftermath of Hurricane Sandy.
- 90-day delinquency rates below 7% and a charge-off rate below 1% in FY2013, which is especially low given the challenges and financial instability of CLFNJ's typical areas of investment within New Jersey.

The lending capital that CLFNJ deploys originates from a diversity of sources, including banks, insurance companies and other corporations, foundations, government agencies, religious institutions, and individual investors. Over its 26-year history, CLFNJ has not once failed to repay on an investment it has received. More information regarding CLFNJ's financial strength can be found in its three most recent audited financial statements (Appendix D)

3. Protection against Risk

CLFNJ has a thorough loan underwriting process with sufficient internal controls to safeguard the organization against risk while still ensuring that its loans and investments meet its mission of transforming at-risk communities. CLFNJ's underwriting process begins with a member of its six-person lending team, who meets one-on-one with each potential borrower or guarantee recipient and then meticulously reviews their internal composition and financial strength (including budgets, cash flow projections, board and management compositions, and a variety of other documents), as well as the budgeting, development, and community benefit associated with the project for which they are requesting capital or a guarantee. The lender assigns each potential project a risk rating on a scale of 1 to 6, a determination of the likelihood that the borrower will repay the loan based on economic capacity, track record, and project details. This risk rating assists CLFNJ staff in determining a) whether or not to approve an investment and b) how much of CLFNJ's loan loss reserve pool should be allocated to the project if it is approved.

If the lender determines that the project is economically sound and a mission fit, they then prepare a credit approval memorandum (CAM) with all pertinent borrower and project details, which is vetted and amended by CLFNJ's senior management team. If approved, the CAM is presented to CLFNJ's Credit Committee, which is comprised of nine members with over

270 years in cumulative financial expertise. The Committee either approves the investment, requires additional conditions be met, or determines that the investment is not feasible. When a loan is approved by the Credit Committee, it must also receive sign off from CLFNJ's Chief Financial Officer or Vice President of Portfolio Compliance, and it is then sent to the loan servicing officer to be entered into CLFNJ's software so that the closing process can begin and funds can be advanced to the borrower.

CLFNJ's portfolio is monitored by a four-person compliance team, and performance is reviewed on a monthly basis by the compliance team, the lending team, and other senior staff members to analyze delinquencies and determine necessary corrective actions. Concurrently, the lender responsible for the project maintains a relationship with the borrower to remain aware of any adversity, follow up on any delinquent payments, provide technical guidance, or recommend loan modifications when necessary to ensure the borrower successfully completes the project. CLFNJ's accounting department monitors the balance of the loan or guarantee, while its resource development team tracks the impact of the loan or guarantee over time.

CLFNJ's six-person finance team and other staff members protect against risk in the organization's financial management by diligently working to maintain a diversity of funding sources, a large loan loss reserve pool, and a large quantity of unrestricted net assets, all of which have increased in amount over the past five years. CLFNJ's Chief Financial Officer regularly reviews the performance of the loan pools of CLFNJ and its affiliates, including its deployment ratio, liquidity, loan loss reserves, sources of funds, and investment performance.

CLFNJ prevents financial fraud by maintaining a series of internal controls related to transaction documentation, separation of duties, and the approval from senior management of all transactions. As examples of this fraud prevention, CLFNJ requires that mail be opened by an employee without responsibility to approve financial transactions, that payment vouchers be composed and approved by senior staff for all expenditures, and that loan agreements are signed by an officer of the organization. CLFNJ plans to implement other safeguards in the coming years, including the expansion of its electronic billing and payment system.

4. Expertise in Education and Risk Assessment

Over the last ten years, CLFNJ has established itself as among the most experienced, knowledgeable, and high-capacity community development lenders in education and charter school facility financing, and its knowledge of the charter school industry extends far beyond financing and into the realm of policy and best practices for education. This expertise allows CLFNJ to not only assess the financial value or risk of providing a loan or a guarantee, but to assess its potential impact on educational outcomes and to project student performance at a given charter school. Thus, beyond CLFNJ's reliable five-point risk rating system for project viability (detailed in the above section and in Table 4), the organization can also assess risk that the charter school will not perform to the standards of its peer institutions.

This expertise can be seen in the outputs and outcomes of CLFNJ's capital. As noted, CLFNJ has provided a variety of loans—from acquisition to permanent capital—and credit enhancements to nearly two dozen of charter schools in New Jersey, almost all of which have enabled the successful completion of new or expanded facilities and the improvement of the given school's ability to effectively serve its students. The investments have created or preserved over 10,800 charter school seats in total, with most in high-performing schools serving low-income students.

The following two examples demonstrate the particular impact of CLFNJ's loan and lease guarantees in successfully expanding charter schools and producing positive outcomes:

- Unity Charter School, a K-8 school in Morris County, combines a quality education and high academic performance with the incorporation of environmentalism into each aspect of its operation, from its eco-conscious curriculum to its organic lunches to its composting garden. While Unity is no longer located in an underserved geography, it too faced deficiencies in space per student and basic amenities, and as the school grew it was eventually forced to hang sheets to separate classes. In 2010, Unity turned to CLFNJ to guarantee a lease on an expanded new facility, enabling the school to lease the facility and expand from 105 to 180 students. Unity's new facility also includes a gated outdoor play space, real classroom walls, and a multipurpose room for the students.
- In 2011, CLFNJ deployed $10 million in New Markets Tax Credits to help finance Teachers' Village, an award-winning 11-block mixed use development in downtown Newark. Aside from 205 units of workforce housing and 65,000 square feet of small business retail space, Teachers' Village is now home to three high-performing charter schools: an elementary school operated by TEAM Academy, Discovery Charter School (a middle school), and Great Oaks Charter school, a middle school in its third year of operation and eventually expanding to include a high school. Together, the schools will comprise over 1,000 students by 2016, over 80% of who will be low-income and/or minority. While CLFNJ's NMTC investment is what enabled the development of the 78,000 square feet of facility space to house the schools, its credit enhancement grant is what allowed it to provide them each with lease guarantees to a) allow them to access these state-of-the-art facilities, b) ensure their stability during unforeseen future financial hindrances, and c) lower their monthly occupancy costs.

5. Prevention of Conflicts of Interest

In CLFNJ's manual of personnel policies, it specifies that "employees have an obligation to conduct the business of the organization without actual conflicts of interest or situations that create an inappropriate appearance of a conflict of interest." Specifically, the manual states that "if employees have any influence on transactions involving purchases, contracts, or similar matters, it is imperative that they disclose to the Executive Director or their supervisor, as soon as possible, the existence of any actual or potential conflict of interest so that safeguards can be established to protect all parties." CLFNJ has remained committed to this policy.

Also, CLFNJ's Corporate Governance Principals state, among other principals surrounding conflict of interest, that CLFNJ's Board of Directors must "avoid even the appearance of a conflict of interest that might embarrass the Board or the Company, and disclose any possible conflicts to the Board in a timely fashion." After disclosing any possible conflicts, Board practice requires recusal for any Board or Committee member with any potential conflict of interest, which is noted in the minutes. In addition, any Committee action with a recusal then requires that the Committee's vote be considered a recommendation (rather than an action) that then must go to the Board for review. This policy has been upheld consistently. Recently, CLFNJ's lending team leader (and project director of its charter school credit enhancement program) removed himself from the board of a foundation that support a charter school to which CLFNJ was considering providing a loan and guarantee, averting a conflict of interest.

6. Partner Contributions

As indicated throughout this proposal, CLFNJ's primary partner in its proposed charter school credit enhancement program is CAPC, its high-capacity real estate subsidiary. CAPC will annually contribute technical assistance to approximately two New Jersey charter schools that are receiving a CLFNJ loan or lease guarantee by providing risk assessment, project feasibility studies, lease negotiation, owner's representative services, and other guidance on facility development, helping these early-stage and independent schools to save money and to successfully complete transactions for new or improved facilities.

On a national scale, CLFNJ anticipates partnering with NeighborWorks America to identify charter schools in need of loan or lease guarantees in states outside of New Jersey that are friendly to charter schools. NeighborWorks is among the largest community development networks in the country, providing funding, training, and technical assistance over 235 members in all 50 states and over 4,500 communities to help them improve their service of low-income populations. NeighborWorks has been a strong supporter of CLFNJ since the organization became a NeighborWorks member in 2011, and CLFNJ will look to NeighborWorks to help it connect with local community development leaders in the appropriate markets so that it can effectively work with new early-stage and independent charter schools that would benefit from a facility loan or lease guarantee, with an emphasis on projects that, if completed successfully, would influence and/or create further stabilization opportunities in their surrounding markets.

7. Prior Performance

CLFNJ's successful performance in deploying its 2006 charter school credit enhancement grant has been documented throughout this application, and its 2013 annual performance report is included in this proposal as Appendix J. The report details CLFNJ's year-to-year provision of over $14.4 million in 42 loan and lease guarantees for the facilities of 21 charter schools, which credit enhance $58.6 million in total loans and to leverage $151.4 million in total project costs. Each loan that was guaranteed was provided by CLFNJ or an affiliate—Community Lending Partners of New Jersey, Inc. (CLPNJ)—and the loans ranged from acquisition bridge loans to construction loans to permanent loans. In addition, CLFNJ credit enhanced its portion of a NMTC leveraged loan in Washington, DC. The loan guarantees allowed CLFNJ or CLPNJ to provide the majority of these loans at below market fixed rates, allowing the schools to channel more funds into instruction and other operations. In total, the guarantees enabled the acquisition or development facility space to serve over 8,300 new and existing charter school students, over 62% of whom qualified for free or reduced-price lunches.

In total, CLFNJ's loans, guarantees, and other financial services have accounted for $68 million in financing for 21 charter schools and 32 campuses. These investments have leveraged $179.5 million in total project costs, creating or preserving over 10,800 charter school seats—over 6,800 of which served students who qualified for free or reduced-price lunches—and 928,000 square feet in facility space. This impact data is further detailed in Appendix M.

D. <u>Quality of Project Personnel</u>

CLFNJ's management team and supporting staff members have extensive experience in effectively deploying capital to underserved communities and in empowering its borrowers to achieve long-term success in serving their target populations. Over the last ten years, CLFNJ staff members have become exceptionally skilled in addressing the financial and facility-related needs of charter schools. Since the incorporation of CAPC in 2009 as a real estate acquisition and development arm, CLFNJ has also attained a degree of real estate development capacity and knowledge that transcends most other community development lenders.

1. Staff Qualifications

CLFNJ will rely on the following staff members to design, implement, and monitor its charter school credit enhancement program as outlined in this proposal:

- *Joseph Palazzolo, Lending Team Leader, Education and Early Care:* Mr. Palazzolo joined CLFNJ in 2006 and has been responsible for managing all aspects of CLFNJ's large-scale implementation of charter school lending and credit enhancement. These responsibilities include outreach and business development, underwriting and closing loans, managing relationships with borrowers, providing financial guidance, and overseeing all deployment, reporting, and management responsibilities of CLFNJ's existing charter school credit enhancement grant. Mr. Palazzolo's continuous support and promotion of New Jersey charter schools earned him the 2013 Advocate of the Year award from the New Jersey Charter School Association (NJCSA). He has construction management experience gained via tenure at a nonprofit redevelopment agency and is in the process of earning a Post-Master's Certificate in Curriculum Studies at Monmouth University.
- *Wayne Meyer, President:* Mr. Meyer became CLFNJ's President in 2009 and has been at the forefront of its tremendous growth, innovation, and expansion of impact over the past five years. Mr. Meyer is responsible for the development of CLFNJ's comprehensive strategic vision, led the conceptualization and implementation of its groundbreaking neighborhood stabilization programs (including CAPC), and has spearheaded its extensive investments in New Jersey's Hurricane Sandy recovery efforts, for which he was honored by the White House as a 2013 Hurricane Sandy Champion of Change. Mr. Meyer has 35 years of professional experience, including expertise in law, finance, asset management, and nonprofit real estate development. He is widely recognized as a national expert in community development finance and

has been asked to represent CLFNJ on numerous community development related boards, committees, and panels across the country.

- *Marie Mascherin, Chief Lending Officer:* Ms. Mascherin became Chief Lending Officer of CLFNJ in 2008 after serving on its Board of Directors for the nine prior years. She oversees of all of CLFNJ's lending activities, including business development, strategic planning, product development, borrower relationships, budgeting, and portfolio performance. She also oversees the implementation and development of CLFNJ's charter school credit enhancement activities. Ms. Mascherin has over 25 years of experience in commercial banking and real estate mortgage lending, and she has a number of positions on state and national nonprofit boards and committees.
- *Jacki Robinson, Chief Financial Officer:* Ms. Robinson joined CLFNJ in 2012 and is responsible for the stewardship and management of CLFNJ's more than $300 million in assets under management, including its charter school credit enhancement grant. She leads CLFNJ in the critical tasks of budgeting, financial auditing, reporting, capital and cash management, and financial decision-making. She has served as a Chief Financial Officer in the non-profit sector for over 12 years, strengthening organizations with missions that range from international entrepreneurship to local community development and social services.
- *Jeffrey Crum, Director of Real Estate, Community Asset Preservation Corporation:* Mr. Crum became the Director of Real Estate in 2011, where he directs and oversees CAPC's day-to-day management of $40 million in real estate development, including acquisition, rehabilitation, redevelopment partnerships with local community

developers, and relationship building with a range of stakeholders that include municipal officials, local contractors, and private and nonprofit financers. Prior to joining CLFNJ and CAPC, Mr. Crum was the Vice President of Real Estate Development at Build With Purpose, where he directly managed and analyzed the viability and risk of over $20 million in real estate projects, which largely consisted of charter school facilities. Finally, Mr. Crum also served as Director of Real Estate Development at the New Jersey Community Development Corporation, where he oversaw a successful application for a charter from NJDOE—the Community Charter School of Paterson—and was the point person in developing the school's facility.

In total, CLFNJ has 32 staff members (double its staff size in 2009) with a range of experience and expertise, many of whom will be involved more peripherally in the development, promotion, underwriting, compliance, technical assistance, and impact assessment related to the charter school credit enhancement program.

2. Staffing Plan

As noted, Mr. Palazzolo will manage this program and will dedicate at least 75% of his staff time to charter school work. Mr. Palazzolo's responsibilities as project director will include a) developing program materials, b) building relationships with potential recipient charter schools, c) taking in loan and guarantee applications, d) performing due diligence and assessments of need, feasibility, and school performance, e) underwriting facility loans and loan or lease guarantees, f) providing financial guidance to charter school recipients as needed, and g) upholding one-on-one relationships with each charter school during and beyond the guarantee term. He will also monitor the program's provision of other technical assistance, assessment and reporting, and portfolio management. Ms. Mascherin will oversee this work and will share responsibility for developing new business and monitoring performance and adherence to CLFNJ's financial goals and social mission. CLFNJ's four other lending team members will offer a degree of support with the tasks designated to Mr. Palazzolo on an as-needed basis. Peter Schaeffing, CLFNJ's Underwriter, will assist in underwriting all applications and in inputting the enhancements into CLFNJ's loan servicing software.

Other staffing responsibilities are as follows:

- Mr. Crum will implement the provision of all project risk assessments, feasibility studies, lease negotiations, owner's representation services, and other real estate technical assistance to schools that are in need of facility development support.
- Ms. Robinson will assume the responsibility of monitoring the financial performance of the credit enhancement, ensuring that it is invested as per the guidance of the U.S. Department of Education, and promoting the grant fund's growth over time.
- David Bloomberg, CLFNJ's Vice President of Portfolio Management and Compliance, will monitor the guarantee pool for delinquencies and compliance issues, as well as conduct annual financial analyses on the charter schools.
- Jeffrey Yuen, CLFNJ's Impact Assessment Coordinator, will work with Mr. Palazzolo to meet all reporting requirements and to evaluate the impact of the program for both internal review and stakeholder awareness.
- Mr. Meyer will continue to incorporate the charter school credit enhancement program into CLFNJ's broader strategic planning for maximizing impact and fostering comprehensive community stabilization in underserved communities.

Part III: Competitive Preference Priority

Most charter schools that CLFNJ has funded in the past ten years have served large percentages of low-income students in New Jersey cities and communities with underperforming public schools and high low-income populations. CLFNJ seeks to use this credit enhancement grant to once again target charter schools in communities with the greatest need for school choice. As noted, 25 of the 40 schools that CLFNJ seeks to credit enhance in the next five years will be located in Newark, Jersey City, Camden, and Trenton, all areas that meet this criterion. CLFNJ will aim to target its remaining projected loan and lease guarantees to schools in similar circumstances, whether in New Jersey or elsewhere in the country, although the specific markets will depend on where needs emerge. The following information and data substantiates the disadvantage and underperformance in CLFNJ's four-city target area, which it will use as a proxy for all beneficiaries of its charter school credit enhancement grant program.

1. Identification for Improvement, Corrective Action, or Restructuring under Title I

The application indicates that Competitive Preference Priority applicants in states with approved ESEA flexibility requests under Title I of the Elementary and Secondary Education Act of 1975 should prioritize locations with a large number or proportion of priority schools and focus schools. Under the New Jersey Department of Education's approved ESEA flexibility request, the Department defines priority schools as "schools that have been identified as among the lowest-performing five percent of Title I schools in the state over the past three years, or any non-Title I school that would otherwise have met the same criteria," and focus schools as "about 10% of schools with the overall lowest subgroup performance, a graduation rate below 75%, and the widest gaps in achievement between different subgroups of students."[7] According to the

[7] http://www.state.nj.us/education/rac/schools/

Department, 29 of the 75 public schools in Newark are priority and focus schools, 16 of 39 in Jersey City, 18 of 23 in Trenton, and 22 of 32 in Camden (Paterson is the only other city in New Jersey with more than 15 such schools).[8] CLFNJ believes that the proportions in each city reflect an especially high need for school choice and, in turn, a need for charter schools with adequate and expanded facilities to provide more (and higher quality support) to students in need.

2. Student Performance below Proficiency

Each year, the NJDOE completes a High School Proficiency Assessment,[9] which tests the proficiency of high school students in both language arts literacy and mathematics. The 2013 state assessment tested almost 97,000 11th-grade students and found that in language arts literacy, 26.6% of students were advanced proficient, 65.0% were proficient, and 8.4% were partially proficient. In mathematics, 29.1% of students were advanced proficient, 50.6% were proficient, and 20.4% were partially proficient. In the sampled traditional public schools in CLFNJ's four-city target area, performance in both categories was generally lower than state averages:

- Newark: from a sample of 1783 students, 22.1% were partially proficient in language arts literacy and 39.2% were partially proficient in mathematics.
- Jersey City: from a sample of 1024 students, 19.5% were partially proficient in language arts literacy and 36.8% were partially proficient in mathematics.
- Camden: from a sample of 448 students, 58.8% were partially proficient in language arts literacy and 80.4% were partially proficient in mathematics.
- Trenton: from a sample of 508 students, 32.1% were partially proficient in language arts literacy and 63.6% were partially proficient in mathematics.

[8] http://www.state.nj.us/education/reform/PFRschools/PriorityFocusSchools.pdf
[9] http://www.state.nj.us/education/schools/achievement/13/hspa/

Table 1: Student Proficiency in Four-City Target Area

Area	Students	PP Lang	P Lang	AP Lang	PP Math	P Math	AP Math
State	95457	8.4	65.0	26.6	20.4	50.6	29.1
Newark	1783	22.1	71.5	6.3	39.2	49.8	11.0
Jersey City	1024	19.5	66.7	13.8	36.8	44.2	19.0
Camden	448	58.8	40.5	0.7	80.4	19.2	0.5
Trenton	508	32.1	65.1	2.8	63.6	32.9	3.5

As these data indicate (and as the Table 1 further illuminates), traditional public schools students in each of CLFNJ's target cities are, on average, far more likely to perform below proficiency (i.e. at partial proficiency) in both categories than other students in New Jersey, as well as being far less likely to attain advanced proficiency. The level of underperformance is especially extreme in Camden and—to only a somewhat lesser extent—in Trenton. These data further demonstrate the importance of strong and well-funded alternative educational options.

3. Students from Low-Income Families

In 2012, median household income (MHI) was $31,293 in Newark, $25,681 in Camden, and $31,311 Trenton,[10] all well below the state average of $71,637. And while the MHI was $56,794 in Jersey City, its two poorest zip codes, 07304 and 07305, had MHIs of $42,956 and $54,009 respectively, also well below the state average.[11] For families with children under 18 years of age, the poverty rate was 37.1% in Newark, 26.1% in Jersey City, 47.5% in Camden, and 33.3% in Trenton. These data indicate that there are substantial numbers of students from low-income families in each district.

[10] American Community Survey, U.S. Census Bureau, 2012
[11] http://www.city-data.com/zipmaps/Jersey-City-New-Jersey.html

As further substantiation of the extent to which this four city area is a community of need, each city's existing charter schools are dominated by students who qualify for free or reduced-price lunches, a proxy for their status as low-income children. The percentage of charter school students eligible for free or reduced-price lunches in 2012 was 84.1% in Newark, 68.4% in Jersey City, 89.4% in Camden, and 87.4% in Trenton.[12] CLFNJ anticipates that its charter school credit enhancement program will serve a population that is reflective of the populations of the surrounding communities and of the current demographics of the charter schools in each locale, further indicating its service of students with the highest need.

12 http://dashboard.publiccharters.org/dashboard/students/page/lunch/state/NJ/year/2012