TENNESSEE CHARTER SCHOOL FACILITIES PROGRAM

Low Income Investment Fund
Tennessee Charter School Center

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A. QUALITY OF PROJECT DESIGN AND SIGNIFICANCE

Summary

A leading Community Development Financial Institution (CDFI), the Low Income Investment Fund (LIIF) and the leading charter school policy and capacity building organization in Tennessee, the Tennessee Charter School Center (TCSC) have joined forces to launch *The $50MM Tennessee Charter Facilities Program (The Program)*. Together, we request a grant of up to $8MM subject to availability under the U.S. Department of Education's *Credit Enhancement for Charter School Facilities Program* (CEP). Note, LIIF and TCSC have designed *The Program* to scale according to award size received. Award funds will be used to increase high-quality educational opportunities for low-income students in under-performing school districts across the state of Tennessee. We estimate leveraging the CEP grant at least 6.25:1 with private capital over five years, financing 20 schools and serving 7,500 students.

CEP funds will allow us to deliver a state-wide program custom-built for Tennessee, one of the highest need states for school choice and one of the fastest growing charter school markets in the nation. Equipped with deep charter school financing experience and a strong track-record of quality investing ($550MM deployed to date; losses <1%), LIIF will administer and engineer the CEP award, serving as the capital and facilities financing expert, delivering innovative capital tools and raising capital to build-out a private financing market for Tennessee charter schools. Complementing financing activities, TCSC will work on the ground with schools, delivering a robust program that is custom designed to guide Tennessee-based charter schools in every step of the facility development and expansion process. As the leading expert in the Tennessee charter school market, with deep relationships with each of Tennessee's 107 operating charter schools, TCSC brings nearly 20 years of experience in providing on-the-ground technical assistance to charter schools and effective state policy to advance the charter school movement in Tennessee.

This partnership offers a highly efficient "one-stop shop" that addresses not only the capital needs of Tennessee's charter schools but the capacity building required to ensure charter school operators realize their growth plans and facility projects are executed to success. This partnership offers unique benefits that only collaboration between one of the strongest CDFIs and the strongest state-wide expert on the needs of Tennessee's charter schools can deliver.

Market Challenges for Tennessee

Although the Tennessee charter market is rapidly growing (having ranked #3 in the country for the 2016 school year in terms of growth) it is less mature in terms of number and track record of school operators, development capacity and capital availability, all of which create unique challenges for schools operating in this market. Indeed, over the past 5 years, charter schools grew by 69% from 33 operating schools to 107 schools – leaving a large majority of schools classified as early stage (< 4 years old). While financing options are available to charter schools in more mature markets, these options are still not available in less mature markets such as Tennessee where schools are young; indeed, the state is marked as underserved even by CDFIs. TCSC estimates that only 20% of the State's charter schools have successfully secured financing from traditional banks.

LIIF and TCSC seek to leverage the CEP funds to create additional financing options for Tennessee charter operators, by offering products with below market interest rates and highly flexible terms that are designed to address the identified market-specific challenges discussed herein.

For example, one of the market-specific challenges LIIF and TCSC have identified is LTV gaps caused by single use appraisals, particularly in Memphis, where proposed charter school facility development projects are being appraised at values significantly below the actual cost to build/develop the facility. This appraisal issue makes it difficult for schools to secure the debt financing necessary to move forward with proposed projects, irrespective of the adequacy of operations to pay debt service on the debt financing. While there are banks in Tennessee that are willing to finance charter facility projects, some even at LTVs of up to 90%, this is often insufficient to address the issue. Given the appraisal challenge, the market is looking to CDFIs and philanthropic sources of capital to provide debt to fill the gap caused by low appraised values. *The Program* will enable LIIF to provide both flexible subordinate financing, where bank debt is available in a senior position but at lower LTVs, as well as first lien loans up to 120% LTV, or more, based on availability of cash flow to service debt.

Schools seeking facilities in Nashville face a different set of challenges than those in Memphis, where the population is rapidly growing (86 people moving to Nashville every day) and a booming real-estate market is reaching record levels. These circumstances have left charter schools extremely challenged in securing developable properties for school facilities. Schools are losing out to private developers who are able to move quickly and pay higher prices for both vacant lots and existing facilities that can be torn down or rehabbed. [redacted]

While leased church sites can be a good option for younger schools, there is a need for leasehold financing to enable retrofits of the church buildings for school use. Leasehold financing can be challenging for schools to secure and is a product *The Program* will offer increased access to with the support of CEP funds.

Across all markets in Tennessee large swaths of early stage charter schools (<4 years of operation) continue to have difficulty accessing capital on any terms, with little or no leverage to push for flexibility in structure. While their educational programming is high quality, they struggle to secure permanent facilities for long-term sustainability due to a lack of access to flexible capital. While the industry has reliable indicators of success for the mature players, underwriting a new operator with limited performance data and no renewal track record requires significant diligence, not feasible for institutional players. Further, certain lenders struggle to support schools that serve high-need populations, worried they will lack consistent demand, or teacher/student retention—ultimately leading to poor performance and charter revocation.

Securing funds for equity contributions is another barrier for early stage schools that have limited balance sheets and no philanthropic support (most lenders, even CDFIs, require a minimum equity contribution of 10% of project costs). *The Program* will offer flexibility around this requirement, financing up to 100% of project costs for schools that have the demonstrated ability to support the debt and strong community support but no excess cash available for down payment.

LIIF and TCSC will work together to ensure CEP funds alleviate these two challenges—access and flexibility. We will seek to allocate CEP funds in an effort to open up the capital markets to high-quality early-stage operators in Tennessee, leveraging our local networks, national bank partners, and collective experience to identify models of success. These are deals that would not be completed at this stage of development without the expertise of LIIF and partner TCSC and the CEP grant. *The Program* will allocate CEP Funds to support more flexible terms and products, such as leasehold financing, lack of equity and higher LTVs, customized to the unique challenges faced in Tennessee as described below.

Better Rates and Terms

As the lead applicant and capital provider, LIIF will utilize CEP funds to provide financing to Tennessee charters schools at better rates and terms than they could receive in the market by enabling: (i) **access to capital** for quality early-stage charter schools, many of which are carrying out facilities projects for the first time; (ii) **access to capital** for established charter schools for which financing has been unattainable by bringing additional capital providers into the market; and (iii) **flexibility** to charter schools that have access to financing, but at terms that do not encourage their long-term growth and success. Primary attributes of Rates and Terms, include:

- Rates will not exceed 200 bps over LIIF's cost of capital for charter school financing. Though pricing offered may vary throughout the term of the grant award, LIIF is confident pricing offered through *The Program* will be below market;
- Loan to Value (LTV) as high as 120%; and in excess of 120% on a case by case basis;
- Limited to no equity requirement by providing financing of up to 100% of project costs, as needed;
- Other flexible terms include: Longer amortization (over 25 years), alternate collateral (leasehold mortgage), longer interest-only periods, debt service reserves sized larger than market to cover debt service for several years until schools achieve the enrollment necessary to breakeven, and subordinate debt.

These rates and terms exceed what we can offer with our revolving loan fund (RLF) capital and exceed what is available to charter schools through conventional sources. LIIF can only provide these benefits through the use of CEP funds.

Products: Per market needs, financing products will include: (1) acquisition, construction, and mini-permanent financing, (2) leasehold financing, (3) subordinate debt (4) NMTC leverage loans, and (5) permanent, fully amortizing financing. Financing tools will be tailored to meet a charter school's needs whether the school is early stage or mature, and regardless of the type of facility project the school is seeking to undertake.

(1) Acquisition, construction and mini-permanent financing: Schools ready to acquire, construct or expand facilities often find that conventional banks insist on several years of operating track record; a barrier for early stage schools. Also, earlier stage schools are not fully enrolled at the time of construction completion or acquisition. In these cases, LIIF is willing to size a large debt service reserve to carry the school until it reaches breakeven enrollment and can start making debt service payments out of cash flow from school operations. Commercial banks generally do not offer this flexibility. In addition, the construction converting to mini-permanent structure offered by LIIF allows schools several years of operation in the new facility once construction is complete before requiring refinance.

As an example, LIIF recently used CEP awards to provide $4.4MM in acquisition and construction financing for two schools in Washington, D.C. CEP funds allowed LIIF to stretch by providing low cost flexible financing to these two young charter schools, with three and zero years of operation, respectively. Pipeline schools such as [redacted] which are early stage and require $12.5MM in financing for acquisition and construction costs, will greatly benefit from this flexibility.

(2) Leasehold financing: LIIF will utilize CEP funds to support leasehold financing, for which there is a demonstrated need in the Tennessee market. Charter schools often begin in leased space (by necessity or choice) to get into buildings quickly or into premium spaces that owners will not sell. Leasing can allow for phasing in additional space as enrollment and financial resources grow, controlling costs while stabilizing operations and building cash reserves. However, leased space usually requires significant renovations, especially to be ready to meet the life safety requirements of school use and technology needs of a quality educational program. Leasehold improvement financing is difficult to obtain, since regulated lenders typically view these as unsecured loans.

This product will greatly benefit pipeline school [redacted] which requires leasehold financing to retrofit a building near its current campus. LIIF is well versed in providing this product, having recently supported the development of [redacted] in Washington, D.C. through $3.3MM in leasehold financing.

(3) Subordinate debt: Even when schools secure permanent financing from conventional lenders, a gap between the appraised value of the project and the cost to develop the project may require the school to make a larger equity contribution. Conventional lenders will frequently not lend above a LTV of 60-80%. LIIF will use the CEP funds to provide financing in a subordinate position, bringing the total financing up to **120%** or more of the appraised project value and leveraging the senior financing. Subordinate financing is much riskier, but a necessary position for many projects to work. CEP funds are critical to LIIF's ability to provide sub-debt, without which many charter school facility projects would simply not be financially viable. As described above, LIIF and TCSC have identified LTV gaps as one of the primary challenges to facility development in Tennessee. If a school is able to comfortably afford the debt service payments, we want to be able to stretch on LTV so schools can acquire the real estate they need to build high quality permanent facilities.

Such will be the case for pipeline school, [redacted] which requires a subordinate loan to address an LTV gap, as described elsewhere in the application. LIIF is already in discussions with this school for this subordinate financing that would only be possible through CEP funds. LIIF is well-versed in engineering this product. Most recently, it provided a $2MM subordinate loan to a school to help finance renovations on a former district school building. Credit enhancement provided through local government sources helped mitigate the LIIF risk of providing debt behind a $24MM senior loan.

(4) NMTC Loans: LIIF has received more than $450MM in NMTCs, of which, over $160MM has been used to support charter schools. NMTC financing provides an opportunity for schools to secure ownership of their facilities at significantly lower rates than other sources of financing. NMTC financing also provides schools with flexible terms, such as higher LTVs, longer amortization periods and non-traditional forms of collateral. LIIF often employs a NMTC structure that also creates up to 30% of the NMTC allocation as permanent equity for the school. NMTC leverage loans will be one of the products offered through the fund.

This product, which is scarcely available (due to competitiveness of NTMC awards), will greatly benefit [redacted]. The great benefit that this product delivers can be seen in our recent $6.75MM in NMTC allocation and $7.4MM in leverage debt (supported by CEP funds) to young school [redacted] in Los Angeles. Rates and terms were far below market, including LTV of 100% and a longer period of interest only payments.

(5) Long term, permanent financing: LIIF is able to offer up to 29-year, fully amortizing, fixed-rate loans through its allocation of CDFI Bond Guarantee Program funds. This long term fixed rate financing is often only accessible through the tax-exempt bond market and is typically not an option for earlier stage and standalone operators. Because our permanent loan product is limited to a LTV of 80%, LIIF will use the CE to support a separate long term subordinate loan that will offer schools higher loan proceeds reaching up to 100% and beyond in LTV. This will be an important product for organizations such as [redacted], which has secured a property housing two of its schools [redacted], and is seeking long term financing for this permanent home for its schools. LIIF regularly provides this hard-to-access product, and is currently in the process of closing $7MM in permanent financing to support a facility for [redacted] in New York City. LIIF will use CEP award funds to stretch by providing subordinate financing for the portion of the loan in excess of 80% LTV.

Capacity Building and Technical Assistance With over 70% of the 107 charter schools operating in Tennessee considered early stage (<4 years old) and explosive growth anticipated over the 5-year period, we expect that a high percentage of the charter schools we support will have never completed a facilities development project nor have had a charter renewal. Capacity building efforts will be executed with two primary goals in mind for charters: financial readiness to borrow and readiness to develop and own real estate. TCSC's services will include three programmatic elements, as outlined below. We expect 100% of early stage charter schools receiving CEP funds to participate.

(a) **State-wide workshops.** TCSC will conduct **10** state-wide workshops over the 5 year period. The purpose of the workshops will be to provide Tennessee charter schools with hands-on training on facilities financing and development. Workshops will feature topics such as: “Nuts and Bolts of Facilities Financing”; “Conforming Space to Meet Educational Needs”; “Managing a Charter School Development Timeline”; “Choosing the Right Finance Partner for Your School”; and “Navigating the Facility Development Process”, among others. Workshops will be open to all operating charter schools in Tennessee. This workshop forum will offer strong cross project learnings as many schools are pursuing similar projects in similar markets.

(b) **Comprehensive facilities financing planning.** TCSC will conduct comprehensive facilities planning, working with 40-50 charter schools over the 5-year period. The personalized TA will begin with an evaluation and assessment of school needs including examining their charter. The goal of the hands-on process, which will span multiple months, is to produce a 10-year “Facilities Growth Plan” custom built for the school, aligning with their paradigm of education. This Plan will serve as a facilities road map.

(c) **“Charter School Facilities Development” Toolkit.** TCSC will develop and disseminate a comprehensive toolkit to the field. The toolkit will provide a step-by-step guide for those pursuing charter school development projects from concept to construction. The toolkit will not only provide step-by-step instructions to schools but will also guide architects in the requirements around school design and general contractors who are often working on charter school development projects for the first time.

The purpose of these services is not only to ensure that charters receiving CEP funds are poised for success but to capacity build the field more broadly including the real estate development sector, which is still new to the requirements for charter facility development.

As an example, through our comprehensive program TCSC will continue readying [redacted] located in the heart of downtown Memphis. Despite having tremendous community support, finding real estate downtown has been a challenge. A local church stepped in to provide them with their main campus which serves grades 6-8. They are currently transforming [redacted] into a space to house their incoming fifth grade students. This will not be a long term solution. Due to the lack of affordable facilities and need for major tenant improvements, they are faced with little to no options for additional space.

TCSC will continue to work with them to map out their growth goals and translate that into a long-term facilities plan. LIIF anticipates providing [redacted] with financing to acquire and rehab a facility once the school has identified a property that is appropriately zoned. Supported by CEP funds, the construction loan will have an anticipated below market interest rate of 5%, and will be structured with a larger debt service reserve and flexible longer interest-only period, giving the school time to grow its enrollment in the new facility before having to make principal payments.

Goals, Objectives, and Timeline

Goal 1: Expand access to capital for charter school facility projects to support a variety of school borrowers across high-need geographies in Tennessee.

(a) Measurable Objective: Enable the delivery of $50MM to at least 20 schools across high-need markets in Tennessee over the next 5 years, with the goal of recycling funds to an additional 16 schools in Years 6-10.

(b) Measurable Objective: Increase the types of schools able to secure financing by focusing on early stage schools (2-4 years of operation). At least 70% of schools supported will be early stage or established CMOs launching new schools.

Goal 2: Offer maximum benefit to charter schools by providing a wide variety of targeted products with favorable terms and/or flexible financing structures.

(a) Measurable Objective: Provide greater flexibility in *terms* to meet the needs of the borrower and encourage long-term success. Greater than 75% of loans deployed will include at least one of the following characteristics, as compared to standard products in the market: higher LTV (up to 120%), longer amortization periods (over 25 years), variety in loan term and size or alternate collateral options such as leasehold mortgage and subordinated debt.

(b) Measurable Objective: Provide maximum product types to meet the diverse needs of markets. To the extent feasible, LIIF will offer the following products in 100% of target markets served: construction, mini-perm, leverage loans, NMTC, leasehold financing, subordinated debt and fully amortizing permanent debt (subject to BGP availability).

Goal 3: Improve school choice for low-income students in the highest-need districts.

(a) Measurable Objective: Support schools in districts that are most in need and are lowest performing: >85% of schools: will have >75% of the student population qualifying for FRL; will be in areas where >40% of students perform below proficient on State academic assessments; and will be located in areas >25% of public schools are flagged as underperforming (See Competitive Preference Priorities)

(b) Measurable Objective: Support high quality schools, as demonstrated through data, that are outperforming their peers in regions served. By Year 5 of financing, 60% of the charter schools supported will have standardized State reading/language arts literacy and mathematics scores exceeding average scores in their district cluster and 75% of high schools will outperform district cluster peers as measured by graduation rates.

Goal 4: LIIF will increase the level of investment in the Tennessee charter school market.

(a) Measurable Objective: Utilize $8MM in grant funds to leverage $50MM of private capital, at a rate of 6.25:1, within the first five years of the grant. Recycle the grant as loans are repaid and exceed the 6.25:1 leverage target in Years 6+. LIIF and TCSC have structured *The Program* to meet the specific challenges of the Tennessee charter school market at this stage in its development and believe the proposed leverage of 6.25:1 to be appropriate given the unique characteristics of the market, as detailed in this application.

(b) Measurable Objective: Attract 3 capital providers as 'new entrants' in CEP-supported projects; New entrants are either new to charter school financing and/or a new participant in the Tennessee market, They will either provide capital to CEP supported projects or provide takeout sources for projects supported by CEP funds (see Invitational Priority).

To achieve the leverage goal LIIF will utilize immediate capital made available through our RLF to encourage additional capital players to participate in loan structures, including local banks. We've already obtained financial commitment letters from 10 capital partners; (see A-11).

<u>Goal 5: Increase capacity and facilities financing knowledge for Tennessee charter schools.</u>

(a) Measurable Objective: Deliver a series of 10 state-wide workshops over 5 years to provide Tennessee charter schools with training on facilities financing and development.

(b) Measurable Objective: Deliver comprehensive facilities financing technical assistance to 40-50 charter schools resulting in the development of a 10-year "Facilities Growth Plan" that aligns with the schools paradigm of education.

(c) Measurable Objective: Deliver a "Charter School Facilities Development" Toolkit which will provide a step-by-step guide for Tennessee based charter school development projects to guide a project from concept to construction.

The below table provides a high-level timeline for carrying out the above activities, including Program Performance Measures and Project-Specific Performance Measures:

Table 1: CEP Timeline, Performance Measures and Expected Results

<table>
<tr><th>Timeframe</th><th># of Schools Served</th><th>Total Leveraged ($)</th><th># of Seats*</th><th>Need for School Choice</th><th>Early Stage Schools</th><th>Capacity Building</th></tr>
<tr><td>Year 1</td><td>2</td><td>$6,000,000</td><td>750</td><td rowspan="5">85% of schools served are high need and low performing areas**</td><td rowspan="5">70% are early stage schools ***</td><td rowspan="5">Facilities Growth Plans are developed for 40-50 schools

10 state-wide training workshops

Development Tool Kit assembled and distributed to sector</td></tr>
<tr><td>Year 2</td><td>4</td><td>$12,000,000</td><td>1,500</td></tr>
<tr><td>Year 3</td><td>5</td><td>$12,000,000</td><td>1,875</td></tr>
<tr><td>Year 4</td><td>4</td><td>$8,000,000</td><td>1,500</td></tr>
<tr><td>Year 5</td><td>5</td><td>$12,000,000</td><td>1,875</td></tr>
<tr><td>TOTAL</td><td>20</td><td>$50,000,000</td><td>7,500</td><td></td><td></td><td></td></tr>
<tr><td colspan="7">Years 6-10, First Recycling of Grant Dollars
Leverage 75% of the grant award at 6.25:1.00, resulting in additional leverage of $37,500,000 and an additional 16 schools served</td></tr>
</table>

** Reflects total seats created and preserved at stabilized enrollment*
*** See Goal #3, Measurable Objective (a) for definition of "high-need and low performing"*
**** Defined as Schools with less than 4 years of operations and/or established CMOs launching new schools*

Plan, Activities & Partnerships will Achieve Objectives

We are confident the proposed Program will succeed:

1) LIIF maintains a long track record of successfully carrying out similar financing activities;

2) TSCS has already started this capacity-building work; it has received funding from local foundations and is in the process of designing the capacity building program that will be paired with the flexible financing tools offered through *The Program*;

3) The LIIF/TCSC partnership is already formed, including roles and responsibilities and objectives/goals over the five year period (see A-1 for draft MOU);

4) LIIF and TCSC have developed a robust pipeline for the very types of projects that we are targeting for CEP funds, and

5) The proposed strategy is well-vetted and designed in response to market and borrower needs

Pipeline: Our pipeline of charter school projects totals 28 operators (>11,000 desks) across the State who are requesting $150MM in financing representing nearly $170MM in development costs. These projects both demonstrate demand and provide illustrative examples of the types of projects we intend to support and their expected achievements (See A-16 for Pipeline). LIIF and TCSC believe the financing need is actually far greater than what is reflected in this pipeline as many schools are still early enough in their growth trajectory that they haven't yet identified the full scope of their facility needs. Two projects are highlighted below.

For example, LIIF expects to use CEP funds to support [redacted] for construction of a new high school facility that will create 750 new seats in the South Nashville, a community that has seen significant population growth over the last several years. [redacted] has identified a lender willing to provide senior debt for the project, but has an appraisal gap of 25% (the LTV is 115% and the senior lender will only lend up to 90%); LIIF is working with [redacted] to fill such a gap through flexible subordinate debt that will achieve the necessary 120% and enable the project to proceed. Due to the high LTV, LIIF would not be able to finance this project without the support of CEP funds. [redacted]

Another expected project includes $6MM in financing through a NMTC structure plus a possible bridge loan that we expect to provide to [redacted] to support the charter school it operates [redacted] The school opened its doors in the Fall 2015 and currently serves 155 students in Kindergarten and 1st grade; it will grow to serve 936 students in grades K-8. Explore is currently incubating in temporary leased space that will be too small to accommodate its enrollment by Fall 2018. As the school does not have sufficient funds to provide the equity contribution a traditional lender would require, LIIF has identified NMTCs as a critical financing tool that can help [redacted] develop its space. With only two years of operating track record and limited financial strength, the school would typically be unable to attract this type of investment; LIIF will use CEP funds to offset the risk associated with such an early stage school and make the transaction feasible.

Other pipeline clients include: [redacted] Indeed, each of these charter schools has also provided a letter of support for *The Program*.

<u>Producing Replicable Results</u>

LIIF and TCSC will utilize CEP funds to produce replicable results. This partnership presents a unique opportunity for an experienced, high capacity lender and a market/TA expert to come together and target CEP funds to deliver a state-wide strategy for Tennessee. LIIF and TCSC have designed a custom program for Tennessee, one of the highest need states for school choice and one of the fastest growing charter school markets in the nation.

We believe this approach will provide a model for how CEP funds can deliver a targeted state-wide strategy accompanied by a complementary capacity building program to contribute to its success. It will also include learnings on how best to responsibly evolve young, rapidly growing charter school markets. Together, we will document and determine the most effective factors, tools and strategies that lead to the success of charter schools and charter facility development in Tennessee, ensuring the learnings are passed along to other states that face similar challenges. We believe the use of CEP funds in this manner will provide a model for making deep state-wide impact, offering a strategy other states can adopt.

Selecting Charter Schools

LIIF has a long track record of financing and developing successful charter schools and has developed specialized knowledge and underwriting processes for evaluating charter schools.

As an expert in the Tennessee charter school sector, TCSC will work alongside LIIF conducting outreach efforts to identify eligible, high-quality charter schools, with a focus on projects that would not reasonably be financed at favorable terms without CEP grant funds. LIIF will apply its evaluation and underwriting process for determining investment-quality charter school projects.

First, we will target investments to charter schools: (i) That are earlier stage (2-4 years of operating history). Start-up schools will also be considered on an exception basis; (ii) Have an ability to sustainably support the proposed project debt as demonstrated by a 1.2:1.0 debt service coverage ratio once stabilized/full enrollment is reached; (iii) Operate in areas that have the greatest need for choice (according to the % of FRL and/or those designated as Title I), and (iv) that either demonstrate academic quality and results, or for early stage schools, demonstrates the potential for quality based on the school model or on performance of its founding CMO. LIIF will work with TCSC on identifying the appropriate academic metrics.

TCSC maintains relationships with nearly each of Tennessee's charter schools, CMOs, statewide associations, and authorizers; these relationships will help identify schools that fit these criteria. Once identified, rigorous evaluation of the school's viability will be applied. This includes: (i) historical financial analysis; (ii) repayment and refinance risk; (iii) the depth of experience and track record of school leadership; (iv) academic model; (v) academic performance to date; (vi) the charter school funding environment and local political risk, including quality of authorizer; (vii) student demand and enrollment trends; and (viii) collateral.

We will apply additional evaluation measures to early-stage schools (<4 years in operation) such as examining local demand, start-up budget, community engagement, growth projections and waiting lists, and authorizer feedback.

Leveraging Private/Public Funding

A CEP grant of $8MM will be used to provide $50MM in capital to projects within the 5 years of the project period, achieving an estimated leverage ratio of 6.25:1.

Leverage will be achieved through (i) a capital pool immediately provided by LIIF and (ii) LIIF's strong participation networks of other capital providers, including new entrants to the market. Funds will be recycled in Years 6-10, with an estimated additional $37.5MM capital leveraged. Over 10 years, these funds, totaling $87.5MM will support an estimated 36 schools and 13,500 education desks. With 70% expected to be early stage and 30% more mature schools, *The Program* will significantly increase the number and variety of charter schools assisted in Tennessee. Combined with our capacity building program, we expect to support and fuel the growth plans of over 50% of the charter school sector in Tennessee.

Serving States with Strong Charter Laws

LIIF and TCSC will target CEP funds to qualified schools in Tennessee, where there is a strong pro-charter environment consistent with the following three criteria: (1) The State is accountable for meeting clear and measurable objectives for the educational progress of the students attending the school; (2) The State has multiple authorizers or a strong appeals process; and (3) The State ensures charter schools have a high degree of fiscal autonomy.

To evaluate how Tennessee performs against the above criteria, we utilized the National Alliance for Public Charter Schools (NAPCS) 2017 state rankings, and NAPCS data on the health of the charter movement in Tennessee. We will use CEP funds to build on the momentum of Tennessee charters: for the 2015-2016 school year Tennessee opened 20 new charters serving 11,000 students and ranking Tennessee third in the country for new charter openings.

Tennessee continues to show signs of positive pro-charter school laws and policies. This year, lawmakers in the legislature are debating a large-scale charter overhaul that would address many of the concerns of charter advocates, including facilities financing. The facilities plan calls for the state to set aside $6MM per year for three years to create a charter school facilities fund where schools can apply for grants to help with facility financing.

Project Costs are Reasonable

We believe our CEP request and associated project costs are reasonable. The deployment of the CEP over the 5-year program period is achievable. The project cost estimates are based on LIIF's experience as a lender on the actual cost of underwriting loans and deploying / managing capital. LIIF has the necessary staffing and systems in place and we can start deploying the CEP immediately and efficiently, at no additional cost.

TCSC, our highly experience capacity building partner is 100% grant funded and will provide services in conjunction with the project free of charge to the charter school operator.

In sum, we will absorb all administrative costs associated with CEP, allowing the entire grant to benefit schools. Our conservative projections show the financial viability of the project design over the 5-year program period. Key assumptions of the cash flow *pro forma* (A-4) are summarized below:

- Transaction Volume: Assuming an $8MM CEP award, we will fully deploy the funds over the 5-year program period to finance an estimated 20 transactions. LIIF's financial model assumes a range of loan types and sizes based on historical trends, input from charter operators on financing needs, and the goals set forth in the project design of *The*

Program. The actual number of transactions may vary depend on the average size of the loans. LIIF anticipates additional schools served through recycled funds after Year 5.

- <u>Leverage:</u> We will achieve a 6.25:1 leverage over the five-year program period. The $8MM CEP is anticipated to facilitate at least $50MM in lending over the five years. LIIF anticipates further leveraging of the CEP with recycled funds after Year 5.
- <u>Loan Losses:</u> The financial model assumes a loan loss reserve of 0.50% of outstanding loans. Should no loan occur, the funds will be retained in the reserve account.
- <u>Revenue:</u> Projected revenues through *The Program* include origination fees, earned interest income on outstanding loans, and interest earnings on reserve account funds.
- <u>Expenses:</u> Expenses include underwriting, servicing, and out-of-pocket expenses such as legal fees and audits. We assume that expenses will be covered by origination fees and net interest income generated by the loan.

B. QUALITY OF PROJECT SERVICES

<u>Services Reflect Identified Needs</u>

Tennessee has seen explosive growth in new charter schools over the past five years; Nashville alone grew from five charters to 30 in just five years. With this growth comes a need for permanent facilities solutions that can support expanding student populations. In October 2016 TCSC conducted a "Capital Needs Facilities Survey" which polled Tennessee charter schools currently in operation, soliciting input on their capital needs and the adequacy of their facilities. The results of this survey provides a clear picture of the individual and collective facilities challenges faced by Tennessee charters, which *The Program* seeks to address.

Of all district-authorized charter schools in Tennessee, 58% do not have adequate space for full enrollment, and have identified more than $42MM in necessary spending on capital projects in the next year alone. Of the 107 charter schools in Tennessee, only 20% own their own facility and 60% report they do not have a space for outdoor play.

Meanwhile, charter schools have encountered multiple obstacles in trying to access facilities, particularly district facilities. For one, reported by [redacted], four months before the school was scheduled to open, the only 'solution' offered by Shelby County Schools was to try and sell [redacted] a building located twenty miles away from the neighborhood the school identified in their application, at a price higher than cost in "as-is" condition, which would require over $1MM in capital improvements to be usable. This proved to be very challenging for the school, which had to look for alternative space. Other Memphis-based charters have encountered similar issues.

Due to the overwhelming need for school choice in the State, the growth outlook for Tennessee charters continues to surge– nearly 20 new charters are currently under evaluation and the 5-year facilities capital need as reported by schools totals $127MM.

A majority of Tennessee's charter schools are still young (<4 years old). These schools are not able to operate at full enrollment due to facilities constraints and have mounting demand, but lack concrete facilities growth plans. They have voiced their need for intensive capacity building services so they can assemble facilities growth plans. While these schools operate high quality academic programs, their knowledge of real estate development and facilities financing is very limited – even for the basics such as how to hire and work with an architect or how to secure a site, identify developable properties or navigate entitlements and zoning, etc.

LIIF and TCSC have designed *The Program* to meet the identified above needs of Tennessee's charter schools – delivering BOTH a custom suite of financial products that will make facility development accessible to far more schools and a comprehensive capacity building program to support the growth plans of high quality charter schools across the State. Together, these products and services are designed to enable schools to own or secure a financeable long-term lease that allows schools to operate at capacity.

School and Agency Support for Design

The results of TCSC's recent "Capital Needs Facilities Survey" were critical to informing the project design. Of the 107 operating local district-authorized charters and authorized CMOs in the State, nearly 90% provided input, demonstrating strong community engagement and a collaborative approach to design that will be carried through the life of *The Program*. The results affirm the value LIIF's financial products and TCSC's capacity building services will add to this market.

Many provided detailed feedback on specific needs that directly informed our design. One charter school noted: *"Long-term financing is important, as we think about owning three facilities. The current financing model is sufficient for getting schools opened and short-term financing. However, we are thinking about how we secure longer term financing to support our aggressive facilities strategy."* An array of similar feedback was received regarding the need for financing products and TA services, which have informed design of *The Program.*

Indeed, we've received 20 letters of support from charter schools and other stakeholders further illustrating state-wide support for *The Program*. Charter Schools such as [redacted] have sent letters of support for *The Program*.

In particular, the Tennessee State Department of Education's support for the proposed Program highlights the fact that facility finance and facility development capacity building have been identified at the State level as a key issue for the charter sector statewide; the State Department of Education is a critical ally in supporting school choice in Tennessee, and is expected to be a strong partner in executing the goals of *The Program*.

<u>Services are Cost-effective</u>

TCSC will provide a comprehensive facility capacity building program at no cost to charter schools. TSCS is fully grant funded by the nation's leading philanthropic foundations including: The Bill and Melinda Gates Foundation, The Walton Family Foundation, The Kellogg Foundation, The NewSchools Venture Fund, and others, including other local Tennessee-based Foundations. TCSC's time intensive sector-wide capacity building activities will be complemented by LIIF's pro-bono real estate financing technical assistance administered during loan underwriting and servicing.

Fees and lending terms are also cost effective and reasonable. The full grant will be utilized to credit enhance loans. LIIF's lending terms for *The Program* exceed what is currently available in the market, with proposed interest rates below those offered by other CDFIs and reasonable loan fees not exceeding 1% of project costs.

<u>Assisting Charters with the Greatest Need and Likelihood for Success</u>

LIIF and TCSC will focus on assisting charter schools with a likelihood of success and the greatest demonstrated need for assistance. Charter schools, especially early stage schools that have yet to undergo their first charter renewal, face challenges in securing financing, as many conventional banks are not comfortable with the uncertainly of renewal.

For example, one such charter school, LIIF and TCSC expect to support is [redacted], a K-5 charter school in Memphis that serves 250 students and a TCSC TA client. Identifying space was a challenge for them, and ultimately they were forced to lease excess space from the [redacted] in Memphis. Currently their entire charter school is housed in portable units installed next to the [redacted]. This is not an ideal situation as the space is limited, and there is no option to enroll any additional students at this time. They are currently looking for locations surrounding their existing facility, and at best, there are two existing buildings that may be viable, but both available options require extensive tenant improvements to transform the spaces into a school. The school is also concerned about identifying sources of funding for a down payment, as it does not have a strong cash balance at this time.

This school is classified a “greatest need” – 97% of students receive FRL, only 40% of students in the district are performing at grade-level according to state academic testing, and over 64% of schools in the district have been identified for corrective action under Title 1. Meanwhile, their academic performance (as measured by the Tennessee Comprehensive Assessment Program) has surpassed the district in Math and Science, and has demonstrated growth in reading proficiency for all grade levels. With strong early results and a focus on providing rigorous instruction, it is a school we anticipate having a high likelihood of success.

TSCS is providing hands-on support by accompanying them to visit potential sites, readying their facilities development team, and helping them negotiate a financeable lease, potentially with a purchase option so the school has the option to acquire the building several years in the future.

LIIF plans to support the school with financing that will enable it to retrofit one of the two existing facilities it has identified once it secures a financeable lease. Using CEP funds LIIF will be able to offer flexible terms such as a leasehold mortgage and no equity requirement, which will allow the school to borrow up to 100% of the project costs and not have to pursue expensive private equity sources for the down payment. Our work with [redacted] illustrates the types of projects we expect to support with this award – those with the greatest need and the greatest likelihood for success.

C. BUSINESS AND ORGANIZATIONAL CAPACITY

LIIF and TCSC represent a strong alliance, bringing different skills and experience that are uniquely equipped to comprehensively meet the facility needs of charter schools in Tennessee. LIIF will be the grant recipient and capital provider for *The Program*, while TCSC will deliver robust capacity building services. LIIF's track-record, experience and financial strength are highlighted in sections regarding "Financing Experience" and "Financial Health." TCSC's experience and track record are highlighted in "Co-Applicant Resources."

Financing Experience

Founded in 1984, LIIF is a leading, national CDFI that has provided $2B of financing and technical assistance across the US. LIIF has deployed $550MM to support charter school financing, supporting 156 schools and has been awarded $8MM in CEP funds as a singular applicant, and is also one of six members of the Charter School Financing Partnership which received a $15MM award. To date, LIIF has efficiently and fully leveraged CEP award dollars. Additionally, LIIF received an $8MM award in 2016 for a collaborative lending program with three other CDFIs; we are still awaiting receipt of these award dollars.

A recognized thought leader and innovator in the charter school sector, LIIF chairs the Charter School Lenders Coalition (CLSC), a national alliance of community development practitioners advocating for increased funding for charter school development. As illustrated in the below table, LIIF has a strong track record in using CEP Funds to support higher risk charter school projects.

Table 2: LIIF's Financing Track Record

First Charter Schools loan (year)	$/# - Schools Financed	# - Schools Financed Using CEP Funds	Cumulative CEP Leverage	Total # Of Students Served
1998	$550MM / 156	36	28:1	80,000

Products: LIIF has extensive experience providing the very products it proposes as part of *The Program*. Supporting charter schools since 1998, LIIF has provided a full range of products to support facilities development–predevelopment, acquisition, construction, mini-perm, fully amortizing permanent loans, NMTC capital and leasehold financing.

Raising Capital & Leverage: LIIF has deep experience raising private capital to leverage CEP Awards. For example, LIIF utilized its 2002 CEP funds to enhance loans made from its revolving loan fund (RLF) and two charter school funds, LA Charter School New Markets (LACSNM) and Fund for Schools and Communities (FSC), to leverage $97MM in capital, surpassing an ambitious goal of $45MM in private capital—a 32:1 leverage ratio. We raised capital from investors, two of them new to charter school lending, such as Prudential, Wells Fargo Bank, Merrill Lynch, Annie E. Casey Foundation, among others. With the 2007 award, LIIF created two lines of credit (15MM and $25MM respectively) for a west coast CMO, with United Methodist Church General Board of Pensions, and many others, demonstrating our ability to, once again, raise private capital and significantly leverage award dollars.

LIIF has also worked to collect and disseminate data about charter schools lending in order to creatively stimulate private investment into the charter school sector. In 2011, LIIF and two other CDFI partners spearheaded an industry-wide survey to examine charter school loan performance on a national basis over the last 10 years—reflecting >$1.2B in charter school loans. This report was widely distributed, with an emphasis on prospective capital providers. The low rate of delinquencies and defaults provided solid underwriting data, which potential lenders could rely on when entering the sector.

In sum, LIIF has a substantial track record and experience in raising, managing and deploying capital, providing a variety of loan products and enhancing various types of loans in support of the charter school sector.

Financial Stability

LIIF is among the most financially strong CDFIs in the country. With $900MM in assets under management, $358MM in balance sheet assets, LIIF is a financially stable, high performing CDFI (FYE2016). After 35 years of investing in highly distressed communities, our superior underwriting and ongoing loan management has resulted in loan losses equal to a mere 0.57% of total disbursed capital. This track record compares favorably with industry averages for LIIF's peer group CDFIs and the banking industry.

LIIF remains one of a small cadre of CDFIs that has consistently received the highest possible rating for financial strength from Aeris™, a comprehensive, third-party ratings system for CDIFs widely recognized by the investor community. The rating is based on a rigorous, independent assessment of CDFI financial condition and performance, as well as the quality of lending assets, controls, and caliber of Board leadership (see A-5 for Aeris™ Rating).

Table 3: Snapshot – LIIF Financial Health FYE 2016

Total Capital Under Management	Net Assets/Total Assets (Net Assets Ratio)	Loan-loss reserves/ Total Loans Outstanding	Current Assets/Current Liabilities (Current Ratio)	Historic Net Loss Ratio (all loans)	Delinquency>90 days & Non-Accruals/ Total Loans Outstanding
$878 million	25.6%	3.1%	2.62	0.57%	0.0%

LIIF regularly assesses our financial position and condition, monitoring key areas, including:

Capital Sources: We strive to diversify and expand the mix of investors, and, over the years, we have steadily expanded and diversified our sources of capital. We have a ~75% renewal rate, and have strong relationships with ~40 investors, including banks (e.g. Bank of America, Citibank, JPMorgan Chase, Goldman Sachs, and others), foundations (e.g. MacArthur) and insurance companies (e.g. Blue Shield of California), and other groups.

Self-sufficiency: LIIF separates lending operations from grant-funded activities to ensure lending can sustain itself solely on earned income. In FY2016 lending operations were more than100% self-sufficient through earnings on loan, origination, and servicing fees, demonstrating our cost-effective deployment of capital. Our goal to achieve 100% self-sufficiency in our lending operations was first accomplished in 2009 and each year since.

Net Assets: LIIF continues to grow its unrestricted net assets largely through annual earnings and equity grants, more than doubling net assets over the past 6 years to $92MM as of FYE 2016. Of this amount, more than half of LIIF's net assets are unrestricted ($52MM / 57%), with the balance temporarily restricted to support various programs, such as LIIF's CEP grants.

Cash and Liquidity Management: LIIF closely monitors its cash and investments to ensure that it has sufficient cash available to meet its obligations and maximizes its mission by lending as much as possible. This is accomplished through monthly updates to the 3-year cash flow forecast, monthly reporting on LIIF's performance to budget and 3-year strategic plan.

Our processes also ensure appropriate segregation of temporarily restricted funds. For example, CEP grant funds are segregated in individual bank accounts and invested in accordance with CEP guidelines. Our prudent financial management and stable financial base have attracted growing amounts of capital from a wide variety of sophisticated investors.

Internal Controls and Operating Policies: LIIF maintains strong internal controls driven by its operating policies. We have extensive documentation supporting lending policies, credit review, accounting and financial procedures, compliance review, human resources, information technology, risk management, and others. These policies are reviewed and updated on an ongoing basis, and key policies are approved by our Board and/or Board committees. We undertake regular reviews of our internal controls through independent audits and reviews, and progress is monitored quarterly by the Board Audit Committee. We maintain accounts and records consistent with GAAP and produce internal unaudited financial statements on a monthly basis. Independent public accountants audit LIIF's annual financial statements, which are published generally within 120 days from the close of the fiscal year.

Financial Statements and IRS Form 990: See A-6 for Audited Financial Statements for the past 3 years. See A-9 for a copy of LIIF's most recent 990 Form.

Protection Against Unwarranted Risk

The strongest testament to LIIF's ability to manage against unwarranted risk is its loss record and portfolio quality. LIIF has suffered capital losses of less than 0.55% of disbursed capital, and 0.42% in disbursed capital in the education sector. Our disciplined approach to lending and portfolio management keeps the portfolio's delinquency rate consistently low—currently there are no late payment and non-accrual loans 90 days past due within our on and off balance sheet portfolio at FYE 2016.

LIIF has strong policies and procedures, protecting it from unwarranted risks in loans to all borrowers and governing its loan underwriting, servicing, and monitoring activities. See A-13 to review LIIF's Lending Manual. Lending policies and procedures are approved by the Board and regularly reviewed to ensure LIIF's continued responsiveness to the ever-changing needs of its borrowers and the markets in which LIIF works. LIIF's risk-management policies and lending procedures are so thorough and effective that major financial institutions have accepted them, enabling LIIF to originate and manage loans on their behalf.

Underwriting Standards for Charter Schools: LIIF has developed a unique expertise in understanding and responding to the needs of organizations that present unusual or unconventional characteristics, such as charter schools, which often have limited borrowing history, uneven revenue streams, and heavy dependence on public revenues or subsidies. This expertise utilizes the same technical skills, rigor, and discipline as conventional lending institutions; however, LIIF's underwriting is distinguished by an ability to understand and appropriately manage risk, flexibility to structure loans to meet individual borrower needs, and additional time and technical assistance given to each borrower. For example, LIIF will lend against revenue streams, such as future fundraising, that would not be acceptable to private sector financial institutions. We underwrite loans outside of conventional standards, including higher LTVs and more flexible repayment structures. Unlike highly-defined bank products, our flexibility enables us to innovate new lending structures that respond to ever-changing charter facility financing needs.

Moreover, we invest considerable time with borrowers, providing technical assistance on basic elements of finance, appraisals, budgets, *pro formas*, feasibility analysis, and financial structuring. While this time-intensive work increases each loan's transaction costs, it enables critical projects to go forward and improves the likelihood of loan repayment, resulting in the historically strong performance of LIIF's portfolio. LIIF will apply similar standards to future CEP awards and loans to charter school projects.

Lending Limits and Reserve Policies: Consistent with LIIF's overall financial management strategy, we follow a number of risk mitigation strategies. From a lending perspective, we have Board-approved limitations on both individual loan size (capped at $6-7.5MM) and borrower concentration ($16MM cap for the majority of borrowers). We also have a rigorous and conservative loan loss reserve policy, which stipulates general and specific reserve levels depending on the type of loan, borrower profile, etc.

Risk Rating Methodology and Review: At the time of origination, all loans must meet LIIF's standards for a "Pass" risk rating, which requires a loan loss reserve range of 1.25% to 4.5%, depending on the loan type and credit strength, as underwritten. Loans and risk ratings are reviewed on a quarterly, semi-annually, annual or sesquiannual basis. Review frequency and level depends on such factors as phase of development being financed or risks specific to the transaction. After each review, LIIF's Chief Credit Officer approves risk rating classifications and loan loss reserve percentages. LIIF's internal policies classify delinquent loans as those for which any payment of principal and/or interest is 30 days or more past due. Any loan 90 days or more past due is classified as Non-Accrual. LIIF may also classify current loans as Non-Accrual if it believes there is a reasonable likelihood of principal loss on the loan.

Portfolio Monitoring: LIIF's loan monitoring efforts include regular communication with charter schools about their project and financial conditions, site visits, and monitoring of industry developments (e.g., changes in state or federal funding). Staff also regularly assesses risks related to repayment to ensure that any repayment difficulties or operational weaknesses are detected early and remedied before a loan becomes delinquent or in default. Loan monitoring activities also include managing and approving loan disbursements according to detailed requirements and funding conditions. While acquisition loans are typically disbursed in one lump sum, construction loans are disbursed on a monthly basis as construction work is completed.

Debt Restructuring, Collections and Write-Offs: LIIF's policies for debt restructuring, collections and write-offs have been vetted by leading financial institutions. We balance the objectives of full repayment recovery and avoidance of losses with support for borrowers. As a primary goal is to assist charter operators in providing quality educational opportunities for underserved children, we will work with a school's efforts to cure defaults in a reasonable and timely manner before moving to call a loan or proceed to foreclosure. LIIF places a loan in default when the borrower fails to make required payments or adhere to loan covenants. Working with legal counsel, if necessary, we have procedures for performing loan work-out functions and pursuing remedies to collect on the loan or collateral. When a portion or all of a loan is deemed uncollectible, that portion will be written off.

Expertise in Evaluating Charter Schools

LIIF and TCSC will work together to select the Tennessee charter schools that have the highest likelihood for success. LIIF will work with TCSC to thoroughly evaluate charter school applicants according to well-established criteria that has been successfully tested and proven. Consistent with past experience, we will support only projects that are likely to result in high performing, high quality schools.

TCSC will provide unparalleled expertise in ensuring that we select those charter schools that operate quality programs and are poised to execute their growth plans to success. TCSC brings the strength of nearly 20 years of charter school policy and advocacy work in Tennessee and 10 years of charter school incubation, providing unmatched insight into Tennessee-based charter schools. TCSC regularly evaluates the State's charter schools, documenting academic performance data released from the State to measure it against District performance. Their services are oriented to support high-performing schools ensuring they have the resources they need to thrive and grow. Conversely, TCSC ensures that low performing schools are not allowed to persist without intervention and, in some cases, closure. More than any other organization, they understand how Tennessee-based charters are performing.

Meanwhile, LIIF's track record in providing $550MM to charter schools—with only a 0.42% loss rate–demonstrates superior expertise in underwriting charter schools that are poised for success, including new schools.

In underwriting, LIIF examines education quality of the school, including effectiveness of curriculum, organizational structure, strength of the Board and other important evaluative markers. LIIF strives to channel investments to high performing charter schools or newer charter schools that show strong indicators for success. For instance, LIIF has successfully supported high quality early stage schools managed by emerging CMOs when they didn't have significant financial strength or track record, that have since grown into strong school operators that demonstrate high academic achievement and operate multiple campuses. These include the [redacted] in San Jose and [redacted] in Los Angeles.

Preventing Conflicts of Interest

As the CEP administrator and financing partner, LIIF will have primary decision making on use of the CEP award funds. LIIF maintains rigorous standards for code of conduct and conflicts of interest and a Conflict of Interest Policy along with guidance on the varying scenarios that qualify as conflicts of interest (See A-4). These policies require the disclosure of direct and indirect financial or other interests, mandate disinterested decision-making and indicate corrective actions to be taken in the event of violation.

Co-Applicant Resources

The state-wide expert in the Tennessee charter school market, TCSC has partnered on this project as the premier Technical Assistance Partner for *The Program*, delivering a comprehensive capacity building program alongside CEP products. Fully funded by the nation's leading foundations, TCSC will contribute these programmatic capacity building services to charter schools free of charge.

TCSC brings nearly 20 years of operating experience providing hands-on support and advocacy for the benefit of charter schools in Tennessee. Working on the ground with each of its 107 operating charter schools, TCSC leads the movement for effective state policy, excellent schools and quality operations, providing programs, services, and resources to advance charter schools in Tennessee. TCSC is a result of the merging of two effective state-wide strong organizations which announced their union in 2013 - The Tennessee Charter Schools Association, founded in 1998, and The Tennessee Charter School Incubator, founded in 2009. TCSC combines the resources and functions of both of its founding organization (charter school incubation, TA and policy/advocacy) to provide ongoing, comprehensive support to the growing charter sector in Tennessee.

TCSC's capacity building services have been tailored to the needs of charter schools in Tennessee and will include three programmatic elements, as described in Question B1:

(a) **Twice annual State-wide workshops** providing hands-on group training on facilities financing and development;

(b) **Comprehensive facilities planning** to 40-50 charter schools over the 5-year period resulting in the development of a 10-year "Facilities Growth Plan" for each participant; and

(c) **"Charter School Facilities Development" Toolkit** that provides a step-by-step guide for charter school development projects from concept to construction.

The purpose of these services is not only to ensure charter schools that are receiving CEP funds are poised for success but to more broadly capacity build the field and improve the sophistication of all stakeholders involved in charter school facilities development.

TCSC is a highly effective organization that is well versed in achieving its goals. For example, because of their time intensive work and leadership, Tennessee charter schools recently achieved 100% state compliance for Board and Governance training. This year, both W.K. Kellogg and the New Schools Venture Fund, showed their vote of confidence in TCSC's approach by funding new programs including The Charter Board Leaders of Color Collaborative which is working to mobilize existing board members of color and also recruit/ increase the number of board members of color; and a Community Launch Fellowship which is a community engagement strategy that is increasing education outcomes of children by building the leadership of families to participate in the school incubation process. These new programs will complement the capacity building work that will be carried out for our proposed CEP Program.

TCSC also maintains strong working relationships with State-wide and regional partners that will be leveraged for *The Program* to ensure quality charters are provided with maximum resources. Those include organizations such as Tennessee SCORE, a state collaborative on reforming education towards equity, the State Department of Education, The State Board of Education, Memphis County Commissioner, and Nashville Chamber of Commerce.

Past Grant Performance

See A-10 for LIIF's 2016 annual performance report on its 2002 $3MM grant and 2007 $5MM grant. As reflected in the attached report, as of the end of the 2016 reporting period, LIIF had deployed the $8MM in total grant funds to directly enhance 30 loans supporting 36 charter schools and over 14,000 student spaces; 23 of the loans have successfully repaid, with only one loss experienced to date. As envisioned, credit protection provided by the grant enabled LIIF to bring in and expand private sector investment in the charter school field. While we originally projected that the grants would enable us to leverage approximately $96MM in total capital by the end of 2016, we more than doubled this target, with nearly $225MM leveraged. As of the most recent reporting period LIIF has fully utilized all of the grants funds; at this time it continues to recycle the funds to support new projects.

In 2016 LIIF, in conjunction with three of its CDFI partners, was awarded an $8MM grant to support charter schools nationally. The CEP funds will be used to support higher-risk projects, such as startup schools, and to help established multi-school operators that are expanding to new high-need markets and launching new schools. The Performance Agreement for this grant is in the process of being drafted and is expected to be finalized shortly.

D. QUALTIY OF PROJECT PERSONNEL

Staffing Plan and Team Qualifications

The Program will be led and executed by highly qualified staff from LIIF and TCSC, each of which provides expertise in the charter school sector. LIIF and TCSC have worked together to evaluate our staffing to ensure that we have the right people in the right positions to accommodate *The Program*. Moreover, many of the team that will implement *The Program* are talented staff members managing LIIIF's 2002, 2007 and recent 2016 CEP grants.

Program Strategy and Capital Raising LIIF's COO & EVP, Kimberly Latimer-Nelligan will provide senior direction for the design, implementation and management of *The Program* and direct capital raising to achieve the projected 6.25:1.00 leverage. Latimer-Nelligan brings in depth experience and expertise. She has overseen the deployment of $400MM to charter schools; led capital raising efforts that have resulted in $600MM raised in her 9 year tenure at LIIF; led LIIF's involvement in the $325MM Chase NMTC Fund for Charter Schools; led the creation of "The Charter School Loan Study," an industry-wide survey on sector loan performance; is on the Board of the Charter School Financing Partnership; and previously chaired the Charter School Lenders Coalition. Before joining LIIF, she was with Citibank for over 20 years, where she oversaw a$3B community development business, within Citi Community Capital. She led the launch of its Charter School Lending Program.

Underwriting, Deployment & Portfolio Management: LIIF will underwrite and monitor business development activities and portfolio management associated with *The Program*. Diane Borradaile, Senior Vice President, will oversees LIIF's origination activities across Tennessee, including those related to charter school financing, NMTC and the CDFI Fund's Bond Guarantee Program, which will complement CEP funds. Having overseen the deployment of $123MM in capital to high performing schools over the past three years, Borradaile has relationships with CMOs and nationally recognized charter schools—*e.g.*, [redacted] and established relationships with Tennessee-based schools and organizations such as [redacted]. Borradaile brings over 30 years of experience in real estate lending for the nation's largest banks. She holds a MPA from Syracuse University and a BA from The University of Michigan.

Sajan Philip, Director, Central Region and Washington, DC and Sarah Garrett, Senior Loan Officer, will be responsible for day-to-day project management for CEP funds and will be responsible for underwriting CEP funds for projects. Philip brings over 6 years' experience working with charter schools and has deployed over $69MM to date in investments to high-performing schools, which include investments related to NMTC, an important financing tool for charter schools. Philip is responsible for lending production in LIIF's Central Region and Washington, DC, as well as our forge into the Southern U.S. He previously worked as a Commercial Loan Underwriter with a CDFI focus on small business lending. Philip has earned the Chartered Financial Analyst credential and received a BA from the University of Delaware.

Sarah Garrett, Senior Loan Officer, brings over 7 years of charter school facility financing, underwriting and technical assistance experience and has presented on charter facilities finance at various conferences, trainings and charter forums around the State of California and nationally. Garrett has worked with leading charter schools organizations including: [redacted]; she has underwritten and closed over $50MM in charter school financing. She received an MBA from Stanford University and a BA from Wellesley College.

Philip and Garrett will be supported by a new contract Senior Loan Officer (hire date: July 2017) charged with expanding our presence in the Southern U.S., who will be based in Memphis or Nashville and provide a special focus on the charter school market in Tennessee.

Susan Hyman, Chief Credit Officer, will be responsible for all credit risk and asset management functions with regard to contemplated charter school lending and will review and approve all charter school loans. Hyman brings >30 years of experience in community development real estate and small business lending, most recently with JP Morgan Chase.

Compliance & Reporting Patricia GoPaul, LIIF's General Counsel, will have oversight for compliance with CEP covenants and will ensure LIIF's Finance team invests CEP Funds in accordance with allowable investments, as it has done with LIIF's existing CEP awards. In 2016, LIIF created a new position of General Counsel and hired GoPaul to manage LIIF's enterprise risk and oversee compliance. Ms. GoPaul's experience in community development includes legal consulting roles at the Northern CA Community Loan Fund, Wells Fargo, and other banks. She received her B.A. from Harvard University and her JD from Columbia University of Law.

Garrett will be responsible for reporting under the terms of the CEP Agreement. She currently leads LIIF's annual performance reporting to the U.S Department of Education reporting on $8MM in CEP grants.

Outreach and Pipeline Building Primary responsibility for marketing outreach including sourcing projects and building relationships with qualifying Tennessee charter schools will go to Cameron Quick, Director of Operations at TCSC, and will be shared by Philip and Garett at LIIF.

Quick will lead activities including: (1) conducting marketing and communications on availability of the CEP funds; (2) identifying charter school financing needs across Tennessee clients; and (3) conducting evaluation screening to prioritize charter schools needs based on set criteria (see question A.5) to ensure that the highest need projects are receiving the necessary support from the CEP. Philip and Garrett (LIIF) will work closely with Quick to build and manage the pipeline of projects in Tennessee according to results of the screen evaluation.

Under Quick's leadership, TCSC and LIIF are well-positioned to conduct outreach across Tennessee charter schools and manage a robust pipeline of high quality projects. TCSC, and specifically Quick, currently enjoy a hands-on working-relationship with 100% of the charter schools operating in Tennessee, has a deep relationship with the Tennessee Department of Education and speaks at over 4 key charter school and education conferences across Tennessee annually. In December 2016 Quick, with support from LIIF and others, organized a Facility Funding and Finance workshop that was attended by 67 charters from across the State.

LIIF completed an in-depth market assessment on the Tennessee charter school sector in July of 2016 and Garrett and Philip have met with over 15 quality operators and issued several terms sheets since outreach began.

Capacity Building, Technical Assistance, Training Led by Quick at TCSC, a key aspect of our Program will be to deliver on the ground technical support for charter schools and advancing policies that are conducive to the growth of high quality charters. Key responsibilities will include: providing time intensive one-on-one technical assistance for charter schools participating in *The Program*, including delivery of a series of group workshops on facilities financing and a soup to nuts tool-kit on facilities financing for Tennessee charter schools who are readying for expansion.

Quick brings over 11 years of experience providing business, operations support, educational leadership, and financial and facility advising for charter schools in multiple states throughout the U.S. and is well experienced to deliver high quality technical assistance and training to charter schools. In his role at TCSC, Quick is currently assisting a dozen charter schools with creating a long term facilities plan, identifying the different capital markets they have access to, and coaching them through the development process. Prior to joining TCSC, Quick worked as the Director of Member and Business Services at the Arizona Charter Schools Association, serving nearly 600 public charter schools. Quick received his BA and MA from Arizona State University. See A-2 for LIIF and TCSC Staff resumes; See A-15 for LIIF and TCSC Board List.

APPENDIX: COMPETITIVE PREFERENCE PRIORITY

The partnership between the Low Income Investment Fund (LIIF) and The Tennessee Charter School Center (TCSC) presents a unique opportunity to expand high quality educational options for low-income students in Tennessee. LIIF and TCSC already target their current programs, LIIF in its CDFI lending activities and TCSC in its capacity building and facility TA programs, to charter schools that are operating in the highest need communities.

LIIF and TCSC will now work closely together to identify school districts with the greatest need for school choice; aligning our *$50MM Tennessee Charter School Facilities Program* with the US Department of Education's Competitive Preference Priority.

Upon careful analysis, we expect that **85%** of our CEP activities will support Tennessee charter schools that are offering public school choice in communities with the greatest need for school choice, supporting projects in areas with the following characteristics:

1) Communities with large proportions of students from low-income families (at least 75% of students are eligible for free or reduced priced lunch);
2) Geographic areas in which a large proportion of schools (more than 25%) have been identified for improvement, corrective action, or restructuring under Title I of the ESEA as amended by NCLB; and
3) Geographic areas where a large proportion (40% or more) of students are performing below State academic assessments (Tennessee Comprehensive Assessment Program).

Heat Map: To isolate regions of highest need, TCSC is creating a geo-heat map, with data sources from Tennessee that include the following criteria:

a. Location of the official state-determined Priority and Focus Title I schools for Tennessee that have approved ESEA waivers, or schools identified for Improvement, Corrective Action or Restructuring under NCLB and AYP;
b. Student proficiency on Tennessee Comprehensive Assessment Program;
c. Low-income status; and
d. Projected population growth and density of school aged children, among other data points.

The mapping will assist in maximizing the impact of our investments by focusing on areas with high concentrations of low-income students in poorly performing schools. The methodology developed will allow us to create a state-level platform for targeting charter school investment.

The following table and narrative description provides a snap-shot of the state-wide need across Tennessee, and include a discussion on each city we intend to serve.

Tennessee

Although Tennessee has seen progress in student achievement, a large portion of students, particularly those from low-income families, do not perform at grade level.

In the 2015-2016 school year only 21% of high school students in Tennessee scored proficient in math, and only 30% scored proficient in English.[1] Meanwhile, the state struggles with a hefty poverty rate, ranking 45th against US state poverty rankings –more than 1 in 3 students are economically disadvantaged (low income or very low income).[2] For school year 2016-2017, students from low-income backgrounds scored even lower on state assessments compared to more-advantaged peers.[3] The National Assessment of Educational Progress (NAEP), known as the Nation's Report Card, shows a strong correlation between income status

[1] https://www.measuretn.gov:444/ReportCard/Main/CurrentReportCard#/
[2] https://tnscore.org/research-reports/reports/
[3] https://tnscore.org/research-reports/reports/

and academic proficiency.[4] From 2007-2015, achievement gaps between Tennessee's low-income students and more-advantaged peers continued to widen (by an additional ~9 percentage points).[5] These trends and demographics underscore the urgency for high-quality educational choices for students in Tennessee.

Memphis (50-60% of expected activities)

For the City of Memphis where poverty and poor school performance is among the worst in U.S. metro areas, LIIF and TCSC's programmatic work in this city is of particular importance. Over 60 charter schools operate in Memphis (more than half of the state's charters) and another 15 new charter submissions have been made for the 2018-2019 school year.

Memphis is served by the Shelby County School District,[6] and many of its schools have been deemed as "priority" schools by the state.[7] Priority schools are categorized as the lowest-performing 5% of schools in Tennessee in terms of academic achievement.[8] Of the total number of schools in Memphis, 64% are defined as priority schools.[9] In Shelby County School District, 40% of students scored proficient or above in math and 33% scored proficient or above in reading.[10] With childhood poverty (under 18 years old) topping 43% in the City of Memphis, Shelby County School District serves a large quantity of students that participate in the federal free or reduced price lunch (FRL) program.[11]

Nashville (40-50% of expected activities)

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[4] https://tnscore.org/research-reports/reports/
[5] https://tnscore.org/research-reports/reports/
[6] http://memphisschoolguide.org/how-do-i-enroll/greater-memphis-school-districts/
[7] https://www.tn.gov/education/article/2015-school-accountability
[8] https://www.tn.gov/education/article/2015-school-accountability
[9] https://www.tn.gov/education/article/2015-school-accountability

[10] http://datacenter.kidscount.org/data/tables/8455-percentage-of-students-who-achieved-proficient-or-advanced-score-in-tcap-exam?loc=44&loct=10#detailed/10/10968/false/573,869,36,868,867/835,4511,2646,4512/17091
[11] Memphis Poverty Fact Sheet, 2016 update, University of Memphis

Nashville is in Davidson County, and served by the Metropolitan Nashville School District (MNSD). Here, 18% of schools in MNSD are deemed "priority".[12] Less than half of MNSD students scored proficient or above on math and reading[13]and over 65% of students in MNSD receive free or reduced price lunch.[14] Approximately 30% of the state's charter schools operate in Nashville and another three schools expected to come online in the 2018-2019 school year.

Knoxville and Chattanooga (5-10% of expected activities)

The balance of the charter schools operate in Knoxville and Chattanooga totaling 4% of charter schools across the state. Growth plans for these two cities calls for another two charter schools to come online by 2018-2019.

Knoxville is served by the Knox County School District (KCSD). 11% of the schools in KCSD are deemed priority.[15] Students in these districts perform far below state proficiency levels, with less than 60% of students performing at or above state levels on math and reading.[16] Almost half of students participate in free or reduced price lunch.[17] Likewise, in Chattanooga, which is served by the Hamilton County School District, 52% of students participate in free or

[12] https://www.tn.gov/education/article/2015-school-accountability
[13] http://datacenter.kidscount.org/data/tables/8455-percentage-of-students-who-achieved-proficient-or-advanced-score-in-tcap-exam?loc=44&loct=10#detailed/10/10945/false/573,869,36,868,867/835,4511,2646,4512/17091
[14] http://datacenter.kidscount.org/data/tables/2979-free-reduced-price-school-lunch-participation?loc=44&loct=5#detailed/5/6498/false/573,869,36,868,867/any/13216,10109
[15] https://www.tn.gov/education/article/2015-school-accountability
[16] http://datacenter.kidscount.org/data/tables/8455-percentage-of-students-who-achieved-proficient-or-advanced-score-in-tcap-exam?loc=44&loct=10#detailed/10/10945/false/573,869,36,868,867/835,4511,2646,4512/17091
[17] http://datacenter.kidscount.org/data/tables/2979-free-reduced-price-school-lunch-participation?loc=44&loct=5#detailed/5/6498/false/573,869,36,868,867/any/13216,10109

reduced price lunch.[18] Further, less than 60% scored proficient or above on math and reading assessments.[19]

APPENDIX: INVITATIONAL PRIORITY

With an award, LIIF will actively work to support the US Department of Education's (ED's) invitational priority, using grant funds to enhance ongoing efforts to attract new capital providers and actors to charter school financing. With an $8MM CEP award, LIIF and partner Tennessee Charter School Center (TCSC) aim to attract at least three new capital providers to the charter school financing space in Tennessee, either within projects financed or as takeout sources for projects financed.

With our program, focused solely on advancing high quality charter schools in Tennessee, new capital providers will either be first-time charter school financiers or long-standing charter school financiers that are new to the Tennessee market. LIIF believes this is achievable given our collective track records of lending to successful charter school borrowers and low default rates in the space and our strong relationships with the nation's leading banks. These efforts will be augmented by, partner TCSC's strong relationships with lenders in Tennessee. We've already garnered 10 support letters from local, regional and national banks, and foundations representing commitments to capital.

For example, LIIF and TCSC are already in discussions with [redacted], a strong local/state-wide bank that has confirmed its interest in participating in LIIF and TCSC's proposed *$50MM Tennessee Charter School Facilities Program* to enter the charter school market for the first time. Additionally, LIIF has been approached by a major bank, [redacted]

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[18] http://datacenter.kidscount.org/data/tables/2979-free-reduced-price-school-lunch-participation?loc=44&loct=5#detailed/5/6498/false/573,869,36,868,867/any/13216,10109
[19] http://datacenter.kidscount.org/data/tables/8455-percentage-of-students-who-achieved-proficient-or-advanced-score-in-tcapexam?loc=44&loct=10#detailed/10/10886,10945/false/573,869,36,868,867/835,4511,2646,4512/17091

[redacted] to provide conventional debt to charter schools in Tennessee, which would represent the first charter school it has financed in the State. CEP funds would ensure that Tennessee based investments from these and other lenders move forward.

LIIF has a long track record of successfully using its CEP awards as a tool to engage new actors and leverage new sources of capital for charter school facilities financing. For example, LIIF partnered with Citigroup on its first charter school fund in 2005; Citigroup is now an active player in the market and a major partner for the work being carried out by the Turner-Agassi Charter School Facilities Fund. We also utilized a previous CEP award to support a national charter school facility fund with JPMorgan Chase in conjunction with the New Market Tax Credit Program.

LIIF and TCSC will also actively work alongside the Tennessee Department of Education to leverage state-wide resources that might be available for charter school facilities financing. Tennessee's House Bill 310, The Tennessee High Quality Charter Schools Act, is expected to include a set-aside of $18MM for charter schools facilities over three years (subject to passage of the Governor's budget). This would represent the first state-wide bill that includes a carve-out for facility financing.