

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

Status: Submitted

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

## Technical Review

**Applicant:** Low Income Investment Fund (U354A170003)

**Reader #1:** \*\*\*\*\*

	<b>Points Possible</b>	<b>Points Scored</b>
<b>Questions</b>		
<b>Selection Criteria</b>		
<b>Quality of Project Design and Significance</b>		
1. Project Design	35	33
<b>Quality of Project Services</b>		
1. Project Services	15	13
<b>Capacity</b>		
1. Capacity	35	32
<b>Quality of Project Personnel</b>		
1. Project Personnel	15	13
<b>Sub Total</b>	100	91
<b>Priority Questions</b>		
<b>Competitive Preference Priority</b>		
<b>Competitive Preference Priority</b>		
1. Competitive Preference	15	15
<b>Sub Total</b>	15	15
<b>Total</b>	115	106

# Technical Review Form

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

Reader #1: \*\*\*\*\*

Applicant: Low Income Investment Fund (U354A170003)

## Questions

### Selection Criteria - Quality of Project Design and Significance

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

### Strengths:

Two entities propose to join forces as the applicant to launch the Tennessee Charter Facilities Program through a grant request of \$8MM under CEP that will leverage at least 6.25:1 to provide \$50MM in financing to support 20 schools over 5 years serving 7,500 students (pg 19).

The applicant includes specifics about its products and current examples of their use, including higher LTV up to 120%, longer amortizations up to 25 years and alternate collateral options (pg e26-31).

The applicant's goals and measures are phased and appropriate. Its timeline starts modestly with 2 schools and scales to serve 4-5 schools each of the next four years (pg e29-32).

The applicant makes a reasonable case that its state-based program that pairs a past CEP grantee with the capacity-building technical assistance of a state charter school association can be a replicable model for a state-wide facilities program (pg e34).

The applicant outlines appropriate school selection criteria consistent with the competitive preference priority with an emphasis on CMOs and 1.2:1.0 debt service coverage ratio (pg e35-36).

The applicant has a demonstrated history with CEP with \$3MM (2002) and \$5MM (2007 grants); it has doubled its projected target with a total of \$225MM leveraged to date (pg e53-54).

The applicant points to the State's growing reputation for charter school quality and recent pro-charter legislative reforms, including a proposed \$6MM set-aside for facilities financing. For 2015-16, TN opened 20 new charters (pg e36-37).

The applicant will absorb all administrative costs, allowing the entire grant to benefit schools (pg e37 and attachment 4).

**Weaknesses:**

The applicant includes a yearly grid of the rollout of its plan, but does not go into specifics about its implementation timetable (pg e32).

The applicant did not address the criteria under ESSA amendments in discussing the strength of the State's charter law (pg 5).

**Reader's Score: 33**

**Selection Criteria - Quality of Project Services**

**1. Quality of project services. In determining the quality of project services, the Secretary considers-**

- 1. The extent to which the services to be provided by the project reflect the identified needs of the charter schools to be served;**
- 2. The extent to which charter schools and chartering agencies were involved in the design of, and demonstrate support for, the project;**
- 3. The extent to which the technical assistance and other services to be provided by the proposed grant project involve the use of cost-effective strategies for increasing charter schools' access to facilities financing, including the reasonableness of fees and lending terms; and**
- 4. The extent to which the services to be provided by the proposed grant project are focused on assisting charter schools with a likelihood of success and the greatest demonstrated need for assistance under the program.**

**Strengths:**

The applicant identifies the facilities market needs in TN, which has seen rapid expansion of charter schools (33 to 107) in five years, putting 70% of charter schools at early stage with only 20% of the State's charter schools utilizing traditional bank financing. It cites appraisal gaps in Memphis to bump 90% LTV to 120% and a booming market in Nashville where leasehold may be the most affordable option (pg e20-21, e38-39).

The applicant has used all previous federal funds and recycles to fund new projects. It references a pipeline need for \$150MM in financing requests (pg e33, e428).

The applicant demonstrates that it understands the charter school financing market, especially the challenges of early stage schools operating less than four years and has obtained commitment letters from 10 capital partners (pg e31, attachment 11).

The applicant conducted a Capital Needs Facilities Survey with 90% response; it has received 20 letters of support, including the State Department of Education (pg 22 + attachments).

The applicant's technical assistance encompasses state-wide workshops, facilities planning with 40-50 charter schools and a facilities development toolkit (pg e27-28).

The applicant will target schools that meet its competitive preference priority as part of serving the schools with the

greatest demonstrated need (pg e35)

**Weaknesses:**

The applicant did not include details on how it will select charter schools for assistance with a high degree of academic success, noting LIIF will work with TCSC on identifying the appropriate academic metrics (pg e35).

**Reader's Score: 13**

**Selection Criteria - Capacity**

- 1. Capacity. In determining an applicant's business and organizational capacity to carry out the project, the Secretary considers:**
  - 1. The amount and quality of experience of the applicant in carrying out the activities it proposes to undertake in its application, such as enhancing the credit on debt issuances, guaranteeing leases, and facilitating financing;**
  - 2. The applicant's financial stability;**
  - 3. The ability of the applicant to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management;**
  - 4. The applicant's expertise in education to evaluate the likelihood of success of a charter school;**
  - 5. The ability of the applicant to prevent conflicts of interest, including conflicts of interest by employees and members of the board of directors in a decision-making role;**
  - 6. If the applicant has co-applicants (consortium members), partners, or other grant project participants, the specific resources to be contributed by each co-applicant (consortium member), partner, or other grant project participant to the implementation and success of the grant project;**
  - 7. For State governmental entities, the extent to which steps have been or will be taken to ensure that charter schools within the State receive the funding needed to obtain adequate facilities; and**
  - 8. For previous grantees under the charter school facilities programs, their performance in implementing these grants.**

**Strengths:**

LIIF, founded in 1984, has supported 156 charter schools with \$550MM in financing. It has a solid balance sheet with \$900MM in assets under management and \$358MM in balance sheet assets. The underwriting, loan monitoring and risk mitigation procedures are sound, which has resulted in loan losses of a mere 0.42% in the education sector and 0.57% overall. Lending is sustained on earned income. Charter school loan size is capped at \$7.5MM. The applicant works with 40 investors and has a 75% renewal rate (pg e45-48, Attachment 6).

LIIF chairs the Charter School Lenders Coalition and has partnered to publish industry-wide results on charter school loan performance to spur additional bank participation. TCSC, as co-applicant, has nearly 20 years of experience in charter policy and advocacy and 10 years at charter school incubation. (pg e43-44, 50-51).

The applicant provides thorough documentation by transaction and reports to have fully utilized all CEP funds previously authorized. Monies are being recycled and it has performed at double the original benchmarks with a cumulative leverage of 28:1 (pgs e43-44, APR attachments 10).

**Weaknesses:**

A conflict of interest policy is briefly referenced, but is not among the attachments, except another brief reference with no explanation under employee conduct (pg e51, e454).

**Reader's Score: 32**

**Selection Criteria - Quality of Project Personnel**

**1. Quality of project personnel. In determining the quality of project personnel, the Secretary considers--**

- 1. The qualifications of project personnel, including relevant training and experience, of the project manager and other members of the project team, including consultants or subcontractors; and**
- 2. The staffing plan for the grant project.**

**Strengths:**

Senior direction will be provided by LIIF's COO & EVP with nine years tenure. Outreach and pipeline building will be coordinated by the Director of Operations for TCSC with 11 years of experience. Other key staff are identified who have the requisite expertise with capital markets, community development lending and real estate financing (pg e54-58, Attachment 2).

**Weaknesses:**

The staffing plan for the co-applicant seems thin (one designated staffer), given the key in-state roles being performed by TCSC and lacks clarity around reporting relationships and how functions are integrated between TCSC and the two LIIF staff identified as interacting with the TCSC staff person on outreach and pipeline building (pg e54-58, Attachment 2).

**Reader's Score: 13**

**Priority Questions****Competitive Preference Priority - Competitive Preference Priority**

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

**This priority is:**

**The capacity of charter schools to offer public school choice in those communities with the greatest need for this choice based on--**

- 1. The extent to which the applicant would target services to geographic areas in which a large proportion or number of public schools have been identified for improvement, corrective action, or restructuring under Title I of the Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001 (NCLB).**
- 2. The extent to which the applicant would target services to geographic areas in which a large proportion of students perform below proficient on State academic assessments; and**
- 3. The extent to which the applicant would target services to communities with large proportions of students from**

low-income families.

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

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

**Strengths:**

The applicant makes a commitment to use 85% of CEP funds to support charter schools that fit one or more of the NCLB related criteria (pg e30).

The applicant is creating a geo-heat map to support its targeting based on 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 (pgs e59-60).

**Weaknesses:**

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

**Reader's Score:** 15

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Status: Submitted

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## Technical Review

**Applicant:** Low Income Investment Fund (U354A170003)

**Reader #2:** \*\*\*\*\*

	Points Possible	Points Scored
<b>Questions</b>		
<b>Selection Criteria</b>		
<b>Quality of Project Design and Significance</b>		
1. Project Design	35	32
<b>Quality of Project Services</b>		
1. Project Services	15	13
<b>Capacity</b>		
1. Capacity	35	32
<b>Quality of Project Personnel</b>		
1. Project Personnel	15	12
<b>Sub Total</b>	100	89
<b>Priority Questions</b>		
<b>Competitive Preference Priority</b>		
<b>Competitive Preference Priority</b>		
1. Competitive Preference	15	15
<b>Sub Total</b>	15	15
<b>Total</b>	115	104

# Technical Review Form

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

Reader #2: \*\*\*\*\*

Applicant: Low Income Investment Fund (U354A170003)

## Questions

### Selection Criteria - Quality of Project Design and Significance

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

### Strengths:

This proposal is a joint application with Low Income Fund (LIIF) and Tennessee Charter School Center (TCSC.) The proposed financing of charter schools in Tennessee will, though, be undertaken by LIIF.

LIIF plans to focus lending activities on early stage charter schools that have yet to undergo their first charter renewal. (See pages e23-25.) These charters have particularly challenging funding needs given their early state status. Funding via the USDOE program, would allow LIIF to provide more loans to these charters at better rates and terms than are available outside the charter financing enhancement program.

LIIF's rates will not exceed 200 basis points over LIIF's cost of capital. (See page e23.)

Detailed measurable objectives are provided (pages e29-31) including the specific objective of delivery of \$50mm to 20 schools over the next years. A logic model was included in the Appendix.

Applicant also provided very detailed information and analyses (pages e59-63) on the four major urban markets in Tennessee where they plan to offer charter school financing.

Applicant notes plans (page e31) to reach out to new entrants to participate in charter school financing.

The proposed "Charter School Facilities Development" toolkit (page e28) could be replicable in other states because it will provide a "step-by-step guide for those pursuing charter school development projects from concept to construction." The

toolkit will also be designed to guide architects re the requirements for charter school projects.

Applicant's proposed criteria for selecting charter schools to participate in the financing programs directly follows the three required points in the Competitive Preference Priority section of their proposal (page e30.)

The proposed leverage of 6.25:1 (page e38) is reasonable and relatively conservative. This will facilitate \$50mm in lending over five years.

Applicant notes (page e37) that they will absorb all administrative costs associated with the charter enhancement program, thus making more funds available for lending.

**Weaknesses:**

LIIF proposes to administer this charter school program in the State of Tennessee. When discussing market challenges (page e20) applicant could have prefaced their comments with an analysis of the charter school law in Tennessee: numbers of charters allowed and other key requirements/restrictions. This would have put their proposal in a more complete context.

LIIF's plan to focus on early stage charters (page e20) including targeting the market for riskier subordinated loans to new charters (pages e21-22) is a challenge for a financial organization from California new to the Tennessee market.

Applicant's explanation of how they would offer lower interest rates to charters (page e23) was very general and incomplete.

Applicant did not state whether Tennessee is considered a "strong charter" state based on section 4303(g)(2) of the ESEA as amended by the ESSA.

**Reader's Score: 32**

**Selection Criteria - Quality of Project Services**

**1. Quality of project services. In determining the quality of project services, the Secretary considers-**

- 1. The extent to which the services to be provided by the project reflect the identified needs of the charter schools to be served;**
- 2. The extent to which charter schools and chartering agencies were involved in the design of, and demonstrate support for, the project;**
- 3. The extent to which the technical assistance and other services to be provided by the proposed grant project involve the use of cost-effective strategies for increasing charter schools' access to facilities financing, including the reasonableness of fees and lending terms; and**
- 4. The extent to which the services to be provided by the proposed grant project are focused on assisting charter schools with a likelihood of success and the greatest demonstrated need for assistance under the program.**

**Strengths:**

Applicant conducted a "Capital Needs Facilities Survey (page e38) and provided important data to justify the need for their proposed entry into the Tennessee market. They also noted that 20 new charters are under consideration in Tennessee. (page e39.)

Approximately 90% of the 100+ operating charters in Tennessee responded to applicant's survey. (page e40.) This was a substantial amount of input from the charters to help identify their needs.

Applicant also noted (page e40) that they have received 20 letters of support.

The applicant partners have detailed a very complete, holistic approach to providing charters, and notably early-stage charters with considerable "capacity building assistance" (page e41) re owning and managing real estate in addition to the loan products.

**Weaknesses:**

Applicant did not discuss the competitive market for their services in Tennessee, and did not indicate whether a State entity and/or other CDFIs are active in the market. This is important because LIIF seeks to launch a new, start-up financing venture in a single market.

In this section, applicant did not adequately address the question of how they are focusing on schools with a "likelihood of success" in terms of financial management. LIIF discussed (page 42) lending to a charter school that does not have a strong cash balance and has no equity in the school finance project.

**Reader's Score: 13**

**Selection Criteria - Capacity**

- 1. Capacity. In determining an applicant's business and organizational capacity to carry out the project, the Secretary considers:**
  - 1. The amount and quality of experience of the applicant in carrying out the activities it proposes to undertake in its application, such as enhancing the credit on debt issuances, guaranteeing leases, and facilitating financing;**
  - 2. The applicant's financial stability;**
  - 3. The ability of the applicant to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management;**
  - 4. The applicant's expertise in education to evaluate the likelihood of success of a charter school;**
  - 5. The ability of the applicant to prevent conflicts of interest, including conflicts of interest by employees and members of the board of directors in a decision-making role;**
  - 6. If the applicant has co-applicants (consortium members), partners, or other grant project participants, the specific resources to be contributed by each co-applicant (consortium member), partner, or other grant project participant to the implementation and success of the grant project;**
  - 7. For State governmental entities, the extent to which steps have been or will be taken to ensure that charter schools within the State receive the funding needed to obtain adequate facilities; and**
  - 8. For previous grantees under the charter school facilities programs, their performance in implementing these grants.**

**Strengths:**

LIIF was founded in 1984 and is a well-established Community Development Financial Institution (page e43) with a strong track record in providing funding for charter schools. They have deployed \$550 million to support 156 charter schools.

LIIF has excellent financial stability (page e45) with some \$900mm in assets, an excellent loan loss record, and is highly rated by Aeris, a national rating system for CDFIs.

LIIF outlined (page e47) their policies and procedures to protect against unwarranted risk in its loan underwriting and management. They also included the LIIF Lending Manual in the Appendix. The Manual provides specific guidelines for loan approval policies including loan limit approval authority for loan officers and loan committees.

Applicant provided a detailed analysis of their loan lending, risk rating, and portfolio monitoring policies. (See pages e48-49.) This included standards for risk rating, portfolio monitoring, and debt restructuring. These are all important elements of a solid credit approval and evaluation process.

LIIF noted (page e51) their Conflict of Interest Policy that includes "...guidance on the varying scenarios that qualify as conflicts of interest." The LIIF Conflict of Interest policies are incorporated in the LIIF Standards of Conduct. (See Attachment 4 in the Appendix.)

Applicant provided (page e53) information on the performance of their previous grant awards from the US Dept. of Education for the charter schools grant financing program.

**Weaknesses:**

LIIF's Tennessee partner, the Tennessee Charter School Center (TCSC), noted (page e41) that they are 100% grant funded. The conditions and expiration dates for these grants was not discussed. That is a concern for the launch of this new financing program.

LIIF notes (page e43) they recently received another \$8MM award from USDOE for a cooperative lending program with other CDFIs. However, they did not discuss whether those funds could be or will be deployed in Tennessee.

There was very little information or data about co-applicant TCSC's expertise re the analysis of charter school operations other than noting their 20 years of policy and advocacy work for charter schools in Tennessee. (See page e50.)

LIIF did not discuss whether they plan to commit any of their own financial assets to the Tennessee venture.

**Reader's Score:** 32

**Selection Criteria - Quality of Project Personnel**

**1. Quality of project personnel. In determining the quality of project personnel, the Secretary considers--**

- 1. The qualifications of project personnel, including relevant training and experience, of the project manager and other members of the project team, including consultants or subcontractors; and**
- 2. The staffing plan for the grant project.**

**Strengths:**

LIIF senior lending management is experienced and well-qualified. (See pages e54-55.) The proposed loan origination officer for the Tennessee projects, Ms. Borradaile, has many years of experience in charter school financing.

The Director of Operations at TCSC, Cameron Quick (pages e57-58) will be in charge of marketing outreach for the new venture. He is currently working with a number of charter schools in Tennessee to create development plans, and seems to be well-qualified.

**Weaknesses:**

Applicant refers to their “forge into the Southern U.S.” (page e55.) However, there is no current in-state senior commercial loan officer in Tennessee for this new lending program. Applicant only notes (page e56) plans to hire a loan officer later this year.

Re TCSC’s current extensive consulting services to charter schools in Tennessee, there was no discussion about how they currently handle financing requests from charter schools. It cannot be determined if TCSC has any real expertise in the evaluation of real estate lending projects for Tennessee charter schools and whether or not they are working with other lenders.

**Reader’s Score:** 12

**Priority Questions****Competitive Preference Priority - Competitive Preference Priority**

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

This priority is:

The capacity of charter schools to offer public school choice in those communities with the greatest need for this choice based on--

1. The extent to which the applicant would target services to geographic areas in which a large proportion or number of public schools have been identified for improvement, corrective action, or restructuring under Title I of the Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001 (NCLB).
2. The extent to which the applicant would target services to geographic areas in which a large proportion of students perform below proficient on State academic assessments; and
3. The extent to which the applicant would target services to communities with large proportions of students from low-income families.

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

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

**Strengths:**

Low Income Investment Fund (“LIIF”) states (page e59) that 85% of their charter enhancement activities will support Tennessee charter schools based on the three elements noted in the CPP: charter schools identified by NCLB as needing improvement; charter schools in which a large proportion of the students perform below state assessment standards; and charter schools with a large proportion of students from low-income families.

**Weaknesses:**

Weaknesses:

The applicant did not specifically mention ESSA and the "...transition authority in section 4(b) of the ESSA through the 2017-2018 school year...." as noted in the CPP guidelines.

**Reader's Score:**     **15**

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**Status:**           Submitted  
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Status: Submitted

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## Technical Review

**Applicant:** Low Income Investment Fund (U354A170003)

**Reader #3:** \*\*\*\*\*

	<b>Points Possible</b>	<b>Points Scored</b>
<b>Questions</b>		
<b>Selection Criteria</b>		
<b>Quality of Project Design and Significance</b>		
1. Project Design	35	33
<b>Quality of Project Services</b>		
1. Project Services	15	13
<b>Capacity</b>		
1. Capacity	35	31
<b>Quality of Project Personnel</b>		
1. Project Personnel	15	13
<b>Sub Total</b>	100	90
<b>Priority Questions</b>		
<b>Competitive Preference Priority</b>		
<b>Competitive Preference Priority</b>		
1. Competitive Preference	15	15
<b>Sub Total</b>	15	15
<b>Total</b>	115	105

# Technical Review Form

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

Reader #3: \*\*\*\*\*

Applicant: Low Income Investment Fund (U354A170003)

## Questions

### Selection Criteria - Quality of Project Design and Significance

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

### Strengths:

The applicant concisely sums the financing problems for its charter schools: access and flexibility (page e22). The applicant does not intend to charge more than 200 basis points above the cost of its capital, and it believes it can secure capital at lower costs than the market. It will allow a higher LTV of 120%, finance up to 100% of the project (no cash or equity required), and offer other flexible terms. These include longer amortization periods (over 25 years), alternate collateral for leaseholds, longer interest-only periods, debt service coverage ratios higher than the market, and subordinate debt (page e23).

The applicant's goals and objectives are clear and measurable. Regarding financing charter schools, the applicant plans to: expand access to capital; provide favorable and flexible terms; target areas with high needs; bring new capital providers; and increase knowledge about finance and development (pages e12-13).

The timeline is clear and the activities can be measured against the timeline which is appropriate.

The applicant partnered with Tennessee Charter School Center, a charter school policy and capacity building organization and developed the program associated with this application. Successful, existing components of both organizations are brought to the program. The objectives match the Credit Enhancement for Charter School Facilities Program and will further the purposes of the program (page e32).

The model is a partnership between a financing organization and a charter school policy and capacity building organization which targets early stage schools. It has the potential to be replicable because none of the goals and

objectives can be generalized to any state (page e34).

The partnership of the applicant will allow it to direct its focus to the targeted schools: early-stage schools; those that can pay loans; and those in high need areas (page e35). The applicant identifies criteria to assist in selecting schools: historical analysis; finance risk; leadership; academic model; performance to date; funding environment and politics; student demand and trends; and collateral.

The applicant has a solid history of leveraging private funds. With this system in place, it will continue to leverage additional funds. It broke out the anticipated leverage ratio (6.25) for years one through five, and projected investments for years six through ten (page e36).

The state of Tennessee has a strong pro-charter environment (multiple authorizers and charter schools have a high degree of fiscal autonomy). The state's lawmakers are debating a charter school overhaul, and are considering establish a fund for charter schools (page e37).

The applicant intends to use grant funds to fund a reserve account. It will not charge fees or expenses to the grant (page e37). Loan losses, the cost, are estimated to be below .5% of outstanding loans which is very reasonable.

**Weaknesses:**

A pipeline of projects is presented on page e428; however, the table is not explained very well. The financing need is \$34MM; total development costs are \$167MM; seats produced are 5,685. It is not clear why more financing is identified and if there is an average cost per seat given the type of work to be done.

The applicant does not identify criteria or standards for determining the type and amount of assistance (page e35).

The applicant did not explain how it would increase the variety of charter schools to be served (page e36).

The applicant should clearly explain the expenses in the cash flow pro forma (page e69).

**Reader's Score: 33**

**Selection Criteria - Quality of Project Services**

**1. Quality of project services. In determining the quality of project services, the Secretary considers-**

- 1. The extent to which the services to be provided by the project reflect the identified needs of the charter schools to be served;**
- 2. The extent to which charter schools and chartering agencies were involved in the design of, and demonstrate support for, the project;**
- 3. The extent to which the technical assistance and other services to be provided by the proposed grant project involve the use of cost-effective strategies for increasing charter schools' access to facilities financing, including the reasonableness of fees and lending terms; and**
- 4. The extent to which the services to be provided by the proposed grant project are focused on assisting charter schools with a likelihood of success and the greatest demonstrated need for assistance under the program.**

**Strengths:**

The applicant's partner administered a capital needs facilities survey to which 90% of the 107 operating charter schools responded. The input was used to design the projects (page e40).

Nine charter schools, seven financial institutions, three foundations, and the Tennessee Department of Education

provided letters of support. Most of the financial institutions provided some level of commitment or interest in participating in the program (page e180).

The applicant's partner will provide facility capacity building technical assistance at no charge. The Tennessee Charter School Center is funded by grants from national and local foundations. The applicant will provide pro-bono real estate technical assistance during loan underwriting and servicing (page e41). The financing terms are flexible and below the market, although the 1% loan fee may be in line with the market's origination fee.

The applicant identifies one type of school to be targeted: those which are early stage schools (page e23).

**Weaknesses:**

The applicant discusses one particular charter school—Aurora Collegiate Academy. The narrative about the school enlightens about the problems schools can face; however, it does not explain how the applicant will identify schools that will succeed (page e42).

**Reader's Score:** 13

**Selection Criteria - Capacity**

- 1. Capacity. In determining an applicant's business and organizational capacity to carry out the project, the Secretary considers:**
  - 1. The amount and quality of experience of the applicant in carrying out the activities it proposes to undertake in its application, such as enhancing the credit on debt issuances, guaranteeing leases, and facilitating financing;**
  - 2. The applicant's financial stability;**
  - 3. The ability of the applicant to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management;**
  - 4. The applicant's expertise in education to evaluate the likelihood of success of a charter school;**
  - 5. The ability of the applicant to prevent conflicts of interest, including conflicts of interest by employees and members of the board of directors in a decision-making role;**
  - 6. If the applicant has co-applicants (consortium members), partners, or other grant project participants, the specific resources to be contributed by each co-applicant (consortium member), partner, or other grant project participant to the implementation and success of the grant project;**
  - 7. For State governmental entities, the extent to which steps have been or will be taken to ensure that charter schools within the State receive the funding needed to obtain adequate facilities; and**
  - 8. For previous grantees under the charter school facilities programs, their performance in implementing these grants.**

**Strengths:**

The applicant has over 18 years' experience lending 156 charter schools \$550MM (page e44). CEP funds allowed a leverage ratio of 28:1, serving 80,000 students.

The applicant as a Community Development Financial Institution has a top rating with four stars for impact and AAA for financial performance (page e466).

The applicant's consolidated financial statements from 2013 through 2016 followed generally accepted accounting principles and government audit standards, and displayed an increase in net assets from \$35MM in 2013 to \$52MM in 2016 (pages e472 and e560).

The applicant has a very low loss on disbursed capital in the education sector: 0.42% (page e47).

The applicant has many years of underwriting experience in a multitude of sectors. It provided its Lending Manual with the following sections: lending standards, risk management, and underwriting guidance. Each section of the manual had a "schools" subsection (pages e204-e425).

The applicant will depend on its partner, Tennessee Charter School Center, to evaluate charter school applicants (page e50).

LIF lists Tennessee Charter School Center (TCSC) as a partner. A draft MOU is attached. TCSC will provide technical assistance and training around facility finance and development, will help identify schools across the state that are strong candidates for the program, and will help raise capital (page e433). Specific technical assistance activities include: bi-annual state-wide workshops; comprehensive facilities planning; and distributing a Charter School Facilities Development toolkit (page e52).

**Weaknesses:**

The applicant did not discuss guaranteeing leases (page e26).

LIF states in the narrative that it strives to channel investments to schools that show strong indicators for success; however, it does not explain what these indicators are (page e51).

LIF stated that it provided Conflict of Interest Policy (page e51); however, the document provided only includes a reference to a Conflict of Interest policy which is not present. The Employee Conduct and Performance section is sparse and does not cover any situations of conflicts of interest. It also does not address board members (page e454). The partner is not covered either.

The applicant is a previous grantee for 2002 and 2007. It states the 2016 performance report is attached; but, it is not (page e53).

**Reader's Score: 31**

**Selection Criteria - Quality of Project Personnel**

**1. Quality of project personnel. In determining the quality of project personnel, the Secretary considers--**

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

**2. The staffing plan for the grant project.**

**Strengths:**

Both members' staff have experience with the 2002, 2007, and 2016 CEP grants, including: program strategy, capital raising, underwriting, capital deployment, portfolio management, compliance, reporting, outreach, school identification, and technical assistance (pages e54-e58).

The project is staffed predominantly by LIF, and staff members have considerable experience with lending and other activities associated with administering funds to low income programs, including: underwriting, credit risk assessment and management, program design, raising capital, compliance, and oversight (pages e54-e56 and e439-e452).

Bios of both the applicant's board and the partner's board were provided. The experience and knowledge of the boards is extensive and would contribute to the project (pages e602-e610).

**Weaknesses:**

Only one employee of TCSC was identified. Although Mr. Quick has an impressive resume, it would have helped if other team members from the partner organization had been included (page e439).

**Reader's Score:** 13

**Priority Questions****Competitive Preference Priority - Competitive Preference Priority**

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

**This priority is:**

The capacity of charter schools to offer public school choice in those communities with the greatest need for this choice based on--

1. The extent to which the applicant would target services to geographic areas in which a large proportion or number of public schools have been identified for improvement, corrective action, or restructuring under Title I of the Elementary and Secondary Education Act of 1965, as amended by the No Child Left Behind Act of 2001 (NCLB).
2. The extent to which the applicant would target services to geographic areas in which a large proportion of students perform below proficient on State academic assessments; and
3. The extent to which the applicant would target services to communities with large proportions of students from low-income families.

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

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

**Strengths:**

The applicant will target 85% of its CEP activities to charter schools meeting the three (3) general priorities in the application: communities with 75% of students eligible for FRL; areas where 25% or more of schools have been identified for improvement, corrective action, or restructuring; and, areas where 40% or more of the population are performing below state assessments (page e59). The applicant identified Knoxville, Chattanooga, Memphis, and Nashville as the key cities to be addressed (page e61).

**Weaknesses:**

**Reader's Score:** 15

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