

A. Quality of Project Design and Significance

The Massachusetts Development Finance Agency (“MassDevelopment”) is applying for an \$8 million grant from the U.S. Department of Education’s Credit Enhancement for Charter School Facilities Program. The funds are critical to the continued success of MassDevelopment’s Charter School Credit Enhancement Program (the “Program”) and will allow the Program to expand to include subordinated debt products. The Program provides necessary funding for Massachusetts’ charter schools and we currently have a large unfunded pipeline of over 20 school facility projects with aggregate costs exceeding \$240 million (Attachment 15). Demand is strong as evidenced by the Commonwealth’s receipt of 102 applications for approval of new high-quality charter schools and 73 requests from existing charter schools to increase enrollment in the 7 years since the 2010 legislation increasing the number of allowed charter schools was passed. To meet this demand, MassDevelopment is requesting \$8 million in grant funding to continue its successful Program and to expand the Program to meet current and future unmet needs in this sector.

(1) Rates and Fees

The Program provides advantageous terms and interest rates to charter schools. MassDevelopment would like to offer two products under this grant award; its current guarantee program and a subordinated debt product.

Through the guarantee program, lenders who provide financing to charter schools are able to provide higher loan to value (LTV) financing. A bank may typically advance up to 80% LTV on owner occupied real estate, but with a charter school guarantee, the bank may increase its advance rate to up to 120% of the collateral value. The guarantees are critical for the following reasons:

- Obtaining financing: Charter schools have limited cash to deploy towards a facility project. The guarantees are critical to putting in place the financing schools need to purchase or construct facilities while minimizing the cash equity required by lenders.
- Low interest rates: The guarantee also helps charter schools avoid higher cost of subordinated debt and can reduce annual interest expense with as much as a 3-4% annual interest rate savings on a larger tax-exempt bond which replaces subordinated debt.

With a subordinated loan or guarantee on a subordinated loan, charter schools would also be able to obtain higher LTV financing where the guarantee is not the appropriate lending product for the transaction. The new subordinated debt offering is critical for the same reasons as above and will allow us to expand the type of assistance MassDevelopment can provide to schools.

Subordinated financing in Massachusetts is either non-existent at times or carries prohibitively high interest rates. MassDevelopment's subordinated debt product will seek to expand options for charter schools, decrease costs and provide savings to charter schools.

Terms and Rates on Guarantees for Facilities Owned by Charter Schools

- Guarantee amounts may be no more than 50% of the senior debt.
- Maximum LTV of 120%, or as deemed appropriate by MassDevelopment.
- Lender must have first security interest in real estate being financed, or other collateral deemed appropriate by MassDevelopment.
- Guarantee reduces dollar for dollar with loan principal payments.
- Annual guarantee fee of up to 1.25% (current fee is 0.5% on a first mortgage guarantee).

Terms and Rates on Guarantees for Facilities Leased by Charter Schools

- Guarantee amounts may be up to the lower of 90% of the project cost or \$2,000,000.
- Maximum LTV of 90% (minimum equity contribution of 10%).
- Guarantee reduces dollar for dollar with loan principal payments.
- Annual guarantee fee of up to 1.75% (current fee is 0.5%).

Guidelines for Terms and Rates on Subordinated Debt or on Guarantees of Subordinated Debt for Facilities Owned by Charter Schools

- Subordinated loan or guaranteed subordinated loan amounts may be no more than 50% of the total debt.
- Guarantees on subordinated debt may be up to 100% of the subordinated loan.
- Maximum LTV of 120%, or as deemed appropriate by MassDevelopment.
- Lender must have a junior security interest in the real estate being financed, or other collateral deemed appropriate by MassDevelopment.
- Guarantee reduces dollar for dollar with loan principal payments.
- Proposed interest rates and fees will follow the MassDevelopment lending and guarantee guidelines.

MassDevelopment's rates and terms are subject to change and will follow the Loan and Guarantee Guidelines approved by MassDevelopment's Board of Directors.

(2) Project Goals, Objectives and Timeline

The Primary Goal is to provide guarantees for debt and subordinated debt for acquisition, construction, renovation of charter school facilities so that schools may obtain financing at low interest rates. We will continue to work throughout Massachusetts targeting charter schools that meet competitive priority criteria detailed below in specific performance measures and targets.

Program Performance Measures

The Program will target 100% of the credit enhancement funds for the acquisition, renovation and construction of facilities for charter schools meeting competitive priority criteria. The Program will service a minimum of 8 charter schools in the first three years following the award.

Project-Specific Performance Measures and Targets

Measure 1: Give priority to applications for facility construction/acquisition/renovation.

Target i: 8 schools for facility construction/acquisition/renovation

Measure 2: Give priority to serving Low Income, Low Performing School Districts that meet competitive priority criteria.

Target i: 8 charter schools that meet competitive priority criteria

Measure 3: Maintain a pipeline of 15 potential charter schools transactions.

Measure 4: Partner with Charter schools and the Commonwealth of Massachusetts to assist charter schools.

Target i: Maintain regular communication with the Massachusetts Charter Public School Association to determine which schools are newly approved or expanding for facility financing needs assessments.

Target ii: Present Program at an annual Charter School Conference to create greater awareness of Program capabilities to support schools' facility financing needs.

Target iii: Maintain relationship with the Commonwealth of Massachusetts Department of Elementary and Secondary Education (DESE) to monitor Charter School trends.

Target iv: Continue to advertise to promote the Program.

Measure 5: Receive 9 Applications for Guarantees or Subordinated debt.

Target i: Actively seek 3 applications during each of the three years of the grant.

Measure 6: Award 8 Credit Enhancements over a 3 year period.

Target i: Award a minimum of 3 guarantees or loans during the first two years of the grant and two guarantees or loans in year 3.

Data Collection

Utilizing its existing tracking system for lending operations, MassDevelopment will monitor the progress of the grant by tracking calls/outreach; visits; applications taken/received; and applications approved. The tracking will also identify charter schools by type – low-income and/or low performing and by geographic region. By doing this, MassDevelopment will be able to monitor and compare these numbers with the actual application attestations and the data collected for these communities by the Commonwealth’s Department of Elementary and Secondary Education (DESE).

Timeline

MassDevelopment will work to achieve the following timeline:

Activity/Task	Timeframe/Benchmark
Will use best efforts to close at least 3 school credit enhancements totaling \$3 million leveraging a \$21 million loan or bond.	September 2018
Will use best efforts to close at least 3 school credit enhancements totaling \$3 million leveraging a \$21 million loan or bond.	September 2019
Will use best efforts to close at least 2 school credit enhancements totaling \$2 million leveraging a \$14 million loan or bond. All grant funds deployed.	September 2020

In addition, the following actions will also be undertaken:

Action 1: Within 30 days of grant award a press release will be sent to appropriate outlets.

Action 2: Within the first 30 days of award, review and update pipeline.

Action 3: Within 90 days of grant receipt, generate 3 applications.

Action 4: First transaction approved within 120 days of grant receipt.

Action 5: All grant funds deployed within 3 years of receiving grant funds.

Action 6: Timely completion of required reports to the U.S Department of Education.

(3) Implementation Plan and Activities

MassDevelopment will make the \$8 million grant funds available immediately upon receiving the funds. As manager of three successful Charter School Grants from the U.S. Department of Education, MassDevelopment will utilize the same program design, structure and systems for this project and is proposing to expand it to support a new subordinated loan product. MassDevelopment's Charter School Credit Enhancement Program is well established and has:

- Documented and approved policies and procedures, including specific underwriting guidelines for charter school loan guarantees (and subordinated debt guidelines have been included in Attachment 13).
- On-going marketing and communications strategies to promote the Program.
- Business Development, lending and bond transaction officers who have a thorough understanding of the Program and provide assistance to schools in identifying financing alternatives from banks or the capital markets.
- Strong underwriting, credit review, monitoring and risk management procedures.
- Excellent financial and compliance reporting systems.

MassDevelopment proposes to follow the implementation plan outlined below:

MASSDEVELOPMENT IMPLEMENTATION PLAN

	Quarter after Receipt of Grant					
	Completed	1	2	3	4	5+
Marketing						
Marketing Materials	x					
Charter School Contact List	x					
Press Release announcing award		x				
E-mail notification of grant award to our charter school contact database		x				
Charter School Financing Workshop		x	x			
Program						
Charter School Credit Enhancement Application	x					
Charter School Credit Enhancement Program Policies and Procedures	x					
Credit Underwriting Standards	x					
Credit Review Procedures	x					
Lending/Bond and Guarantee/Subordinated Debt Transactions						
Officers Initiate Financing Transactions		x	x	x	x	x
Approval of Transactions by Credit Committee		x	x	x	x	x
Close charter school credit enhancement transactions		x	x	x	x	x
Grant Administration						
Set-up new funding source on existing EnAble system for new grant		x				
Set-up Grant Reserve Account		x				
Compliance Reporting Procedures	x					
Annual Report to Department of Education					x	x
Meetings						
Advisory Committee Meetings			x		x	
Advisory Committee Reports		x	x	x	x	
DESE Charter School Annual Meeting					x	x

(4) Replicability

The working relationship between MassDevelopment, Massachusetts Charter Public School Association (MCPSA), and the Massachusetts Department of Elementary and Secondary Education (DESE) is an effective model for other states to duplicate. MCPSA and the DESE have an extensive knowledge of charter schools, well-documented best practices for operating a successful school, experienced staff that can provide technical assistance on education, one of the nation's best accountability plans and MCPSA has strong lobbying efforts to promote the funding and support of charter schools at state and federal levels.

MassDevelopment adds an in-depth understanding of the credit and real estate challenges faced by charter schools. MassDevelopment offers a track record of innovation in responding to financing needs of underserved organizations in the state. By taking a leadership role in creating a Charter School Credit Enhancement Program and with the support of private foundations and charter school organizations in the state, MassDevelopment has constructed a proven model for supporting charter school facilities financing that can be readily replicated in other states.

(5) Charter School Selection Criteria

The Charter School Credit Enhancement Program will target services and give priority to schools with the competitive priority described below:

- Geographic areas in which a large portion 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 (NCLB).
- Geographic areas in which a large proportion of students performed below proficient on the state's academic assessments and/or

- Communities with a large proportion of students from low-income families, as measured by percentage of students receiving free or reduced lunch.

MassDevelopment's business development, lending, investment banking staffs, the Charter School Program Manager, and the Charter School Advisory Board are all sources to bring potential transactions to the Program. The financing application requires that the applicant provide information on the priority criteria listed above. In addition, the information of school district demographics and standardized student assessment testing performance are available directly from the Massachusetts's Department of Elementary and Secondary Education's (DESE) website.

Applications will be prioritized first by the need of the population served and second by school financing need. Schools seeking guarantees or subordinated debt from the Program will submit an application (Attachment 14) to MassDevelopment detailing the school history and project description. In addition to the three priority categories listed above, the prioritizing criteria developed for our charter school program also considers the following:

- Size of student population (smaller schools prioritized because they have historically had a more difficult time accessing capital).
- Total school revenues and commitment of other public resources to the project.
- Project's ability to be financed and/or financing terms being offered.

Once projects are ranked according to need, MassDevelopment will determine project viability by assessing the school's capacity to carry the proposed debt. Those projects determined to be viable will be ranked according to its anticipated closing timeline.

(6) Leverage

MassDevelopment proposes to have a minimum leverage of 7:1 on the requested grant and will continue to seek public and private sector funding to leverage the Program. As we did with the 2012 and 2015 grants, MassDevelopment will seek permission from its Board to make a matching contribution to the \$8 million grant, making the total fund size \$16 million.

We have had great success and MassDevelopment leveraged additional funding for the existing Program as follows:

- \$11 million matching contribution from MassDevelopment.
- \$2 million pledged from Local Initiatives Support Corporation (LISC).
- \$4 million pledged from the Boston Foundation.
- \$288 million in private dollars raised via bonds and loans issued to charter schools.

MassDevelopment has achieved high leverage for each of its grant awards. With the 2003 grant, as of 3/31/2017, MassDevelopment has issued more than \$34.3 million in credit enhancements to loans and bonds. Financings supported by these credit enhancements total more than \$214.1 million, resulting in 21:1 leverage on the original \$10.025 million grant from the Department of Education. The 2003 grant is in the recycling phase.

With the 2012 grant, MassDevelopment has issued \$5 million in credit enhancements to loans and bonds. Financings supported by these credit enhancements total more than \$39.3 million, resulting in 8:1 leverage on the original \$5 million grant from the Department of Education. The 2012 grant is in the recycling phase.

With the 2015 grant, MassDevelopment has issued over \$7.0 million in credit enhancements to loans and bonds. Financings supported by these credit enhancements total more than \$34.8 million, resulting in 7:1 leverage on the original \$5.0 million grant from the Department of Education. The 2015 grant is in the recycling phase.

MassDevelopment also uses its own funds and programs to supplement the Credit Enhancement Program. Since 1999, there have been \$20.4 million in financings via MassDevelopment TechDollar loans, General Fund loans, and landlord financings as well as \$630.7 million in bond financings, of which a third of the total transactions required credit enhancements. These numbers, although not included in the Credit Enhancement Program numbers, evidence MassDevelopment's commitment to supporting Charter School financing in addition to educating the financing community about charter schools, enhancing its comfort level with such transactions and expanding opportunities for charter schools to obtain debt financing.

MassDevelopment has developed relationships with over 17 banks that purchase charter school bonds, providing a substantial base from which to continue to leverage the charter school credit enhancement program. The initial leverage on the proposed \$8 million grant is projected to be 7:1 (project debt amount: guarantee or subordinated debt amount), with increases in leverage as the \$8 million grant funds are recycled. In addition, MassDevelopment will continue to use best efforts to identify and attract additional investors.

(7) State with Strong Charter Laws

The landscape of charter education in Massachusetts has changed substantially since the Massachusetts charter school law was established in 1993 and the first Massachusetts charter schools opened in 1995. In January 2010, the passage of new legislation marked significant revisions to the charter school statute, Massachusetts [General Laws c. 71, § 89](#).

One of the new provisions in the law was an increase to the charter school cap in the lowest-performing public school districts which doubled the number of seats made available in Massachusetts's lowest-performing districts from 9 to 18 percent over the course of six years. The legislation further mandated that the additional seats made available by this cap increase be awarded only to *proven providers*; i.e., individuals or groups who have a demonstrated record of success in establishing and operating successful schools. The intent of the legislation was to replicate and expand the highest performing charter schools in order to provide additional opportunity and choice for students and their families in the lowest performing districts. As expected, this amended statute resulted in a major increase of charter school applicant groups, specifically there have been 102 applicants for new schools in the 7 years since the 2010 legislation passed, compared to 77 in the preceding 7 years. There have also been 73 applications from charter schools to increase their enrollment.

Several recent studies and reports on Massachusetts' authorizing practices as well as the impact of Massachusetts charter schools on student achievement and college success serve to satisfy Massachusetts' evaluation goals. In March 2017, a report from the National Alliance for Public Charter Schools, [Measuring up to the Model: A Ranking of State Charter School Laws](#), highlighted Massachusetts as a leading state for comprehensive charter school monitoring and data collection processes as well as clear lottery processes and fiscally and legally autonomous charter school boards.

According to a [2016 state policy analysis conducted by the National Association of Charter School Authorizers \(NACSA\)](#): “Massachusetts has one of the highest-performing charter sectors in the country.” Though NACSA recommends that certain policies become part of state law, they acknowledge that “The sole authorizer [DESE] voluntarily employs practices that largely mirror those that result from NACSA’s recommended policies”. This is highlighted in NACSA’s report [Index of Essential Practices](#) showing that Massachusetts has adopted all 12 of NACSA’s recommended practices.

In January 2016, the Massachusetts Institute of Technology (MIT) released their lottery study that estimated effects of attendance at Boston’s charter high schools on college preparation and enrollment. The study, [Stand and Deliver: Effects of Boston’s Charter High Schools on College Preparation, Entry, and Choice](#), found that Charter attendance boosts SAT scores sharply and increases the likelihood of participating in Advanced Placement (AP) courses and exams as well as AP Exam scores. It also found that Charter effects on college-related outcomes are strongly correlated with charter effects on earlier tests. In October 2016, another study by MIT, [Special Education and English Language Learner Students in Boston Charter Schools: Impact and Classification](#) reported that “charters increase special needs students’ test scores, likelihood of meeting a high school graduation requirement, and likelihood of earning a state merit scholarship. Charters benefit even the most disadvantaged special needs students: those with the lowest test scores and those who receive the most services at the time of lottery.”

(8) Reasonable costs of the Program

A 5-year cash flow pro forma for the Program is Attachment 9. The dollar amount and number of credit enhancement transactions issued under the proposed \$8 million grant are used in the summary cash flow analysis.

Strong Theory

Under the 2003, 2012, and 2015 grant awards, MassDevelopment has developed a Credit Enhancement Program that has been proven successful and assisted 26 schools in obtaining facilities financing. All three grant awards are now being recycled and have been leveraged more than 21:1, 8:1, and 7:1, respectively. All three funds have low expenses and no losses have occurred in the portfolios.

The Logic Model (Attachment 5) incorporates the lending expertise of MassDevelopment and local banks with the charter school administration expertise of Massachusetts Department of Elementary and Secondary Education and includes the association representing Charter Schools. This same model will be applied to this \$8 million request.

B. Quality of Project Services

(1) Identified Needs of Charter Schools to be Served

In Massachusetts, unlike traditional public schools, charter schools do not have access to funding through the state's school building authority and/or local property tax revenue. Charter schools must be able to access private debt to finance their facilities. Charter School obtaining a permanent location can be challenging. Most financing sources want an equity down payment and need to get comfortable allowing financings with terms that are longer than the school's five-year charter term.

Charter schools raise equity through fund raising, grants and/or accumulating the annual facility allowance provided in the state's per pupil tuition rate. Loan guarantees and subordinated loans enable charter schools to access private debt because they reduce the equity that schools need to obtain private funding.

MassDevelopment has identified over 17 banks willing to purchase tax exempt bonds and assume the risk of financing a charter school beyond the term of its charter.

The Program meets the needs of charter schools because:

- Many charter schools are not able to raise sufficient equity to allow them to qualify for a conventional loan or bond to finance acquisition and/or renovations to a school building. Credit enhancement “covers” the gap between the amounts of financing the lending institution is willing to provide absent credit enhancement and the financing amount the charter school needs.
- The charter school is able to obtain the needed facility financing, and they can obtain senior debt interest rates or favorable subordinated debt interest rates as opposed to the high interest subordinated debt currently available in Massachusetts.
- Terms of the guarantees and subordinated debt can exceed the 5-year charter term, providing more financing flexibility to the schools.
- MassDevelopment has identified banks that will purchase bonds issued on behalf of charter schools even though school charters must be renewed every five years.

As of March 31, 2017, MassDevelopment has used all the federal funds in the Program and has committed almost all private funds available. **There are not sufficient funds to meet the existing pipeline.** MassDevelopment’s pipeline as of March 31, 2017 is comprised of over 20 school projects. The total financing needs of the charter schools exceeds \$241 million and requires an estimated \$33 million in credit enhancements to obtain the necessary debt. A majority of these projects are for schools that meet the competitive priority objectives. MassDevelopment is requesting an \$8 million grant, based on this need and the current pipeline (Attachment 15).

(2) Involvement of Charter Schools and Charter Agencies in Design and Demonstrated Support of Project

The idea for the credit enhancement fund proposal originated with the Massachusetts charter schools, as expressed through the Massachusetts Charter Public School Association (MCPSA). MCPSA is recognized throughout the state as a strong voice on behalf of Massachusetts charter schools and its role in MassDevelopment's initial creation of the Charter School Credit Enhancement Program ensured that we built a program that meets the needs of charter schools.

In 2003, MassDevelopment submitted an application to the Credit Enhancement for Charter Schools Facilities Demonstration Program. The application was crafted in consultation with MCPSA, The Massachusetts DESE, and 40 charter schools that were part of the charter school needs assessment conducted in conjunction with our application.

As part of the implementation of the grant, MassDevelopment established a Charter School Advisory Board whose members provide advice and input from charter school stakeholders. The current Committee is comprised of the following members:

- Beth Anderson, Executive Director of the Phoenix Charter Academy
- Joanna Laghetto, Massachusetts Department of Elementary and Secondary Education
Charter School Office
- Marc Kenen, Massachusetts Charter Public School Association
- Elizabeth Pauley – Vice President, The Boston Foundation
- Reena Bhatia – Vice President, Local Initiatives Support Corporation
- Rebecca Sullivan – Charter School Program Director, MassDevelopment
- Laura Canter, EVP Finance Programs, MassDevelopment
- Deborah Rosser – Senior Vice President Lending, MassDevelopment

- Patricia Sluder – Senior Vice President Finance Programs, MassDevelopment

The Committee currently reports quarterly and meets semi-annually to review the charter school pipeline and availability of Program funds; discuss opportunities for outreach and any current charter school issues; and review charter school compliance reporting.

MassDevelopment's business development, lending, and bond staff also actively call on charter schools in the state and continue to gather information on the financing needs of schools.

(3) Technical Assistance and Other Services

In addition to the Program, MassDevelopment offers technical and other financing assistance to charter schools. MassDevelopment offers a variety of programs and cost effective strategies to increase access to facilities funding at reasonable interest rates. These types of assistance include:

- Real Estate Department consulting services such as site engineering, architectural design, permitting and approvals, and property management.
- Low interest predevelopment loans to pay for up-front soft costs such as architectural plans and feasibility studies.
- Zero interest site assessment financing and low cost remediation loans through the Brownfields Redevelopment Fund, a state fund managed by MassDevelopment.
- Access to financing and the tax-exempt bond market, traditionally the lowest cost of financing available – 1-2% below traditional loans. The majority of the credit enhanced bonds MassDevelopment has issued on behalf of charter schools have been purchased by banks, thus reducing interest costs.
- Management of the school financing expense, including keeping upfront costs low.

- Direct lending to charter schools and other parties assisting charter schools such as landlords. Real estate loans can be up to \$7,500,000.
- MassDevelopment’s TechDollars program provides low cost 100% financing for technology needs of nonprofits – eight loans were made to charter schools under this program.
- The design of the Program assures that the needs of charter schools will be met, technical assistance is provided, and the funds will reach the quality charter schools with the greatest need for assistance.

(4) Assist Charter Schools with Likelihood of Success and Greatest Need

The \$8 million request will target charter schools with the highest likelihood of success and the greatest need:

- The grant funds will provide credit enhancements to high quality charter schools that have the greatest chances of success. We will work with the Commonwealth’s DESE to approve schools for financing. The DESE is known for their strict quality control and they have a proven national track record of approving high quality schools. This will ensure there is a high degree of confidence in the academic success of the charter schools financed.
- The Program will target schools that meet the competitive priority. Most will be located in underperforming school districts that are targeted for improvement or have a high percentage of low income families based on the percentage of free/reduced lunch as compared to the state level.

C. Capacity

(1) Amount and Quality of Experience

MassDevelopment was created in 1998 through the merger of the Massachusetts Industrial Financing Agency (MIFA) and the Massachusetts Land Bank (Attachment 10). As the state's finance and development authority, MassDevelopment works with businesses, financial institutions and communities to stimulate economic growth across the Commonwealth. During FY 2016, MassDevelopment financed or managed 352 projects generating investment of more than \$3 billion in the Massachusetts economy.

MassDevelopment is a leading provider of facility financing to charter schools in Massachusetts. Since the charter school movement began in 1995, MassDevelopment has issued 71 tax-exempt bonds and Qualified Zone Academy Bonds (QZABs) totaling \$630.7 million on behalf of 42 charter schools and made 23 loans to charter schools totaling \$20.4 million. More than 70% of these schools were in low income communities.

Charter school loan credit enhancements are closed and monitored within MassDevelopment's Lending Department, which has more than 50 years of credit and lending experience, including working with federal and state programs.

The Lending Department provides loans and guarantees for real estate and equipment projects to fill financing gaps that banks and other private lenders cannot fill. Loan size and complexity vary – loans range from \$50,000 up to \$7.5 million and are provided solely by MassDevelopment or as a loan participation in a larger financing for which MassDevelopment may be the lead lender or participating lender.

Funding for loans and guarantees comes from MassDevelopment's General Fund and restricted funds capitalized by state and federal government contributions as well as private foundations. In addition to the Charter School Credit Enhancement Program, other restricted funds include the Emerging Technology Fund, Brownfields Redevelopment Fund, Export Development Loan Fund, New Markets Loan Fund, Charitable Trust Fund, Seafood Revolving Loan Fund, and Gloucester Revolving Loan Fund. During its last five fiscal years, MassDevelopment closed 147 loans totaling \$143 million and 76 loan guarantees totaling \$34 million.

As of March 31, 2017, there were 149 loans totaling \$97 million and 89 guarantees totaling \$40.2 million under management in our portfolio, including 15 charter school loan guarantees totaling \$20.8 million. In addition, we have 10 loans totaling \$10.8 million under management in a New Markets Loan Portfolio which was recently acquired for direct ownership by MassDevelopment.

MassDevelopment's lending staff, portfolio administration staff and senior management are highly experienced: Of the eight lending officers, including the senior lender, six have over 20 years of credit and lending experience and all but three have been with MassDevelopment for more than 5 years. Portfolio loan administration is comprised of a team of five; the team leader has over 20 years of loan administration experience including the last 20 years with MassDevelopment.

The Vice President of Special Assets Department is a 27 year veteran of commercial lending with 16 years at MassDevelopment. The EVP of Finance Programs has over 20 years of commercial credit experience. MassDevelopment's Investment Banking Department is one of the state's largest issuer of tax-exempt bonds.

As a conduit bond issuer, MassDevelopment and the state assume no credit risk for the issued bonds. Bonds are purchased by banks or sold in the public markets with or without credit enhancement.

In the last five fiscal years, MassDevelopment issued 482 bonds totaling more than \$13.6 billion to manufacturers, environmental entities, educational institutions, nonprofits and governmental entities. In addition, MassDevelopment has a New Market Tax Credit Program that has been awarded 7 allocations totaling \$341 million from the U.S. Treasury. Since 2011, we closed two charter school projects that were financed with New Markets Tax Credits.

MassDevelopment's Business Development staff works to market MassDevelopment's financing programs throughout the state. Community Development staff are responsible for MassDevelopment's early stage financing programs, including the predevelopment loan program and the Brownfield's Redevelopment Fund site assessment program.

MassDevelopment works across the entire Commonwealth. Staff is located in Boston and five regional offices as well as several satellite offices. Each of the five regions has staff dedicated to business development, lending, bond financing, community development programs and real estate. Staff has annual calling goals for outreach to prospects. Each regional team also sets annual closing goals for the various financing programs including the Charter School Credit Enhancement Program.

Staff efforts are supported by our Marketing and Communications Department comprised of five highly experienced individuals. Our integrated marketing strategies include paid advertising, earned media, trade shows and events, marketing materials for each product and program and a quarterly e-mail newsletter highlighting MassDevelopment business activity.

The Marketing staff writes and publishes marketing materials for each MassDevelopment product and program providing eligibility guidelines, basic product terms and conditions and recent case studies. Marketing staff is also responsible for constructing prospect lists and conducting direct mailing and e-mailing campaigns for specific products and programs.

MassDevelopment issues press releases on all closed loans/bonds/grants unless the borrower declines the option. The Charter School Credit Enhancement Program is integrated into MassDevelopment's existing Marketing and Communications strategies.

Summary of MassDevelopment's qualifications to manage another \$8 million grant include:

- Established loan guarantee, subordinated debt, loan, and bond financing programs that support the growth of charter schools.
- Cooperative working relationship with Massachusetts Charter Public School Association (MCPSA) and the Massachusetts Department of Elementary and Secondary (DESE) Charter Office.
- Established Charter School Advisory Committee that receives quarterly reports, meets semiannually, and has representatives from all charter school stakeholders.
- More than 50 years of credit and lending experience, including working with federal and state funded programs.
- Highly experienced bond, lending and portfolio management staff.
- Established credit and portfolio management policies, procedures and governance as well as a highly experienced work-out staff and in-house legal department.
- Exceptional business development team and marketing and communications group to generate appropriate project leads for the Program.
- Documented standards of conduct and a strong financial profile.

(2) Financial Stability

MassDevelopment's S&P credit rating (A+/stable/A-1) report and most recent audited financial statements are included in Attachments 7 and 8, respectively. McGladrey LLP conducted the financial audit of the Agency. As of June 30, 2016, Agency assets exceed liabilities by \$465.1 million. Current cash and cash equivalents, and short term investments total \$162.9 million and, all cash and cash equivalents, short and long term investments total \$267.7 million, \$27.4 million of which is restricted use.

(3) Risk Management

MassDevelopment has experienced personnel and established policies and procedures to help mitigate risk in its loan and guarantee portfolios. Each loan and guarantee program, including the Charter School Credit Enhancement Program, administered by MassDevelopment has established underwriting criteria, which have been approved by senior management and documented in the Loan Policy and Procedures Manual that is provided to all loan officers along with appropriate training (Attachment 13).

- Application - Prospective borrowers meet with regional staff, and, when appropriate, complete a MassDevelopment loan, bond, guarantee, or subordinated debt application – a charter school application is included in Attachment 14.
- Due diligence - An in-depth analysis of information provided by the prospective borrower in its loan or guarantee application and in face-to-face meetings are conducted by the lender who is managing the loan or guarantee transaction. We require the charter school to provide a letter from the state's DESE indicating that the school's charter is valid, and we verify that the school is in good standing. Senior management meets with the borrowers as needed.

Borrower information and the lender's analysis are compiled in a standard Approval Request document which is reviewed by senior management and by in-house counsel. Appraisals of collateral are conducted by external professionals with expertise in equipment and/or real estate appraisals.

- Approval Process - Loans and guarantees are approved either by senior management (SVP of Credit and Lending, EVP of Finance Programs and CEO) or by the MassDevelopment Board of Directors. MassDevelopment's Credit Committee, comprised of a subset of the members of the Board, review and approve all loans and guarantees presented to the Board of Directors. The amount of the loan or guarantee and the risk profile determine the required approval level. A summary of all loans, guarantees, and subordinated debt approved at the senior management level is provided to the Credit Committee and Board of Directors.
- Documentation - Closing of all loans and loan guarantees is overseen by MassDevelopment's Legal Department comprising the General Counsel, four counsel and support staff. Outside counsel is usually employed with support provided by in-house counsel on standard documentation requirements.
- Monitoring - Loans and guarantees are risk rated on a scale of 1-6. The lender assigns the risk rating, which is reviewed by management at the time of loan or guarantee approval and closing, based on factors that include operating trends, collateral coverage and cash flow analysis. Officers are required to review each loan and guarantee at least annually, complete a standard written credit comment and opine to the risk rating. For loans and guarantees with risk ratings of 5 or 6, quarterly credit reviews are required.

- External Credit Review - In addition to an internal review, Cobblestone Management, LLC, a private loan review firm with more than 30 years of loan portfolio review experience for small and regional financial institutions, performs an annual review of most credits in the Agency’s lending portfolio and opines to risk rating, loan reserves, and overall management of the portfolio. MassDevelopment’s loan and guarantee portfolio has received a satisfactory review from Cobblestone.
- Reporting - A monthly portfolio report and analysis is produced by Portfolio Administration in conjunction with the SVP of Lending and MassDevelopment’s work-out officer and submitted to senior management. MassDevelopment’s Credit Committee reviews the report on a quarterly basis. Information includes loan and loan guarantee balances; non-accruing loan balances; current loan loss reserves; past due payments; loan balances for each loan rated 5 or 6; and risk rating upgrades and downgrades during the prior month. As of December 31, 2016, there were 38 loans and guarantees, totaling \$11.9 million rated “5 or 6”. Seven of the loans (\$3.7 million) are in our Emerging Technology (ETF) Portfolio, which because of the early stage of the companies are mostly booked with a “5 or 6” loan rating.

- [REDACTED]

- Work-out - Non-performing loans and guarantees are primarily managed by MassDevelopment's Vice President of Special Assets. MassDevelopment's goal is to restructure loans and guarantees when possible. Loan and guarantee waivers or restructures are generally approved by the EVP of Finance Programs and/or CEO depending on the original approval authority, current loan or guarantee balance and risk rating.
- Portfolio losses - MassDevelopment's loan and guarantee losses have been small over the past five fiscal years (FY 2009-2016 – 0.87%, 1.26%, 1.58%, 0.0%, and 0.56% respectively). Losses in FY 2016 relate specifically to our Emerging Technology Fund (ETF) portfolio, which contains loans that are often made to growth stage companies that are not yet profitable and therefore have higher risk than loans in MassDevelopment's General Fund. No charter school loan guarantees are currently in default and no payment has been made under any charter school loan guarantee.
- Systems – All tracking systems are supported by our IT Department and with vendor service contracts:
 - Enable – Customer relationship management and loan and guarantee tracking system for tracking of prospects (customers) information, customer projects and financings, status of financing, pipeline by product or program, billing for loans, bond fees and guarantee premiums; reporting on outstanding loan and guarantee balances, collection of payments, and status of collections.
 - Microsoft Dynamics Great Plains – General Ledger accounting system.

MassDevelopment's accounting practices follow GASB guidelines. McGladrey LLP, MassDevelopment's external auditors, validates MassDevelopment's accounting standards and financials.

(4) Expertise in Education

For expertise on education matters, MassDevelopment works with the Massachusetts Charter Public School Association (MCPSA) and the DESE's Charter School Office. These two organizations offer extensive knowledge of charter school needs, well documented best practices for operating a successful school, experienced staff that can provide technical assistance on education matters, one of the strictest accountability plans, and strong advocacy efforts to promote funding and support of charter schools at the state and federal governments. Both were instrumental in designing the Charter School Credit Enhancement Program.

Massachusetts Charter Public School Association: The MCPSA was founded in 2001 and is governed by a committed board of directors consisting of 17 democratically elected charter school leaders and staff. Averaging a membership rate of over 98% of Massachusetts charter schools, MCPSA is a robust statewide organization that has tremendous support and engagement of charter school leaders, parents, community members, and other proponents of education reform.

The United States Department of Education has recognized the Association with National Leadership Grants three times – in 2001, 2006, and again in 2015 – to support its efforts to publish and share innovative educational models with educators across the country.

In order for all children in Massachusetts to have access to high quality public education, MCPSA is committed to building increased capacity to advocate for and support:

1. Fully-funded, high quality, autonomous charter schools;
2. Continued expansion of charter schools to all areas of unmet need in MA;
3. Charter schools that innovate in instructional and operational practices;
4. A robust, high-quality charter school accountability system;
5. Implementation of adapted charter school models in district schools.

Through ongoing state advocacy for charters schools with the legislature and Department of Elementary and Secondary Education and technical assistance to member schools, including provision of professional development opportunities to foster the sharing and dissemination of best practices within and beyond the charter school community, MCPSA has played an essential role in building one of the highest quality charter school initiatives in the country.

DESE: Massachusetts has been on the forefront of the charter school initiative since the first charter school opened in the state in 1995. The DESE plays a critical role in overseeing charter school applications, performance review, and charter renewal.

The state's DESE and MCPSA are represented on the Charter School Advisory Board and are available to answer questions about the educational aspects of charter schools. The Logic Model (Attachment 5) further defines the relationship between MassDevelopment, the DESE and the MCPSA.

(5) Standards of Conduct and Conflict of Interest

Chapter 23G of the Massachusetts General Laws (Attachment 6) is the MassDevelopment enabling legislation and makes all MassDevelopment employees and board members subject to Chapter 268A of the Massachusetts General Laws, the State Ethics Law. The State Ethics Law (Attachment 6) imposes civil and criminal penalties for misuse of one's official position, self-dealing and nepotism and requires recusal from or written disclosure of situations that might present an appearance of impropriety. The State Ethics Law has a forever ban with respect to matters that you worked on as a state employee and forbids participation in any matter over which an employee had official responsibility for two years. All employees and board members annually receive copies of a summary of the State Ethics Law. Bi-annually, they must complete an on-line ethics training. The MassDevelopment General Counsel also schedules trainings for employees and board members on ethics issues on a regular basis. The MassDevelopment Employee Handbook includes a code of conduct section that incorporates the State Ethics Laws. In addition, our Lending staff is subject to MassDevelopment Officer's Code of Conduct (Attachment 6), which requires that officers uphold the highest professional standards at all times. Violations of standards of conduct are subject to disciplinary action.

MassDevelopment also has a Procurement Policy and Procedures Manual which documents the process for hiring third party vendors to ensure that vendors are chosen based on price and quality of service and meets all legal requirements. The staff receives regular training on procurement from the Legal Department.

(6) Co-applicants

There are no co-applicants to this request.

(7) Steps taken to Ensure Charter Schools Receive Funding

MassDevelopment works with the schools to create cost effective plans to ensure charter schools receive facilities funding by:

- Issuing tax-exempt bonds and QZABs on behalf of charter schools. Since 1995, 71 tax-exempt bonds and QZABs (\$630.7 million) have been issued on behalf of 42 schools.
- Making direct loans to charter schools, including loans for leasehold improvements for leased charter school facilities, and loans through our TechDollars Program for their technology needs. Twenty-three loans totaling \$20.4 million have been made to schools.
- Managing the Credit Enhancement Program. As of 3/31/2017, thirty-seven credit enhancements totaling more than \$46.3 million have enabled 26 schools to improve their facilities.
- Working with MCSA, the State's Charter School Office and charter schools to keep abreast of financing needs of charter school.
- Initiating outreach efforts, including direct calling on schools, press releases for closed transactions, and marketing materials and events to charter schools to raise awareness of our financing products and programs.
- Assisting charter schools in seeking New Market Tax Credit financing, if appropriate.

(8) Previous Performance

MassDevelopment was awarded three grants of \$10,025,000, \$5,000,000, and \$4,999,999.62 from the U.S. Department of Education Credit Enhancement for Charter School Facilities Program in 2003, 2012, and 2015, respectively. The FY 2016 Annual Report is Attachment 11. Highlights of MassDevelopment's success include:

- Through 3/31/2017, twenty-six schools have been issued credit enhancement, totaling more than \$46.3 million, which enabled the schools to access the funding they required for the acquisition, construction, or renovations of their school facilities.
- High leverage ratios achieved for each grant award. For the 2003 grant, the credit enhancements supported loan or bond amounts in excess of \$214.1 million, resulting in a leverage of over 21:1 of the original funds. For the 2012 grant, the credit enhancements supported loan or bond amounts in excess of \$39.38 million, resulting in a leverage of over 8:1 of the original funds. For the 2015 grant, the credit enhancements supported loan or bond amounts in excess of \$34.8 million, resulting in a leverage of over 7:1 of the original funds. All grant funds are currently being recycled.
- Proven risk management. There have been no losses paid under any credit enhancements.
- MassDevelopment has directly contributed \$11 million in credit enhancements to the Program and has attracted an additional \$6 million in credit enhancements from private investors. In addition, it has leveraged an additional \$288 million from the banks.
- MassDevelopment has developed relationships with more than 17 banks that are now willing to purchase bonds for charter school facilities financing.
- MassDevelopment's staff has marketed and conducted outreach to educate all MA charter schools on our Program and other programs offered by the Agency that are applicable to charter schools.

D. Quality of Program Personnel

(1) Qualifications of key personnel

Rebecca Sullivan, Senior Vice President for Institutional Finance, is the Program Manager and primary contact for the U.S. Department of Education. Ms. Sullivan has served in this capacity since 2003 and has worked at MassDevelopment for more than 15 years. Ms. Sullivan's responsibilities include being the point person for questions from MassDevelopment staff, charter schools and the U.S. Department of Education, chairing the Advisory Committee meetings, working with Marketing and Communications to promote the Program, and overseeing the grant administration and reporting. Ms. Sullivan has managed tax-exempt bond financings for charter schools and has been a featured speaker at several charter school facility financing workshops.

Deborah Rosser, Senior Vice President of Lending, has over 30 years of credit and lending experience and oversees the credit review of credit enhancements, completion of guarantee and loan transactions and monitoring the performance of each charter school credit enhancement.

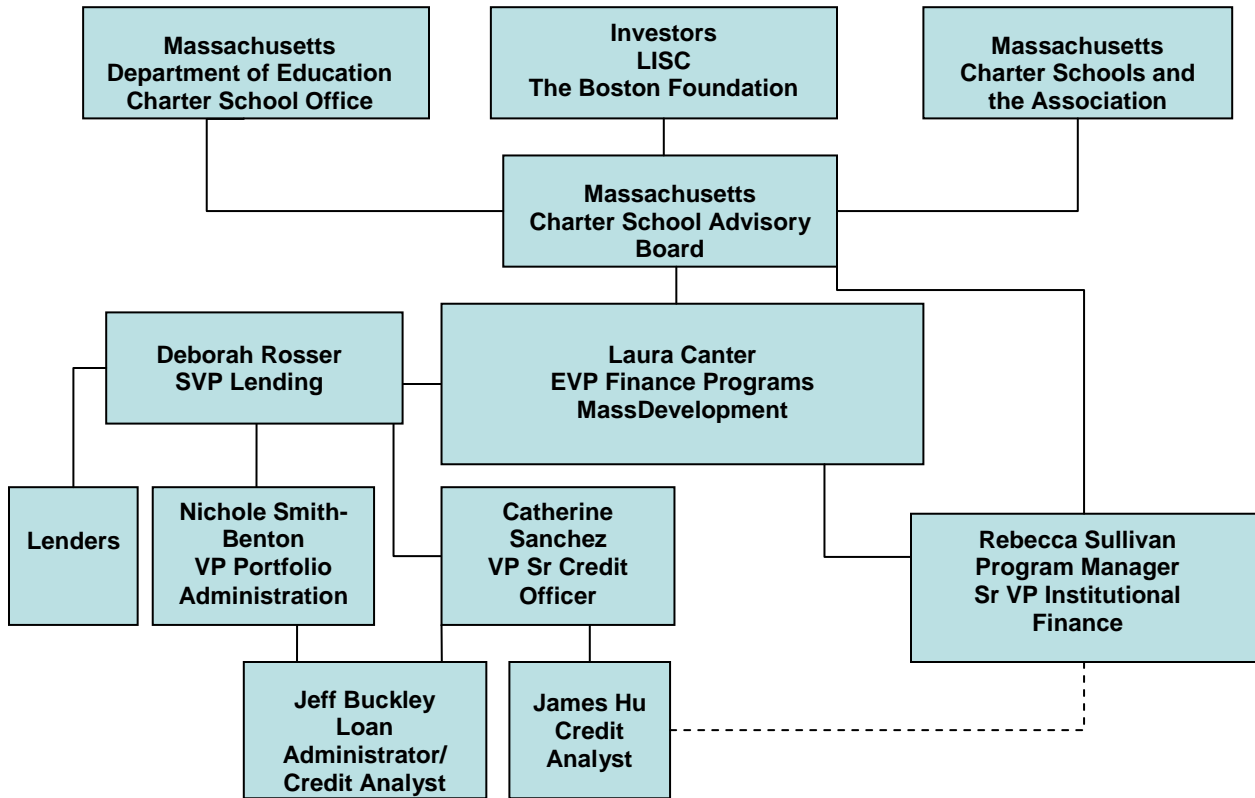
Catherine Sanchez, Senior Credit Officer, oversees and mentors the credit analyst staff, completes complex credit requests, and provides analytical, operational and credit administrative support to the lending and portfolio groups.

James Hu, Credit Analyst, assists Ms. Sullivan in monitoring the pipeline, tracking funds availability, compiling quarterly reports to the Charter School Advisory Committee Board, and reporting annually to the U.S. Department of Education.

Jeff Buckley, Loan Administrator/Credit Analyst, is dividing his workload between the Loan Portfolio Department and the Credit Department. Resumes of key personnel are included as Attachment 4.

(2) Staffing Plan

The organizational chart shows the principal staff for the Program.



The Program has full access to the staff and resources of the MassDevelopment Finance Programs Division, overseen by Laura Canter, EVP.

Charter School tax-exempt bonds and QZABs are issued through our Investment Banking Department which is headed by Steve Chilton, SVP and staffed with nine highly experienced officers available to work on charter school transactions.

Charter school loans and credit enhancements are issued through the Lending Department managed by Deborah Rosser, SVP. The lenders are the primary contacts for charter schools seeking loan guarantees or subordinated debt, and they also work with our bond staff when bond issuances are credit enhanced with guarantees.

The portfolio administration staff, a team of five, also report to Ms. Rosser and are responsible for monitoring loan and loan guarantee balances, billing, and payment.

Simon Gerlin, CFO, manages the Finance Department which maintains the Charter School Credit Enhancement Program financial records, and oversees financial reporting, all audits, and investment management of the charter school grant funds. Ellen Torres, an attorney with MassDevelopment Legal Department, provides legal counsel to the Program.

Competitive Preference Priority

The Program will give priority to charter schools in:

- 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 (NCLB).
- Geographic areas in which a large proportion of students perform below proficient on the state's academic assessments and/or
- Communities with large proportions of students from low-income families

Schools are identified in two ways: first, through the Commonwealth's Department of Elementary and Secondary Education which maintains data for all three above criteria and second, through the application for funding which directly asks whether the school will serve students and communities that meet these three criteria. The majority of the schools in the pipeline are located in districts that meet the competitive priority criteria.

Invitational Priority

The Charter School Credit Enhancement Program has allowed MassDevelopment to achieve competitive financing packages for charter schools. In 2003, there were three banks willing to finance a charter school. Today, largely due to the Program, MassDevelopment has developed a network of over 17 banks that have financed the acquisition, renovation or construction of new facilities. By significantly growing the market, charter schools can obtain more than one bid on their financing, resulting in lower interest rates and better terms on each transaction. Most importantly, MassDevelopment has been able to achieve financing for charter schools by significantly leveraging private funds and as it did with the 2012 and 2015 grants, MassDevelopment will seek permission from its Board to match the \$8 million of grant funds. The Program's high leverage ratios demonstrate an optimal usage of the U.S. Department of Education's grant funds and if awarded, MassDevelopment will seek to achieve similar leverage for the new grant.

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