Credit Enhancement for Charter School Facilities Program
Grant Application

"Credit Enhanced Subordinate Financing Fund"

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Competitive Preference Priority

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

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

CSDC does not limit its geographic coverage, but it has a significant track record serving charter schools in states with strong laws. While we are not geographically restricted, the following is a sampling of the types of communities we intend to serve which is reflective of the organization's overall commitment to meeting this priority preference.

Under the Every Student Succeeds Act (ESSA), schools are identified as either a "Comprehensive Support and Improvement School ("CSI"), Targeted Support and Improvement School ("TSI"), or Additional Targeted Support and Improvement (ATSI). CSI schools must develop an improvement plan. The two states with the highest percentage of CSI schools (20%) as a percentage of total public schools were Nevada and Louisiana – both states where CSDC has invested, and will continue to invest, credit enhancement. The following states have the highest combined CSI, TSI and ATSI schools as a percentage of public schools and are all represented in CSDC's portfolio:

State	Total number of CSI, TSI, ATSI identified schools	Total CSI, TSI, ATSI schools as a percentage of total public schools
Florida	2,505	69%
North Carolina	1,743	66%
Louisiana	917	68%
Texas	4,682	53%
Arizona	1,021	51%

<u>Arizona</u>

Every three years, beginning in 2017, Title 1 schools with student proficiency/percent passing, ELA and Math combined in the lowest 5% on the statewide assessment will be identified as CSI schools. These schools are required to complete a comprehensive needs assessment, root cause analyses and Integrated Action Plan to improve student achievement and graduation rates. These schools receive extensive support and mentoring from the Arizona Department of Education, Support and Innovation Unit. Statewide, 193 CSI schools were first identified in 2017-18. Any school in the state that has a subgroup of students (race, ethnicity, poverty, English learners or students with disabilities), that when calculated independently, would be identified as a CSI school are identified as Targeted Support and Improvement (TSI) Schools. These schools are required to complete a comprehensive needs assessment, root cause analyses and Integrated Action Plan to improve the student achievement of low achieving subgroups. The Arizona Department of Education, Support and Innovation Unit provides support and mentoring targeting the subgroups identified as needing additional support. Statewide, 821 TSI schools were first identified in 2018-19.

Colorado

CSDC has closed more transactions in Colorado than other state, with 32 financings completed to date. In school year 2018-19, the Every Student Succeeds Act requires states to identify Comprehensive Support and Improvement schools and notify school districts if a school has underperforming subgroups (Comprehensive Support Improvement, Targeted Support and Improvement and Additional Targeted Support and Improvement). According to the Colorado Department of Education, 115 school districts, or 6%, were identified for in need of Comprehensive Support or Improvement in 2017-18, with another 113 identified for Targeted Support or Improvement. Combined, these districts represented 12% of the school districts in the state. In Denver Public Schools in the 18-19 school year, the graduation rate is a 70.2%, over 3.5 percentage points more than last year and yet still over 10% lower than the state average, with fewer than half of schools meet DPS's quality benchmarks. The two largest minority groups, Hispanic and black graduated at a rate of only 55% and 64% respectively. CSDC intends to continue to focus on Colorado with this grant.

New York

CSDC has identified the state of New York as a new geographic focus area, specifically New York City and the northern part of the state that includes Buffalo and Rochester. Even though the overall percentage of CSI schools across the state is relatively low at 8%, it is worth noting that they are concentrated in these communities that CSDC is targeting.

In New York City alone over 52,700 kids are on waitlists for charter schools, where there are four applications per seat in some neighborhoods. The New York State accountability system assigns a “Level” from 1 to 4, where 1 is the lowest and 4 is the highest, to each accountability subgroup for each measure for each school based on the subgroups’ performance on the measures. These Levels are used to determine if a school is in good standing or identified as a CSI or TSI school.

In January 2019, the state identified 106 school districts as Target Districts, including New York City School District, 245 schools for Comprehensive Support and Improvement, including 7 charter schools and 41 additional schools in Buffalo, Rochester, Syracuse, and Yonkers, and 125 schools for Targeted Support and Improvement. In addition, 26 schools were newly identified to be placed into receivership and 37 schools to be removed from receivership at the end of the 2018-19 school year, including two schools scheduled to close. This will leave 43 schools in receivership at the end of the 2018-19 school year.

<u>Texas</u>

The Texas Education Agency (TEA) annually releases a list of schools that qualify for Public Education Grants (PEG) – grants that permit parents whose child attends a school on the PEG list to request a transfer to another school within their home district or to a school in a different district. The districts receiving transfer students from the PEG list of schools get a slightly higher allocation of funding from the state under this program. Schools are put on the list whose passing rates on STAAR are less than or equal to 50% for any subject in any two of the preceding three years or were rated *Improvement Required* by the state accountability system in 2014, 2015, or 2016. CSDC will review this list annually to identify districts with significant numbers of PEG schools with demand for additional, high quality public school options. In the 2017-18 school year, the districts within San Antonio with the highest percentage of PEG schools were Edgewood ISD (53%), South San Antonio ISD (54%) and Southside ISD (86%).

As mentioned in the narrative application, CSDC is working with local supporters and foundations in select cities to bring more high quality options to students and families. In San Antonio, CSDC has partnerships with the Brackenridge Foundation as well as City ED Partners. These local relationships will aid in CSDC's ability to target and deploy credit enhancement funds in the lowest performing ISD's in the San Antonio region.

(2) The extent to which the applicant would target services to geographic areas in which a large proportion of students perform below proficient on State academic assessments; and

CSDC will continue to focus on geographic areas in which many students perform below proficient on reading and math assessments. CSDC made a concerted effort to expand its reach to the neediest schools. In reviewing the 2017 NAEP results for grades 4 and 8 in math and reading, CSDC has served schools in a majority of the states on low end of the proficiency scale. For example, the lowest performing states in Grade 4 & 8 math were Louisiana, Nevada, New Mexico, and D.C. CSDC has served 21schools in those states and will continue to focus resources there. Similarly, CSDC has served 19 schools in the lowest performing states for grade 4 & 8 reading, namely, Louisiana, Oklahoma, Texas and D.C. CSDC has invested credit enhancement and/or owned real estate in these states and DC, and will continue to do so under this grant.

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

Arizona

Arizona is located in the bottom third of states for 4th and 8th grade proficiency rates in both math and reading according to the most recent U.S. Department of Education "Education Dashboard." Reading proficiency, according to the Alliance for Excellent Education which analyzes and compares data state by state, was 31% compared to the national average of 36%. *A for Arizona* was created to address the void of high quality options. However, thousands of children are still waiting for the great school they deserve. The organization's mission is to expand the number of students served by "A" rated schools by 10% per year. CSDC has an office and personnel on the ground in Phoenix and will continue its historical focus on the state with this new grant.

Indiana

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

Texas

CSDC has established close working relationships with several local philanthropic and educational partners focused on improving access to high quality public education options for students across the state of Texas, where the school aged population is projected to exceed 9 million by 2050. Grade 8 reading proficiency, according to the Nation's Report Card, was 28% compared to the national average of 35%, with Grade 8 math proficiency at only 33%.

In San Antonio, where CSDC intends to build an incubator facility, the statistics are dire. The city contains 15 separate Independent School Districts (ISD) with varying degrees of performance results. The majority of the schools CSDC intends to serve under this grant are projected to be in the following districts listed with the corresponding % of students meeting grade level in 2017 on the state's STAAR test: Southwest ISD (35%), South San Antonio (28%), Southside ISD (26%) and Edgewood (26%).

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

The primary goal of this application is to target schools serving a low income target population nationwide. As stated in Goal #2 of the application, at least 65% of the schools financed through this grant will meet criteria including having a majority of low-income students. It is well documented that children living in poverty are almost three times more likely to attend low performing district schools. CSDC requires all schools to complete our standard application in which we collect data including the anticipated or actual FRL student population to be served both by the school, as well as the local public school district. CSDC believes educational opportunity and choice are critical to revitalizing distressed and educationally underserved communities, and CSDC will leverage its real estate expertise to help charter schools in these communities find and finance appropriate facilities.

The National Center for Children in Poverty reports that, “about 15 million children in the United States – 21% of all children - live in families with incomes below the federal poverty threshold.” Historically, 68% of the schools served by CSDC’s CDFI programs have a majority of low-income students, consistent with the organization’s mission and CDFI target market. While CSDC’s program is national in scope, this grant will be deployed in a similar fashion to our prior awards where there is the greatest need, as well as in states/communities where CSDC has strategic partners.

The Fordham Institute published new research in April 2018 that identified states that have “charter school deserts.” A charter school desert is defined as a neighborhood with plenty of population density and lots of disadvantaged kids where three or more contiguous census tracts have poverty rates greater than 20%, but few or no charter schools. The average number of “deserts” per state is 10.9, however, only three states have none. Although places like Denver and San Antonio contain many charters, the study found that they’re often distributed in ways that provide no access to some of their neediest communities. For example, eastern and western parts of the Denver-Metro area and southern part of the state have charter deserts. Arizona has 13 charter deserts representing 12% of mid-to-high poverty census tracts that have no charters primarily in the southern, western, and eastern parts of the Tucson metro area and southern, eastern and central parts of the Phoenix metro area.

The following is a snapshot of the states where CSDC has served the greatest number of schools, has committed to serve more schools under this grant and where a significant percentage of charter deserts exist in high needs areas:

State	Poverty Rate	Average FRL%	Deserts as Percentage of Impoverished Census Tracts	Number of Charter School Deserts	Number CSDC schools served	% CSDC Portfolio
Arizona	16.40%	54%	11.00%	13	23	12.00%
Colorado	11.00%	54%	14.00%	8	32	17.00%
District of Columbia	18.50%	73%	15.00%	3	9	5.00%
Indiana	14.00%	64%	6.00%	13	27	14.00%
Minnesota	9.90%	60%	19.00%	10	20	11.00%
Tennessee	15.80%	77%	23.00%	22	5	3.00%
Texas	15.60%	65%	13.00%	23	6	3.00%

*** Invitational priority 1**

Applicants proposing to- (1) Target services in one or more qualified opportunity zones as designated by the Secretary of the Treasury under section 1400Z-1 of the Internal Revenue Code, as amended by the Tax Cuts and Jobs Act (Pub. L. 115-97); or (2) Partner with one or more qualified opportunity funds under section 1400Z-2 of the Internal Revenue Code, as amended by the Tax Cuts and Jobs Act, in financing charter school facilities.

Since the notice and implementation of the Tax Cuts and Jobs Act, CSDC has been actively researching Opportunity Zones and the potential benefits to our programs and client charter schools. To date, CSDC has attended at least four conferences on this topic and worked with two law firms to better understand the nuance of Opportunity Zone benefits from both an investor and "end user" perspective. CSDC has been working with the Opportunity Zone Fund established by Clearinghouse CDFI and have identified several projects in the Opportunity Zone geographies. The result of this work is a determination that the programs that CSDC currently offers, economically, are far better options to the charter schools we serve. While there may be certain mix use projects, which may include a charter school component, that truly benefit from the tax strategy afforded by the Tax Cut and Jobs Act, we do not believe there is a compelling argument for the use of this program in the development or financing of charter school properties.

*** Invitational priority 2**

Projects proposing to target services in geographic areas and communities for which limited or no services have been provided under this program.

CSDC has a track record of soliciting new financial or philanthropic organizations to invest in charter schools located in geographic areas not previously served, or considered unattractive for various reason. For example, CSDC considers Georgia an area in high need of investment due to reluctance in the sector to enter the market due to the political environment in a state where the constitutionality of the charter school law was contested and litigated. CSDC has established relationships with RedefinED and the State Charter School Commission, the state authorizer, to explore continued opportunities for growth and improved educational opportunities. Home to only 87 charter schools, over 60% of Georgia charter schools do not have kitchen facilities that qualify the school to provide federally-subsidized free and reduced price meals for students. Yet the most recent KidsCount data shows 1/3 of Georgia children are growing up in poverty, that number for Atlanta specifically is 49% with only 14% of students in Atlanta Public School earning a college degree. The need for facility improvements in existing Georgia charter schools is tremendous as is the need for education choice across the state.

RedefinED was founded in Atlanta just three years ago with the vision to transform Atlanta into a place where every student in every community receives a high-quality education by leveraging private philanthropy and becoming a catalyst for change. The group aims to support increase the number of students that have an opportunity to attend a high quality school to 75% and flip Atlanta into a city where the majority of students attend a quality school.

Additionally, CSDC is pursing relationships in New York, a state that includes Pre-K charter school programming, to increase the 385 existing charter schools approved for operation in efforts to serve more students. In New York City alone over 52,700 kids are on waitlists for charter schools, where there are four applications per seat in some neighborhoods. Most recently, CSDC worked with the Northeast Charter School Network, whose mission is to support and expand New York's and Connecticut's quality public charter school movement, to bring together leaders from around the state, including principals, managers, and board members, to discuss the challenges they face and develop a road map for growth.

Quality of project design and significance

1)The extent to which the grant proposal would provide financing to charter schools at better rates and terms than they can receive absent assistance through the program.

The Charter Schools Development Corporation (CSDC), a 501(c)(3) tax-exempt, nonprofit corporation and Community Development Financial Institution (CDFI), has helped public charter schools acquire and finance facilities at the lowest possible cost, first as a credit enhancement provider, then as a nonprofit developer of facilities for lease with purchase option, and most recently, as a lender to charter school organizations. CSDC's mission is to support quality school choice for underserved students by developing and financing affordable charter school facilities. While there are many CDFIs who lend to the charter school market, CSDC believes it is one of only 4 CDFIs with an exclusive charter school mission, and possibly the only CDFI that works exclusively with charter schools nationwide. CSDC assists charter schools with the acquisition and financing of educational facilities appropriate to the school's mission, design, student population and enrollment, both current and projected. CSDC is honored to have received seven prior federal credit enhancement grants [redacted] making the organization the single largest grant recipient to date both by number and dollar amount of awards.

Launched in 2002, CSDC's "Building Block Fund (BBF)," a [redacted] revolving credit enhancement program capitalized with three of our prior federal grants and philanthropic funding from the Ewing Marion Kauffman Foundation of Kansas City and the Daniels Fund of Denver, was the first-of-its-kind national program serving new and early stage charter schools. CSDC successfully meets the financing needs of a wide range of charter schools, from start-up and newly formed schools with less than three years of operating history seeking to secure leases, leasehold improvement loans and mortgage financing, to those that are growing and expanding into permanent facilities.

Through the experience administering the BBF, we noticed a proliferation of schools entering into less than attractive lease agreements, for example, leases with no purchase options or purchase options at rates that resulted in economic burdens on school budgets and requirements for personal or other guaranties and leases from private landlords that passed on real estate taxes to schools in the form of higher lease rates. In 2008, CSDC identified the need for a nonprofit organization to develop, own and lease facilities to schools with much more attractive terms as an alternative solution in the market. CSDC created its nonprofit turnkey facilities development program, the Turnkey Development Program (TDP), to help charter schools focus on their true mission –providing the best education possible for every student. Under CSDC's TDP "lease-to-own" model, we remove the burden of financing, designing and constructing facilities from school leaders so that they can focus on the business of launching and operating a high quality school. This problem is even more acute for newly formed schools with no operating results and where enrollment in the early years is insufficient to carry the debt load of most facilities. The CSDC team understands the complexities of real estate development and finance and how to deliver a customized "turnkey" solution to each charter school client, no matter how big or small.

Leasing from CSDC as an interim step to ownership enables our tenant schools to gain operational experience, establish a record of sound business practices and good academic results, setting the stage for long term stability, success and creditworthiness. The bottom line is that the "nonprofit developer difference" translates into a cost savings that is passed directly through to our charter school tenants, resulting in more affordable facilities. We do this as a 501(c)(3) that is often eligible for property tax exemption which can result in additional annual savings equivalent to funding a teaching position, as well as pricing the initial base rent on the total annual cost to finance 100% of the project. To the extent the debt payments to CSDC are lower due to lower interest rates on the senior or sub-debt, longer amortizations or interest-only periods, the resulting rent to the school will also be proportionately reduced. CSDC also fixes its rent for the first two lease years, with modest 1% escalations beginning in the third lease year – a feature especially attractive to early stage schools commencing operations with only one grade or small student populations. With CSDC in the role of developer and landlord, educators are no longer forced to become real estate experts which can often lead to project overruns and time delays.

Building on lessons learned putting together complex financing stacks for our TDP projects, CSDC realized that it could provide loan capital at rates and terms unavailable in the commercial market. In 2010, CSDC became certified as a CDFI, and since then, has utilized three of its prior credit enhancement grants to leverage loan pools enabling the us to become a national lender. To date, over 75% of CSDC's loan originations are for subordinate or unsecured loans evidencing our commitment to the early stage niche of the market.

While CSDC provides subdebt to its TDP projects at more flexible terms, such as longer amortizations and interest only periods, our internal cost of funds is still driven by prevailing rates resulting in market rate subdebt to projects. For example, CSDC has access to three lines of credit from which we can draw from to fund our loans. However, each line is tied to a market index such as Prime or Libor which limits CSDC's flexibility in pricing our loans to projects. A typical CSDC subdebt loan under our leveraged loan fund model is usually between 6-7% with 15-20 year amortizations. So while CSDC gets exceptional leverage with our prior grant funds and can serve more schools under our leveraged loan fund model, we have less latitude in lowering rates.

CSDC is requesting a [redacted] grant to expand its capacity to deliver nonprofit turnkey real estate development projects and provide loan guarantees to new and early stage schools at a lower cost nationally by using credit enhancement to leverage approximately [redacted] million in new private sector financing at better rates and terms to finance 100% loan-to-value ("LTV"), and thereby reducing the overall facilities costs to schools.

A new grant would enable CSDC to provide even lower cost turn-key facilities by directly pledging the credit enhancement to a subordinated lender (up to 30% LTV), rather than the traditional leveraged loan pool model described above. Lenders can then price their loans against the cash deposit, usually between 2-4%, rather than against a market interest rate or based on collateral value of the property or loan type. Melissa Johnston of Highland Bank gives credence to this in her letter writing, "the bank is able to offer lower interest rates on these credit-enhanced loans than it could if the loans were unsecured or secured by a subordinate lien on the property." Further support is provided by Coby Walberg of Vectra Bank who confirms, "when CSDC pledges credit enhancement against the subordinate debt loans coupled with the Vectra Bank senior real estate loan, the bank can offer CSDC a lower rate on both loans as the cash collateral lowers the risk from the bank's point of view."

While this structure results in less leverage overall, the cost savings to the school of approximately 300 basis points on the credit enhanced debt will be unparalleled. This savings translates into the ability of our school clients to provide additional staff, student supports, increased security or other amenities while strengthening the school's balance sheet. Charter schools served under this program will avoid the punitive alternative of diverting a significant portion of their per-pupil funding away from educational and classroom learning to pay facility costs. As illustrated below, a typical TDP project funded by this grant compared to the same project funded with CSDC's traditional sub-debt will save schools over $[redacted] in lease expense over the first 5 year lease term. Multiplied across 22 schools served during the first 10 years of this grant, and the cumulative savings to schools will be over [redacted]

	[redacted] Model	[redacted]
Loan Amount	$ [redacted]	$ [redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	
[redacted]	[redacted]	

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The grant will serve as cash collateral to leverage subordinated debt or otherwise unsecured tenant improvement loans for charter school facility projects. We recognize that we cannot serve every school under our TDP program, and that there will be qualifying schools that can develop or lease their own facilities. However, most new and early stage schools lack access to affordable financing, don't have equity to contribute, or are entering into leases with landlords who are unwilling to fund the improvements directly forcing schools to try to obtain the "riskiest" type of loan – unsecured tenant improvement loans. CSDC credit enhancements will result in 100% financing to both types of projects as demand dictates. This grant program will provide well below market rates (approximately 4% vs 7%) for sub-debt into TDP and other real estate projects resulting in more dollars going directly to classrooms.

CSDC's leverage targets are more conservative under this proposal (7:1) than in prior grants, but the outputs and outcomes are worth the investment. We plan to serve 22 schools, create over 11,000 seats and save over $[redacted] in facility expense over the first ten years of the program.

CSDC's program can be readily replicated on a regional or particular state basis. Providing credit enhancements, rather than direct lending, provides flexibility to work with a variety of local, regional or national commercial lenders, CDFIs, and landlords, as well as philanthropic organizations that have an interest in working with charter schools within a specific geographic focus. CSDC will not have an exclusive relationship with any lender, resulting in multiple banks competing for the cash deposits to make the loans. This flexibility, and competitive force, allows CSDC's programs to leverage the whole "continuum" of private sector or philanthropic financing to serve a variety of charter schools in different types of facilities.

While there are other active CDFI facility lenders, they typically price their programs at market rates regardless of their cost of funds, or between 6-7% for senior debt and 7% or higher for sub-debt even when credit enhancement is available. In addition, most of these lenders have LTV restrictions and require some form of equity from their borrowers. CSDC's program, however, will utilize credit enhancement funds in such as a way as to induce lenders, such as NBH Bank, to indirectly support new schools and offer terms that these schools would otherwise not be able to attract without a solid track record of financial and operational results. Managing Director Brian Martorella confirms that "over the past several years, we have provided financing to a number of charter schools, some of which are well-established and able to qualify for traditional financing on their own. Others, however, are schools that would not have qualified for financing without the involvement of CSDC."

Better Rates and Terms

In its role as a developer and credit enhancer, CSDC's highly flexible approach identifies the most competitive financing from a wide range of financial institutions. CSDC has no inherent self-interest in working with a particular lender. As a result, charter schools regularly have the benefit of competing term sheets, and ultimately obtain the most affordable financing and lowest cost terms. This program will result in better rates and terms than start-up and young schools would otherwise receive in three distinct ways: 1) access to lower cost capital, 2) lower lease rates and purchase options and 3) 100% financing, i.e. no equity requirements.

Access to Lower Cost Capital

Often “access” to facilities or financing equates to “better rates and terms.” CSDC has demonstrated that it is able to deliver affordable and customized solutions to new schools with no operational experience and small starting enrollments in large part due to the credit enhancement and its impact on our strong balance sheet. CSDC leverages our balance sheet to secure the senior financing at reduced rates (average 4.5% per Great Western Bank) compared to what a start-up or early stage school lacking a track record or strong balance sheet of their own, could otherwise secure, if at all. With CSDC as the intermediary, commercial bank debt is indirectly financing these schools creating access where it would not otherwise exist. John Kinman of National Bank of Indianpolis knows this model well and confirms, “by guaranteeing all or part of the loan that a charter is seeking, CSDC provides an increased level of security that allows access to funds that would be inaccessible to these schools.” (also see Letters of Support from other lenders: Great Western, Highland Bank, Mutual of Omaha, etc.)

Rebecca McLean, ED of Academy 360, “as a charter school in a community with no district facilities available – something that is becoming more common here in Denver – our facility journey has been a huge component of our trajectory as a school…CSDC was an advocate throughout the facility acquisition, lease negotiation, and construction process. This facility transition quite literally facilitated the transformation of our school culture and academics.”

Likewise, the principal of New America Schools – New Mexico (NAS-NM) had a similar experience. LaTricia Mathis writes, “without the financial assistance from CSDC much of our facility simply would not have been possible and our students would not have had the opportunities they have had …to attend a facility which is designed to meet their needs, with access to facilities most public charters unfortunately do not have access to on a daily basis."

This grant will help alleviate these types of barriers to access by providing credit enhancement as an inducement to lenders to provide affordable capital.

Lower Lease Rates and Purchase Options

Not only does credit enhancement create access, this program will enable CSDC to provide subordinate debt at substantially lower rates than our traditional loan fund model, resulting in up to a 300 basis point savings compared to non-credit enhanced bank or other CDFI subdebt in the current market. By funding up to 30% of projects with 100% credit enhanced subdebt, the overall blended interest rate will decline by about 100 basis points and schools will save upwards [redacted] year in lease expense based on an average [redacted] project. CSDC has established collaborations with over 40 banks, many of whom have provided letters of support for this application, to make affordably priced senior capital available for the remainder of the project. In reference to a project in Arizona, NBH Bank was "prepared to decline the opportunity until CSDC got involved. By providing cash collateral, CSDC again added credit strength as well as cash deposits that allowed our bank to not only approve the loan, but also significantly lower the cost of financing for the school."

A typical CSDC lease is priced based on CSDC's 1.22x actual debt service rather than the prevailing market rent conditions, private developer returns or cap rates, allowing CSDC to offer more affordable lease rates. On average, CSDC tenant schools spend about 12% of total revenue on lease costs at lease commencement when enrollment is usually at its lowest, and over time as grades are added and enrollment grows, that decreases to an average of 9% which is well below recommended industry standards. Greater Heights Academy in Flint, MI experienced this directly and writes, "our lease is affordable and fair, and this allows us to dedicate scarce resources to where they belong: our children."

CSDC also offers a fixed price purchase option in all of its leases unless prohibited by state law. Our development process is completely open book, with the school having input and approval rights throughout to control project scope and cost. Once the total project cost is determined, the purchase option is also locked in and does not escalate over time. As a result, school tenants know the day the lease commences the exact price to purchase their facility whether that be in lease year one or lease year ten. There are no surprises, no hidden costs and schools benefit entirely from any property value appreciation as purchase price is not tied to market value.

In contrast, most for-profit developers are unwilling to fix a purchase price, limit the period of time of when it can be exercised, or have escalations that are so punitive that schools can never purchase their leased facilities. Tindley Accelerated Schools witnessed this directly when they were initially approached by several for-profit developers "in the market place that are ready and willing to fund projects such as ours, but all with their own interests and financial profitability in mind. Working with CSDC, however, the interests and needs of the schools have always been the top priority. And the financial plans that CSDC works to create are ones that are realistic and achievable for the schools." Self-Development founder Asif Majeed provides further support stating "We would not have been able to acquire this building had this been a private lessor. The lease rate and purchase option that CSDC was able to provide was hugely favorable for someone like us with limited start-up funds."

100% Loan-to-Value Financing

Conventional lenders, and most CDFIs, will frequently not lend more than 80-85% LTV in total as they want to schools have "skin in the game" in the form of equity requirements. Even as little as a 5% equity contribution is needed, creating another obstacle for new and early stage schools, or schools that don't have access to start-up capital from networks or CMOs, to secure project funding. No philanthropic source in CSDC's experience has ever allowed grants to be used as equity, nor do federal start-up grants enable schools to fund this requirement. CSDC's new grant program will use credit enhancement to secure subordinate financing to cover 100% of the total project cost by pledging or guaranteeing the cash to the lender in the event of a default. Instead of looking to the property as collateral, which often doesn't appraise for the full value of the cost to build and develop the facility especially in the low-income neighborhoods we typically serve, lenders will have sole recourse to the pledged cash, thereby removing this barrier and ensuring more dollars flow into classrooms instead of being invested in illiquid real estate.

Partners for the Common Good (PCG), a national CDFI serving low income populations and promoting community economic development that is not constrained by the same regulations imposed on commercial lenders, supports the above argument because they "still encounter issues with loan-to-value, debt service requirements, and collateral exceptions when appraisals don't support project costs. Partnering with fellow CDFIs like CSDC, who have access to credit enhancement …allows PCG to mitigate much of the risk and enables us to provide financing to schools that might not otherwise qualify."

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

CSDC has developed a robust "Logic Model" which is attached to this application with realistic assumptions that will result in the intended outputs and outcomes that ultimately result in lower cost facilities available to charter schools. CSDC's Logic Model was used to develop the project goals, measurable objectives, and timeline that are more fully described throughout this application, but summarized below. To ensure progress in achieving these goals, CSDC will collect and analyze data monthly, quarterly and annually, as well as market the program to new states and communities not previously served at scale as further described below to ensure adequate pipeline to meet the stated goals.

Timeline	Schools Served Total	Schools Served in High Needs Communities	Schools Served with Less than 3 full years of Operating History	Senior debt leveraged	Subdebt Leveraged	Total Private Sector Financing Leveraged
Year 1	3	2	2	[redacted]		
Year 2	3	2	2			
Year 3	2	1	2			
Year 4	2	1	2			
Year 5	2	1	2			
Years 6-10	10	7	8			
Total Years 1-10	**22**	**14**	**17**			

Goal 1. Increase the volume of affordable capital available for charter school facility projects during the full term of the grant.

<u>Measurable Objectives</u>:

- All loans credit enhanced by or through this program will have the following financial terms:

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        - Term - 1-5 years
        - Amortization - up to 25 years
        - Interest only during construction
        - Interest rates – Fixed at closing, projected at no more than 4% for cash secured debt

- Replicate and expand the program model in years 6-10 by working with philanthropic or other partners to attract additional sources of capital to serve as credit enhancement.

Goal 2. Serve Communities/Schools in Need.

<u>Measurable Objectives:</u>

- A minimum of 65% of the Charter Schools served during each project year will meet at least one of the following criteria
    - Located in a district where more than 50% of students do not meet the standard for proficiency in either math or language on the state assessment, or
    - Located in a district with 50% or more of the student population eligible for free or reduced-price lunch, or
    - Have more than 50% of current or projected student enrollment who are eligible for free or reduced-price lunch, or
    - Located within economically distressed census tracts under the New Markets Tax Credit program.

Goal 3: Serve new and early stage charter school.

<u>Measurable Objective:</u>

- At least 75% of the schools served under this grant will have less than 3 full years of operating history at loan approval.

Goal 4: Provide access to leased facilities, both under CSDC's TDP and BFF models.

Measurable Objectives:

- A minimum of three TDP or BBF projects will close by the end of the first full project year of the grant, as defined by having an executed promissory note or credit enhancement agreement.
- A minimum of three TDP or BBF projects will close in project year 2.
- A minimum of two TDP or BBF projects will close in each of project years 3, 4 and 5.
- Between project years 6-10, at least ten additional TDP or BBF projects will close.

Goal 5: Provide lower cost lease terms and long-term facilities solutions to tenant schools.

Measurable Objectives

- Sub-debt credit enhanced by this program will reduce the financing cost by an average of 300 basis points (4% vs 7%) resulting in lower lease rates to charter school tenants and loan interest rates to charter school borrowers.
- All CSDC leases will contain fixed purchase options that are exercisable beginning at lease commencement, as allowable under state law.
- Real-estate tax exemption will be made available to all tenant schools to the extent obtainable under state law.
- At least two charter schools will exercise its purchase option no later than year 5 of the lease agreement.

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

Measurable Objectives

- CSDC will hire at least one additional full time staff person primarily responsible for underwriting and credit evaluation to assist in the implementation of this program no later than March 2021.
- CSDC will hire one additional staff accountant primarily responsible for project accounting no later than December 2021.

Goal 7: Serve 22 charter schools and leverage a minimum of [redacted] in total financing during the initial 10 year grant period achieving 7:1 leverage per the following timeline.

Measureable Objectives:

- Serve six schools during the first two project years.
- Leverage on average [redacted] in senior financing plus [redacted] enhanced subdebt loans for each project.
- Serve six additional schools in years 3-5 of the grant project.
- Credit enhance $[redacted] in loans for 10 schools leveraging a minimum of $[redacted] senior financing during the remaining term as funds revolve and recycle.

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

This project is likely to achieve the objectives based on the history of the applicant in administering prior grant awards and the time tested methodology proposed herein. CSDC is a seven-time federal credit enhancement grantee with a nationally recognized track record and reputation of providing credit enhancements, loans and turnkey facilities in a timely, affordable and efficient manner. We are proposing to replicate and expand aspects of our current programs which are working well, as documented throughout our letters of support, with an added emphasis on reducing the cost of subdebt than would be possible without additional credit enhancement funds. As a result of significant lender support for our proposal, we are confident we'll be able to implement the new grant according to our goals and objectives immediately upon receipt. CSDC has met the 10-year performance objectives of its first four grant awards and continues to revolve and deploy funds under those grants, and has met the annual goals of its 5th and 6th awards demonstrating that the organization sets realistic goals with each grant that are measurable and achievable.

Upon notification of the award, CSDC will work closely with its current relationships, many of whom submitted letters of support for this application, including community organizations, foundation partners and state associations, and other facility solutions providers to ensure awareness of the program. For example, in Indiana CSDC will leverage its relationship with the Mind Trust to ensure charter operators are aware of our programs. As mentioned in their letter of support:

> Many of Indy's high performing charter school networks were able to open their first schools due to CSDC's partnership and continue to seek this type of support…partners

> like CSDC are essential to ensuring that new schools are able to afford a facility without compromising their educational programs and responsible growth enrollment.

Similarly, the Maryland Alliance of Public Charter Schools (MAPCS) recently received grant funding to launch a “Charter School Design Workshop” which is a free series of workshops designed for founding groups seeking to start a school. CSDC participates in these workshops, providing training and technical assistance on facilities, creating relationships and building a pipeline. Executive Director McKenzie Allen states in her letter of support, “As MAPCS works to incubate new schools, partners like CSDC are essential to ensuring that they are able to afford a facility without compromising their educational programs and responsible growth in enrollment. We look forward to continuing our partnership with CSDC to launch, grow and replicate high performing charter schools for Maryland students.”

The project team will review pipeline projects prioritizing those meeting the competitive priority preference, located in states with strong charter school laws, schools already working with trusted lending partners or support organizations like those who support this application, replications of existing client schools, or other similar criteria, and begin the formal evaluation and underwriting process. CSDC has developed a proprietary Excel-based spreadsheet to track the annual performance of its charter school clients and the overall performance of its portfolio. Portfolio monitoring conforms to CSDC’s ongoing policies with each new school loan risk -rated at the time of approval and tracked to assure diligent performance monitoring and data collection.

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

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

In LISC's "2014 Charter School Facility Finance Landscape" only four nonprofit developers (including CSDC) were active in this market. In just a few short years since that publication, CSDC has witnessed an increase in the number of for-profit developers – Highmark, Turner Impact, EPR, Charter School Capital, Red Apple Development, Performance Charter School Development – entering the market, which is an indicator of the pent-up demand for turnkey facilities solutions. However, CSDC does not consider for-profit developers as "replication" as these entities use private funds with higher return requirements in lieu of federal grant funds, and price their leases and purchase options accordingly.

The handful of nonprofit developers coming into this market – Pacific Charter School Development, Building Hope, Civic Builders– have a much less extensive track record in real estate development as well as geographic concentration in a couple of cities or regions while

CSDC has owned and developed real estate in 17 states and D.C. CSDC's program is so transparent, even other CDFIs who traditionally focused exclusively on lending to schools recognize the need and value of a development program. For example, Self-Help, who has seen our TDP template proforma, acted as developer on two major renovations for charter schools in Durham and plans to expand its work in this area. Similarly, IFF purchased a property in Kansas City on behalf of a new school launched with the support of several local foundations. The Mind Trust in Indiana "is exploring replicating the CSDC model with other local partners to better leverage private philanthropy."

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

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

CSDC's reputation for successfully serving the highest (perceived) risk segment of the charter school sector - new and early stage, or replicating schools serving predominately low-income students - is based on its highly flexible underwriting criteria and ongoing technical assistance which is the hallmark of this success. CSDC has a comprehensive application that requires data on student recruitment and enrollment, marketing, local competition, community partnerships, governance and administration, budgeting and finance, and relationship with the school's authorizer/sponsor.

In addition, CSDC prides itself of working with schools throughout their growth lifecycle and often provides facilities not only for their initial needs through final campus build out, but for replication sites as well. In the attached letters from ENCORE Academy, Greater Heights Academy (GHA), Self-Development Academy and Tindley Accelerated Schools, each school was encouraged by their Authorizer to replicate based on their initial successes and turned to CSDC to secure new locations or financing. Over a 7 year period, CSDC's relationship with GHA evolved from landlord, to lender, to technical assistance provider and finally as an informal financial advisor helping the school arrange and secure its own financing to exercise its purchase option. Self-Development Academy – Mesa consistently ranks in the top 5% for student achievement and recognized a need to provide a similar high quality education to low socio economic neighborhoods in Phoenix. CSDC has supported the growth of this network, providing facilities for three locations. As Asif Majeed, President of the Board of Self-Development Academy – Phoenix attests in the attached letter of support:

> We looked for almost a year, but were not able to find any facilities that met our needs. …Finally, at almost just the right time, we were introduced to Laura Fiemann (CSDC's SVP)…We would have not been able to acquire this building had this been a private lessor…There was no way we could have done this without their assistance…and have currently partnered with them to find additional locations in the Phoenix metro area to expand our network of schools.

Not only does CSDC recognize the value of this "lifecycle approach," our lenders such as Highland Bank in Minnesota also realize that "by working with and through CSDC to serve these young charter schools in the start-up years, we hope to be cultivating strong, future borrowers when the time comes for them to exercise their purchase options. This 'lifecycle approach' is a unique component to our relationship with CSDC…"

In addition to working in states with strong charter school laws as described further herein, CSDC targets its programs in geographic areas with strong authorizers, support organizations or foundations supportive of growing the number of charter schools in those communities. As referenced above, CSDC is working with the the Mind Trust in Indianapolis, MD Alliance for Public Charter Schools, Colorado Charter Facilities Solutions, The Northeast Charter School Network and many others to ensure the most pressing local needs and priorities are aligned with our programs. A healthy charter school movement mitigates vacancy risk by ensuring a ready supply of new schools in need of space. CSDC is less likely to work in areas with caps on the amount of charters allowed to operate or in areas with single hostile authorizers where there are scarce alternatives in the unlikely event our initial charter school proves to be unsuccessful.

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

CSDC conducts direct outreach to charter authorizing agencies, CMOs and ESPs, state charter school associations, education philanthropies, and capital providers to cultivate relationships and obtain introductions to school leaders to determine demand for its programs. CSDC participates in regional and national charter school conferences and workshops to gain anecdotal evidence that confirms that CSDC's nonprofit development program is consistent with charter school's most pressing needs (i.e., lack of credit history or enrollment to obtain financing and lack of funds to cover upfront development costs). This is further supported extensively in the direct school testimonials in the letters of support. CSDC has repeatedly demonstrated its versatility by working with a variety of charter schools with varying academic missions, curricula and student demographics, as well as independent schools and schools that are part of a CMO network.

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

CSDC's programs are predicated on attracting private sector senior financing to every project. To date, over 52 separate lending institutions have provided senior or subordinate debt to CSDC for its facilities projects resulting in 100% LTV in almost every transaction. CSDC projects that this grant will achieve similar results and be leveraged at 7:1 times to provide [redacted] in financing to 22 charter school projects during the initial 10 year grant period.

CSDC has attracted strategic partners like the Kauffman Foundation [redacted]), Daniels Fund [redacted]), Calvert Foundation [redacted] Communities at Work Fund [redacted] Innovative Schools [redacted] the Walton Family Foundation [redacted] Opportunity 180 [redacted] and numerous lending institutions. These philanthropic investments have been deployed across CSDC's lending and development programs and result in further leverage of our federal dollars. Many of CSDC's existing lenders in our current loan programs have already expressed interest in increasing their investments in charter schools through CSDC as the nonprofit intermediary and landlord and have provided letters of support for this proposal.

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

The Center for Education Reform ("CER") is a recognized authority for analyzing the nation's charter laws and assigns each state a letter grade based on a combination of factors. Similarly, the National Alliance for Public Charter Schools ("Alliance") ranks each state in order of its relative strength based on 20 components. Historically, almost 70% of CSDC's grants have been deployed in "A" or "B" rated states by CER according to their "2018 Scorecard," and 80% has been deployed in the top 50^{th} percentile of states ranked by the Alliance.

For this proposal, CSDC expects to maintain similar levels of investment. CSDC has set a goal of deploying at least 65% of credit enhanced loans into projects located in states with a rating of "A" or "B" or in the top 50^{th} percentile. CSDC already has a significant track record serving charter schools in states with strong laws with over half of CSDC's cumulative credit enhancement and facilities projects being located in the 6 top ranked states by CER:

State	State Rank	# School Projects Funded
DC	1	9
AZ	2	23
IN	3	27
MN	4	20
MI	5	6
CO	6	32

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

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

Project costs as outlined in the attached budget are nominal and related to the hiring of two additional full time staff dedicated to providing underwriting and technical assistance services under this grant, as well as back-office accounting support. With modest goals of closing 2-3 new transactions per year, one dedicated person to review applications, underwrite and provide ongoing technical assistance will fully support the implementation of this grant. Base salaries for both new positions will be funded 100% by the grant in the first 3 years, and then decline over time as the program generates its own income to support the positions. CSDC covers benefits and administrative costs in excess of the grant's 2.5% through revenue generated from its existing programs, for example, loan origination fees, interest spread income and the development, leasing and sale of TDP projects outside of this grant to charter school tenants (See Table 1).

The grant proceeds will be deposited in a similar fashion as previous grants, i.e. with an FDIC-insured or other deposit account pursuant to program regulations. Projections in the attached Cash Flow Proforma are conservative and reflect the historically low interest rate environment. To the extent that interest rates improve, income to the grant will increase while expenses will decline pursuant to the proposed budget. Total revenue from the reserve account is projected at [redacted] for the ten-year contract period, well in excess of the expenses expected to be charged to the reserve account. After a 10 year period, we project the reserve account to grow to [redacted]

[redacted]

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

The demand for programs and services specifically targeted to the needs of new and early stage schools is critical to the continued growth of the charter school movement and documented throughout the letters of support for this application. Ignacio Prado, a BES Fellow and founder of Futuro Academy, says “we focus deeply on our core competencies of being accessible to families and providing an excellent education, while leaning on partners to deliver the supports and competencies we cannot hope to be exemplary at. The development of real estate falls clearly in that area, and CSDC provided a much needed pathway to a facility…”

CSDC’s current demand for projects both for the 2019-20 and 2020-21 school years will quickly deploy a significant amount of CSDC’s remaining unobligated federal funds across all of its previous grant awards. Based on average annual deployment, without new capital to leverage, CSDC's ability to continue to meet the needs of schools will slow significantly.

For over a decade, demand for CSDC's TDP services has outpaced demand for any other CSDC program or offering. Lack of access to either financing or high quality lease arrangements has been widely documented throughout the industry. Phalen Leadership Academies Founder and CEO oversees a newtwork of 21 schools across the country and informed this application by confirming in his letter, "CSDC's knowledge and understanding of the needs of newly establish charter schools, and willingness to invest credit enhancement into turning a school's dream into a reality, puts them a step above the rest. We hope CSDC is successful in obtaining additional federal credit enhancement grant funding to support its programs. It would not only benefit our school network in the future, but many other schools and networks like ours striving to provide all children with the opportunity of a high quality school choice." Likewise, CSDC helped Northeast College Prep, an indepently operated charter in Minneapolis that has received several awards and recognitions of its academic achievement, secure a permanent facility in its third year of operations. The school's director writes, "CSDC has been our landlord for three years, giving us the time we needed to stabilize enrollment and produce strong academic and financial results so that we are now in a position to seek our own financing to purchase the building directly."

CSDC has been addressing this facilities challenge by providing credit enhancements and facility programs designed to offer schools "one-stop shopping" for their financing needs so that our borrowers and tenants do not have to relocate as enrollment grows, secure other sources of equity nor divert educational funding to satisfy commercial lending requirements. Justice High

School is a prime illustration of this need citing “The CSDC program is a Godsend to small charter schools who serve unique populations like ours…With the aid of programs like CSDC we are able to build a solid infrastructure to improve programs.” Justice High was recently awarded a [redacted] Grant from the Building Excellent Schools Today (“BEST”) competitive State grant pool in Colorado, to expand their facilities, increase security and replace aging mechanical systems. Similarly, Telesis Center for Learning acknowledges that “our school would not have been able to continue under the former bond restrictions without assistance and intervention from CSDC.” Borrower Third Future Schools commends CSDC for being able to “structure our loan repayments in a way that addresses the financial challenges of a first-year charter school.”

In other attached letters of support, there are ample testimonials as to the consistent needs of new and early stage schools for CSDC’s programs. Jefferson RISE, a BES Fellow led school, searched for 15 months to find affordable start-up space and eventually was forced to sign a 4 year lease for space that would only accommodate the first two years of operations. The school encountered “endless difficulties” when trying to find space that would prevent them from having to split up their staff during the early years of operations and led to the addition of poorly constructed modular buildings on the leased site.

As discussed earlier in this application, banks are willing to lend to CSDC that otherwise would not lend directly to de novo schools and schools beginning with small enrollments thus creating access where there otherwise would be none. Mutual of Omaha, one of CSDC’s largest banking partners, admits in its letter “CSDC’s programs have enabled these newly formed or early stage charter operators to obtain traditional bank financing that it would not typically have access to due to a lack of several years of proven financial and academic results…CSDC’s expertise mitigate these risks for the bank." Matt Brewer of Old National Bank describes CSDC's role as "critical in helping charter schools reach a level of academic and financial stability that is appropriate for conventional financing."

Our experience with charter school board members further confirms the needs of schools. As board members remind us, the primary responsibility of a charter school governing board is to monitor the cash flow and financial operations of the school and it is essential to be able to accurately predict rent and occupancy expense during the first five years when enrollment is growing. CSDC's fixed lease rates and purchase options empower school governing boards by bringing this predictability to their facility/occupancy expense. CSDC's lease terms assure boards that school leaders can focus on producing strong educational programs without the stress of having to relocate from one leased facility to another to accommodate enrollment growth. Says Arizona Autism Board President, "In order to facilitate this slow growth model, the school had to acquire affordable financing for its second facility…CSDC offered the best solution, offering lower monthly payments allowing the school to introduce one grade level at a time."

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

The proposed grant evolved based on input from many sources, including testimonials from recognized leaders in the charter school movement, national research and existing CSDC funded schools, including lenders and authorizers, as illustrated by the extensive letters of support. Nearly 20% of the cumulative transactions CSDC has closed have been in the state of Colorado. The Colorado Charter School Institute (CSI), a statewide authorizer with 39 schools currently in its portfolio "recognizes that a safe learning environment is necessary in ensuring that students have the best possible opportunity to succeed academically and CSDC's support to some of our schools has allowed these school to operate in safe and healthy facilities." Executive Director Terry Croy Lewis goes on to confirm that "CSI students and their families have been the beneficiaries of this valuable partnership." Additionally, CSDC's Governing Board includes members with direct experience founding, leading, and authorizing charter schools (see also "Capacity"). Members are responsible for providing input and feedback regarding CSDC's services and ensuring that CSDC's financial products are tailored to the needs of the schools we serve.

The charter sector has also seen a proliferation of charter school support organizations, like The Mind Trust in Indianapolis, Accelerate Great Schools in Cincinnati, G&G Consulting in Colorado and 4th Sector Solutions nationally, who all support this application and work every day to attract and launch high-performing schools in their cities. These "on the ground" operators know the needs of the schools they serve which are documented throughout the letters of support. The following excerts from these letters lend proof that CSDC's model addresses the documented needs of hundreds of schools for our lending and development programs:

"Our ENCORE Academy families and neighborhood are grateful for the partnership developed with CSDC and are ready to extend that partnership with the expansion of our facility in 2019-2020." – ENCORE Academy, New Orleans

"Your development expertise is critical to meeting the unique needs of slow growth schools that are just starting up as well as successful schools that are seeking to expand." – 4th Sector Solutions

"CSDC understands charter schools and their facility needs, and offers opportunities for schools to leverage dollars to secure loans." – G&G Consulting

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

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

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

A perfect example of the type of technical assistance we provide our clients in particular is Academy 360. As the school assessed its long term financial viability, CSDC "helped us analyze and explore negotiations for a potential purchase of our current facility; coached us through the current real estate market; and has been an incredible thought partner throughout the entire facility process….CSDC's mentorship has helped position our facility committee to negotiate the lease amendment…which will give our school complete flexibility in future growth (removing any must-take language whatsoever) and positioning us for long term fiscal health."

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

CSDC's relationship with its tenant schools and borrowers goes well beyond that of a business transaction; we are invested in the financial viability and long term success of our schools. Some charter school applicants may not be deemed immediately qualified for CSDC's programs. As part of the initial due diligence process, staff works with school management to identify weaknesses and strategies for improvement. CSDC's no cost technical assistance is highly effective, as between 70-80% of all schools receiving such services eventually become its clients. Further, CSDC has incurred a nominal default rate of <2%, establishing a direct link between the level of technical assistance provided and the sustained quality of its portfolio.

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

The focus of this grant on new and early stage schools meets a need that is currently unfulfilled at scale. As described earlier, most other CDFIs, several other grantees under this program, and nearly all traditional commercial banks are focusing on mature schools or those that are part of a CMO/EMO network. Accourding to a 2019 article in Inside Philanthropy, many donors prefer to fund charter management organizations that can launch and grow multiple schools at a time, putting single-site charters at a distinct disadvantage. As a result, many new single-site charter schools are forced to turn to private money lenders to launch their schools, if they can attract funders at all. CSDC believes this is shortsighted and leaves a signigicant portion of schools unserved based on the 2017 CREDO study on CMOs which found that 68% of the nations charter schools are independently operated. One of the best examples of how this program has, and will continue to benefit charter schools that are not affiliated with a large network or CMO, is Northeast College Prep in Minnesota. School Director Erika Sass sums up her experience with CSDC best:

> CSDC supported Northeast College Prep to secure a permenant facility in our third year of operation, which is a difficult feat for new charter schools, especially ones without the support of a larger network or CMO.

4th Sector Solutions has worked with over 50 charter schools nationally on their facilities needs and attests to CSDC's expertise citing it as "critical to meeting the unique needs of schools that start small and grow one grade per year in order to ensure the quality of their program and the success of all of their students…Other lenders and developers charge high fees, impose aggressive rent escalations, and force onerous transaction conditions on the schools they finance."

LISC's Charter School Facility Finance Landscape report finds that start-up charter schools are unable to meet underwriting criteria for traditional financing due to a lack of credit, collateral, established cash flow, and organizational infrastructure. As a result, the average charter school spends 20-25% of instructional revenue on debt repayment, which far exceeds the threshold considered "healthy" for schools of 12-15% of instruction revenue. Further, school properties are considered cumbersome collateral that is hard to repurpose or sell. Lenders such as Mutual of Omaha, NBH Bank, Old National Bank and Highland Bank, as well as CDFIs like Partners for the Common Good, routinely decline requests from schools precisely for these and other risks (see their respective Letters of Support).

Through the new grant, CSDC will remove these barriers to access for start-up and expanding charter schools in distressed communities by providing safe and affordable facilities as an interim owner and landlord, or credit enhancement provider. Great Western Bank is able to lend to CSDC at "advance rates, interest rates, and terms that would not be otherwise available to these schools based on our credit and underwriting standards." As a result, schools with the greatest need, i.e. new, small and early-stage schools in low-income or distressed communities, will be indirectly supported by traditional financing sources as a direct result of CSDC's model.

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

CSDC will also assess the rate at which its applicant charter schools anticipate using strategies that research has proven are often effective—smaller schools, smaller class size, more school time, and greater parent involvement – in determining likelihood of success. CSDC has developed a proprietary Excel-based spreadsheet to track the performance of its charter school clients and the overall performance of its loan portfolio both quarterly and annually. Portfolio monitoring conforms to CSDC's ongoing policies with each new school loan risk -rated at the time of approval and tracked to assure diligent performance monitoring and data collection. Results of the monitoring may result in added technical assistance to not only support a school's ultimate success, but to protect CSDC's investment of federal grant funds.

Capacity

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

CSDC has an exemplary track record of serving high impact, high quality charter schools, especially new and early stage schools (see Letters of Support). CSDC is the largest recipient of grant funding by number of grant awards and dollar amount. CSDC is uniquely prepared to seamlessly implement a new grant given its familiarity with the statute, legislative intent and reporting requirements. The cumulative experience in administering very impactful programs, in addition to high quality underwriting and proven leveraging of private sector capital, as a direct result of its federal funding is evidence of its capacity and knowledge to manage this proposed program.

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

2) The applicant's financial stability.

From the organization's inception through FY17, CSDC had utilized the same modest-sized regional CPA firm of Matthews, Carter and Boyce (MCB), P.C. All of its audits conducted by MCB, which are prepared on a consolidated basis for CSDC and its subsidiaries and affiliates, have been unqualified and confirm full compliance with reporting requirements, cite no internal control deficiencies, and no instances of non-compliance with Government Auditing Standards. As CSDC has grown into a national organization with assets exceeding [redacted], CSDC's board made the decision to find a national CPA firm that could better support its growing programs and needs. After a rigourous RFP process, Clifton Larson Allen (CLA) was selected as CSDC's new audit firm beginning with FY18. CLA's first audited financial statement also was unqualified. The organization's three most recent annual audits and Form 990 are attached to this application. Also attached are organizational documents.

As a 501(c)(3) and CDFI loan fund, CSDC is not required to have a credit rating, nor has it gone through the CARS rating process which is expensive and onerous for a small organization with a relatively small staff as compared to larger CDFI's who have obtained the rating. However, in 2018, CSDC successfully completed the Treasury Department's rigorous process for CDFI recertification indicating a determination of CSDC's financial stability, community development mission focus, and managerial competencies.

CSDC is a financially sound non-profit that controls expenses and generates revenue in order to be self-sustaining and serve more charter schools. As of 12/31/18, CSDC reported [redacted] in Total Assets and [redacted] in Net Assets. Average deployment levels as of the fiscal year-end were high at 77%, exceeding the industry average of 50%, which is a strong indicator of demand for our products. Our default rate at 12/31/18 was <2%, which is substantially below CDFI's industry standard of less than or equal to 7%.

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

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

Throughout the underwriting process, we examine more than 17 different aspects of a charter school's business plan. These items provide the means to predict, and later track, a school's academic and operational outcomes. This data, coupled with the thoroughness of its upfront analysis and underwriting, informs CSDC of how to assess credit risk and identify schools with the greatest likelihood of success which mitigates against future defaults. Once satisfied, the project staff presents its recommendations for Board review and approval.

CSDC's Portfolio Servicing procedures are reviewed by the Board with input from the Credit Committee. The Board also reviews portfolio quality reports at least quarterly, and more frequently as needed. Write-off provisions and delinquency protocols are specified in the policies. CSDC's servicing, monitoring and risk assessment procedures strengthen its internal capacity to assess the portfolio's ongoing quality, identify watch credits early-on and provide immediate technical assistance to mitigate delinquencies or defaults as evidenced by its historically low default rate. The areas of Governance, Financial Performance and Academic/Operational outcomes are analyzed annually and an updated risk rating is assigned to each school based on the results. The frequency of periodic reviews increases if the school's risk rating increases year over year. The project team monitors quarterly/annual financials, enrollment trends and all academic reports provided to the authorizing entity. Based on an analysis of this data, CSDC determines what follow-up action, if any, is required. CSDC is deeply supportive of its clients' challenges and works with them to address unforeseen occurrences.

The Board annually reviews and approves the financial policies and internal control procedures. On a quarterly basis, the Financial Controller produces financial statements for management reflecting the organization's financial health and informing decisions on the adequacy of CSDC's reserves.

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

Inherent in working with this niche is an elevated level of risk in terms of enrollment, academic results and charter renewal, coupled with lack of a fund balance or other sources of capital to be used as equity or cash reserves. However, indicative of CSDC's credit underwriting rigor, specialized expertise in evaluating a new school's likelihood of success and ability to mitigate the "start-up" risk, is its modest, historic <2% default rate. The Project Director has prior education experience, working for several years as a substitute teacher in Arlington County Public Schools, Arlington, Virginia, as well as a Master's Degree in Education Policy from George Washington University. Our Project Developer began her career as a teacher and later was a founding charter school principal for a highly successful network in Arizona before taking on responsibility for the network's facility growth plans where she arranged more than $100 million in bond funding for school construction, renovation and expansion projects. Other members of the project staff have acquired extensive and specific education industry knowledge regarding curricular models, academic performance, classroom management protocols, governance best practices and other factors needed to evaluate the likelihood of success of applicant schools. As evidenced by the letters of support, CSDC staff's ability to make upfront credit decisions regarding future success of a school is well supported.

In addition to the project team, CSDC utilizes Governing Board members (two of whom are in the Charter Schools Hall of Fame which was established to recognize individuals for pioneering the development and growth of charter schools, implementing innovative ideas, and inspiring others in the movement), who have direct experience in education as it relates to establishing curriculum, staffing, managing operations and good governance practices. The members provide input into CSDC's loan policies and underwriting guidelines ensuring they reflect the characteristics that contribute to school success. Examples include Board Chair Tom Nida who is recognized nationally as a pioneer in the movement and was appointed to the DC

Public Charter School Board in 2003, was elected Chairman in 2004, and served in that capacity until 2010. Vice Chair and member of the Hall of Fame Ember Reichgott Junge is the former Minnesota State Senator who authored Minnesota's 1991 first-in-nation charter school law. She is a national spokesperson on charter public schools and provides board governance training to charter schools across the country. James Goenner, also a member of the Hall of Fame, currently serves as President/CEO of the National Charter Schools Institute which supports the growth of the charter schools movement in Michigan and throughout the nation. Mr. Goenner was the former Executive Director at The Center for Charter Schools at Central Michigan University, the nation's largest university authorizer of charter public schools. Full biographies are attached.

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

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

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

CSDC submits annual performance reports (APR) for all of its current grants. Each APR reflects compliance with the performance agreements, the most recently submitted of each is attached for reference. Of particular note is that as of 9/30/18, CSDC funded almost [redacted] in federal credit enhancements from its original [redacted] in grants (the most recent $5 & $12 million grants were not implemented as of that date and not included in this calculation) – evidence of its ability to protect, revolve and recycle its prior grants as projected – on behalf of 191 school transactions leveraging over [redacted]n in total private capital, and leasing commitments resulting in over 19:1 cumulative leverage of its federal grants. Pursuant to Table 4, 69% of CSDC's client schools served through its credit enhancement grants have had less than three full years of operating experience, and one-third of schools received enhancements for leasehold improvements. Over the past 20+ years, CSDC has been directly responsible for financing, credit enhancing or developing over 80,000 student seats and over 6.7 million square feet of safe and affordable educational facilities across its programs in 29 states plus D.C.

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

Quality of Project Personnel

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

The Grant Project Team – (Complete resumes are attached)

Michelle Liberati, EVP, joined CSDC in 1998 and is the Project Director who has effectively managed CSDC's seven prior credit enhancement grants. She will continue to serve in that capacity under this proposal and will have general oversight responsibility, including 1) ensuring all program goals and objectives are met; 2) marketing and replicating the program; 3) identifying new sources of capital; and 4) overseeing the portfolio monitoring process. She is responsible for the program's overall management and evaluation, including participating in quarterly monitoring calls and preparing the annual performance reports. She has a Master's in Education Policy and worked as a substitute teacher in Arlington County Public Schools, Arlington, Virginia for several years prior to joining CSDC.

As mentioned earlier, during CSDC's onsite monitoring visit, one of the "indicators" which was reviewed was that a "qualified project director is managing the program… the person should have extensive knowledge of the CE program, finance, education and charter schools."

The monitors conducted lengthy interviews with Michelle Liberati and ultimately determined that she met this indicator and CSDC received a “Low Risk” rating in this area.

Laura Fiemann, SVP, joined CSDC in 2010 and is the Senior Project Manager and administers the organization’s existing CDFI and real estate programs. She has over 25 years of experience in loan origination, deal structuring and the capital markets. She will be primarily responsible for building a pipeline, conducting due diligence, structuring and presenting transactions for approval, and providing additional support and technical assistance pre and post-closing as needed. Ms. Fiemann’s track record of delivering projects across all of CSDC’s programs is well documented in the Letters of Support.

Rebecca Secrest, Senior Vice President, joined CSDC in 2006 and is primarily involved with CSDC’s Turnkey Development Program, performing the role of Project Manager on facility development projects from the initial feasibility study through full underwriting, credit analysis and predevelopment through financing, acquisition and project completion. She represents CSDC and its charter school clients with commercial banks, CDFIs and landlords and will be responsible for delivering TDP projects under this and other CSDC grant programs.

Ashley Brown, Project Developer**,** is primarily involved in the research and underwriting stages of the transactions. As a former teacher and founding charter school principal, her experience in education and in schools brings additional capacity to provide a sound evaluation of the academic model and educational programming of school applicants, analyzing leadership, staffing, overall costs and operational efficiencies.

Mark Zeizel, Vice President**,** joined CSDC in 2013 and is the project's credit manager primarily responsible for the upfront financial analysis, as well as monitoring and servicing the portfolio once transactions close and fund. Specifically, he will create pro-forma projections, analyze governance and academic performance, interview charter authorizers and draft, in consultation with the Project Managers, the formal credit memo/recommendation presented to the Credit Committee.

Support Staff – CSDC's staff consists of 12 full time employees (FTE) which is adequate staff capacity to meet the initial demand for services. CSDC has a robust 3.5 FTE accounting/back office team that provides significant capacity to support the project managers related to loan origination, project draw request and reconciliations, as well as any other financial reporting that is required. The accounting team also ensures fiscal accountability related to the tracking, deployment and reporting of existing, and any future, grant funds, as well as the daily workflow related to project accounting, accounts receivable and payable and cash reconciliations. The Organizational Chart depicting their principal rolls and functions is attached. The project team outlined above has been, and will continue to be, indirectly supported by the support staff.

2) The staffing plan for the grant project.

This grant project is sufficiently staffed with Michelle Liberati overseeing project implementation and ensuring accountability, and day to day activities carried out by the project team identified above. Further, CSDC strives to achieve minimal turnover with current staff members averaging almost 7 years with the organization.

Current staff can address the initial needs of implementing this program, to continue to meet the proposed annual deployment goals and maintain CSDC's commitment to quality, however, the organization identified a need for two additional staff persons in future years as demand grows. The staffing plan anticipates hiring a credit underwriter in Q1 FY21 and a staff accountant in Q3 FY 21. The accounting team described above has the capacity to support the organization's current portfolio and modest annual growth in new projects. However, if CSDC is successful with this grant, the increase in the number of new projects commencing each year will justify the additional back-office accounting support. Similarly, to achieve the annual deployment goals with this grant, in addition to CSDC's current performance goals, a new credit underwriter will be whose primarily responsibility will be the overall underwriting and credit analysis of applicant schools will be needed. The credit underwriter will have similar expertise and job responsibilities as Ashley Brown.