

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

Status: Submitted

Last Updated: 07/10/2018 01:23 PM

Technical Review Coversheet

Applicant: Local Initiatives Support Corporation (U354A180005)

Reader #1: *****

	Points Possible	Points Scored
Questions		
Selection Criteria		
Quality of Project Design and Significance		
1. Project Design	35	32
Quality of Project Services		
1. Project Services	15	12
Capacity		
1. Capacity	35	32
Quality of Project Personnel		
1. Project Personnel	15	12
Sub Total	100	88
Priority Questions		
Competitive Preference Priority		
Competitive Preference Priority		
1. Competitive Preference	15	15
Sub Total	15	15
Total	115	103

Technical Review Form

Panel #1 - Credit Enhancement - 1: 84.354A

Reader #1: *****

Applicant: Local Initiatives Support Corporation (U354A180005)

Questions

Selection Criteria - Quality of Project Design and Significance

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

Strengths:

By utilizing this grant to launch a new program, the entity will provide charter school financing with 100% LTV, and interest rates that are 50-100 basis points below what they are able to receive absent the program. Flexible terms will be offered including extended interest-only periods tied to enrollment growth, longer amortization periods and staggered amortizations that correspond to the charter school enrollment. These terms are not found in a conventional lending scenario for charter schools. (pg. e21 – e27)

Goals are clearly outlined with measurable objectives that align to the Logic Model and purposes of the program. The timeline provides necessary tasks for the implementation and ongoing support of the program with target completion dates included. (g. e27 – e31 and e78)

The applicant has developed partnerships through prior Credit Enhancement (CE) grants with other lenders and several charter support organizations. Additionally, the applicant has field offices located in the cities that are targeted for inclusion. This presence, along with the identified implementation plan and support partners, will ensure the project is successful and will be a model for future entities. (pg. e31 – 33)

The activities planned for this program will result in procedures and tools that can be utilized through the charter community. An online needs index has been developed to assess communities and charter schools on their need for the program. The applicant intends to offer a "SchoolBuild Bond" to the public to provide additional funds for charter schools. These processes and tools will be vital to the overall charter community, once proven. (pg. e33 – e34)

Current selection criteria includes high-performing charter schools and low-income students. In addition, the applicant has developed a "Needs Index" for use with this program. This index includes the need for quality school options in a given geography and the strength and/or weaknesses of access to facility financing. These criterion will identify charter schools that meet the overall program goals while ensuring the special needs of each charter school are met. (pg. e34 – e36)

Grant funds will be utilized along with private sector capital to finance 15 charter schools within the first four years of the project. Over a 10 year period the leverage is estimated to be 12.5:1.

The applicant will use private funding along with a bond issuance to provide the capital to charter schools that have difficulty obtaining financing because they are in the early stages of development, are smaller in size, and have limited collateral to offer. (pg. e36 – e38)

A set of criteria provided will ensure the applicant is working within states with strong charter laws – multiple authorizers, facility funding available, serve at-risk students, solid authorizers and charter schools that use "best practices." Additionally, the reports on charter school law rankings from The Center for Educational Reform and the National Alliance for Public Charter Schools will be used to clarify charter school selection if needed. (pg. e38 – e39)

The requested grant amount and stated project costs are reasonable for the scope of the project. By utilizing the new tool to identify needs (Needs Index, Attachment 13) and offering the first charter school public bond in financing history, this project has the potential to greatly affect the landscape of charter school facility financing. (pg. e39 – e41)

Weaknesses:

There is some risk associated with the bond offering and the entities that will purchase the bond and the fact that these transactions are off the entity's balance sheet. Inherent risks are associated with this type of transaction due to the types of charter schools being targeted for this program; early-start charters and charter schools that have not yet gone through a renewal cycle.

Reader's Score: 32

Selection Criteria - Quality of Project Services

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

Strengths:

The program has been designed around the financing needs of charter schools; fixed-rate debt, longer pay back, higher LTV, and flexible reserve fund requirements. These charter schools have very few financing options due to the specific

nature of their buildings and the revenue stream that is received from the state. This program addresses those issues. (pg. e41)

Letters of support are provided in Attachment 16 which speak to the involvement of charter schools, funding partners, and support entities in the design and specific aspects of the program.

The applicant provides on-line free technical assistance through SchoolBuild. This assistance is supported by an outside foundation. The program will also provide early planning grants for potential charter school borrowers. The overall finance design will result in interest rates below market for both short-term and long-term debt. (pg. e42 – e43)

Weaknesses:

A single letter of support is provided from a charter school organization - [REDACTED]. Since the applicant has a presence in 23 states and the District of Columbia, it would have made the application stronger if other state associations would have given their support in writing.

Reader's Score: 12

Selection Criteria - Capacity

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

Strengths:

The applicant is the largest CDFI with 39 years of experience throughout the United States. They have received many federal awards including four CE grants that have helped finance \$219.8 million in charter school grants, loans and loan guarantees in 21 states and the District of Columbia. Throughout this history they have only experienced 3 loan defaults. (pg. e44 – e46)

As of December 2017, the applicant had net assets of \$287 mill with \$142 mill being unrestricted. The audits presented

did not contain any concerns and the entity boasts a delinquency rate of <2%. Additionally, the CDFI sought a credit rating from S & P in 2016. They were rated "AA" indicating their financial stability. (pg. e46 – e48)

Policies and procedures are well developed and have been refined over the 20 years of financing charter schools. Not only do these consider the ability to repay the loan and the academic outcomes desired of the student population, but outside influences such as strength of the authorizer, state laws and student demand are taken into consideration. Policies and Procedures outlining portfolio monitoring as well as financial management practices are included in the attachments. These are multi-layered with strict internal controls to ensure stability. (pg. e49, Attachments 26, 27 and 30)

Staff members have charter school experience including working for a charter school in an operational capacity. Along with a 20 year history of financing charters schools, this should provide positive results. (pg. e52 – e53)

A strict Conflict of Interest policy for employees and for the Board of Directors is provided in Attachment 6.

The applicant has four prior CE grants which, according to the narrative, have performed well. Each grant has surpassed the leveraging goals with only 1 loan loss reported against the program. (pg. e53 – e54).

Weaknesses:

There is no indication that any outside charter support agencies are involved in determining the suitability of a charter school for a financing offer. Because the entity works within 23 states and DC, working with charter school support agencies would provide a different perspective of the viability of early-start charter schools and would provide useful information especially surrounding the capacity of some early-start charter schools to handle the bond payments. (pg. e28)

Reader's Score: 32

Selection Criteria - Quality of Project Personnel

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

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

2. The staffing plan for the grant project.

Strengths:

The personnel identified in the application have experience in finance with a small amount of charter school operational experience. Additionally, the applicant has successfully implemented previous grants with the existing team. pg. e54 – e56)

Weaknesses:

The staffing plan is vague. It is not clear how this group of people relate to the individuals at the state offices or within the entire structure of the organization. More specificity regarding the staffing plan would make this section stronger.

Reader's Score: 12

Priority Questions

Competitive Preference Priority - Competitive Preference Priority

1. In accordance with 34 CFR 75.105(b)(2)(ii), this priority is from 34 CFR 225.12. For FY 2018 and any subsequent year in which we make awards from the list of unfunded applications from this competition, this priority is a competitive preference priority. Under 34 CFR 75.105(c)(2)(i), we award up to an additional 15 points to an application, depending on how well the application addresses the priority.

This priority is:

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

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

Note:

With regard to paragraph (1), consistent with the ESSA, if applicants will be operating in States that have identified schools for comprehensive support and improvement or targeted support and improvement under the ESEA, as amended by the ESSA, "improvement, corrective action, or restructuring" refers to schools identified for "comprehensive support and improvement or targeted support and improvement" under the ESEA, as amended by the ESSA. If applicants will be operating in States that are delaying, as permitted by the Department, the identification of schools for comprehensive support and improvement or targeted support and improvement until school year 2018-2019, the Department will award competitive preference points under paragraph (1) to allow those applicants to target services to geographic areas in which a large proportion of public schools are, at the time of submission of an application under this competition: (i) elementary and secondary schools identified as in need of improvement, corrective action, or restructuring under the ESEA, as amended by NCLB; or (ii) elementary and secondary schools identified as a priority or focus school by the State prior to August 1, 2016 under ESEA flexibility. After school year 2018-2019, the Department will require a grantee that is operating in States that are delaying identification of schools, and that receives points under this priority, to amend its approved application, as needed, to describe how it will target services to geographic areas in which a large proportion of public schools are elementary and secondary schools identified for comprehensive or targeted support and improvement under the ESEA, as amended by the ESSA.

Strengths:

The narrative clearly states that charter schools located in a geographic area that has a large proportion of schools identified for improvement under the ESEA or ESSA guidelines will be targeted for this program. (pg. e17-19)

Charter schools that are located within school districts that have a high percentage of students perform below proficient on state assessments will be targeted for assistance through this program. All charter schools currently in the applicant's pipeline meet this criteria. (pg. e19 – e20)

The applicant's overall mission addresses assistance to low-income individuals. This is a major criteria for charter schools wishing to receive financing through this new offering. (pg. e20)

Weaknesses:

None noted.

Reader's Score: 15

Status: Submitted

Last Updated: 07/10/2018 01:23 PM

Status: Submitted

Last Updated: 07/09/2018 11:00 AM

Technical Review Coversheet

Applicant: Local Initiatives Support Corporation (U354A180005)

Reader #2: *****

	Points Possible	Points Scored
Questions		
Selection Criteria		
Quality of Project Design and Significance		
1. Project Design	35	16
Quality of Project Services		
1. Project Services	15	11
Capacity		
1. Capacity	35	35
Quality of Project Personnel		
1. Project Personnel	15	15
Sub Total	100	77
Priority Questions		
Competitive Preference Priority		
Competitive Preference Priority		
1. Competitive Preference	15	15
Sub Total	15	15
Total	115	92

Technical Review Form

Panel #1 - Credit Enhancement - 1: 84.354A

Reader #2: *****

Applicant: Local Initiatives Support Corporation (U354A180005)

Questions

Selection Criteria - Quality of Project Design and Significance

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

Strengths:

The applicant proposes to use the CECS grant funds to launch the School Build Capital Fund. It proposes to expand access to capital for charter schools and lower the cost for facilities projects by using shorter term lower cost capital initially, and then refinance the short- term capital using the grant funding to reduce capital cost by 50-100 bps.

Project goals and objectives are to expand cost effective access to capital for charter schools facilities financing and to reduce the longer- term financing cost using the grant funds as a credit enhancement. 95% of the schools receiving assistance under this program will meet at least one of the competitive program criteria, a location where schools have been identified as in need of improvement or located in a district where less than 505 of the students are proficient under state academic assessments or serve 50% low income students as evidenced by free or reduced- price lunches.

The applicant proposes to use a new needs index, a proprietary scoring system to weigh different criteria in selecting charter schools for assistance. It is included in the application at Appendix 13 (e610) and references criteria like the community need for public school choice, the student demographic profile and academic quality, financing access and demand for seats.

The applicant proposes to use grant funds to directly leverage \$60 million in private sector capital which will in turn leverage an additional \$75 million in total financing for fifteen schools within the first four years. The applicant projects a leverage factor of 12.5-1 over a ten- year period.

The applicant proposes to serve charter schools in states with strong Charter School Laws (e38) by prioritizing schools in

states that have multiple authorizers or a strong appeals process; access to facilities funding per the provisions of the ESEA as amended by the ESSA; use best practices to improve struggling schools; support schools that serve at risk students, and ensure all authorizers implement best practices for charter school authorizing.

Weaknesses:

The proposal is premised on two basic assumptions. The initial assumption is that there will be an appetite on the part of bond issuers to finance capital facilities projects. This is speculative and assuming for the moment that there will be interest in the bond markets internationally, it is impossible to determine how the bonds would be priced when one considers the barriers to capital faced by early stage charter schools like limited enrollment and revenue, charter reauthorization, and depressed real estate collateral value.

The project timeline is very general (five transactions annually over the first three years then a hiatus on loan originations while we focus on the bond offering in or around year 4...)

Whether or not the project is likely to achieve measurable objectives that further the purposes of the program is dependent on the receptivity of the bond market to longer term facilities financing for early stage charter schools. Although the grant funds can act as an inducement to reduce longer term facilities financing costs, this is not a given and if the pricing on the bonds comes in higher than expected the project model no longer works.

The project is less likely to produce results that are replicable due to the uncertain nature of the bond markets and how the bonds may be priced. An additional uncertain variable is the recent transition by LISC to a risk-based pricing framework for all loans. LISC would need to provide data on the pricing model to insure the higher cost variables like charter renewal, limited enrollment and pupil revenue, and depressed real estate collateral value are factored into the pricing model. LISC proposes to address these issues by reserving the right to issue a general obligation bond (backed by the full faith and credit of LISC balance sheet) or an off balance sheet product which actually increases risk because it means LISC does not include the liability on its balance sheet. This directly impacts the company's level of debt and balance sheet strength.

The applicant proposes to access worldwide mainstream capital markets to provide funds for charter schools facilities financing. (E37) this is highly speculative, unproven and should not be relied upon a consistent source of capital due to the project model uncertainties such as depressed collateral value, school revenue uncertainties and the political nature of the charter renewal process.

The reviewer is unable to determine if the requested grant amount and the project costs are reasonable in relation to the objectives, design, and potential significance of the project because the applicant is unable to provide pricing data on the School Build Bond, one of the underlying blocks of the proposal. If the School Build Bond is undersubscribed or not priced to facilitate investor needs, the project is not viable.

Reader's Score: 16

Selection Criteria - Quality of Project Services

- 1. Quality of project services. In determining the quality of project services, the Secretary considers-**
 - 1. The extent to which the services to be provided by the project reflect the identified needs of the charter schools to be served;**
 - 2. The extent to which charter schools and chartering agencies were involved in the design of, and demonstrate support for, the project;**
 - 3. The extent to which the technical assistance and other services to be provided by the proposed grant project**

involve the use of cost-effective strategies for increasing charter schools' access to facilities financing, including the reasonableness of fees and lending terms; and

4. The extent to which the services to be provided by the proposed grant project are focused on assisting charter schools with a likelihood of success and the greatest demonstrated need for assistance under the program.

Strengths:

The project provides services that answer the needs of the schools to be served by augmenting the project financing options available to early stage charter schools and increasing this access to capital at a reasonable cost, assuming the viability of the financing model.

The technical assistance offered through the grant project through School Build online will provide free technical assistance at scale. LISC Seed Fund grants will also provide free planning and feasibility analysis as well as cover other predevelopment costs. (e-43)

The use of specific underwriting criteria which takes into account the specific needs of individual charter schools along with the insight offered by Charter Management Organizations will ensure that LISC is targeting schools most likely to succeed.

Weaknesses:

Although the applicant does have letters of support from schools and other stakeholders supporting the project, the letter of support from [REDACTED] is very specific in stating it [REDACTED]) This reinforces the speculative nature of this business model in that access to worldwide bond markets is far from the given conclusion that LISC articulates in the body of the proposal. (e-632)

Reader's Score: 11

Selection Criteria - Capacity

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

grants.

Strengths:

The applicant was founded in 1979 and has significant experience in community based economic development as well as charter school financing. They have closed \$219.8 million in grants, loans, and loan guarantees in 21 states and in Washington DC. Of that total, \$142.1 was supported by ED Credit Enhancement grants.

The applicant has tremendous financial stability having achieved a rating of AA from S&P and has a strong balance sheet with net assets of \$287 million and unrestricted net assets of \$142.1 million. They have not filed for bankruptcy and have no identified findings or significant weaknesses in their most recent financials.

The organization's underwriting, portfolio monitoring and financial management practices are sound. They have a loan loss rate of less than 2% which is in large part a reflection of sound underwriting and financial management policies.

The applicant's underwriting standards and criteria for charter schools focus on variables that help the organization assess and quantify repayment risk. Attachment 27 contains a sample underwriting package and attachment 28 is LISC's Underwriting Manual. Investments of over \$5 million need Board Committee Approval and investments over \$8 million need Board of Directors approval.

The applicant has an updated Conflict of interest policy which is included with the application at Attachment 6 and covers policies designed to avoid any potential issues.

Criterion 6 is not applicable as the applicant has no consortium members.

Criterion 7 is not applicable as the applicant has no public-sector consortium partners.

Previous grantee performance has been exemplary with all award funds fully implemented. They have met or surpassed the leverage and fundraising goals in their credit enhancement activities.

Weaknesses:

There are no weaknesses in this criterion.

Reader's Score: 35

Selection Criteria - Quality of Project Personnel

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

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

2. The staffing plan for the grant project.

Strengths:

The applicant has wide and deep experience in the CECSG project team. Project leaders Sara Sorbello, VP for Financing and Yvonne You, Deputy Director have in excess of 28 years of public policy experience. They both serve on the Board of Directors of local charter schools in their areas.

The staffing plan outlines team job responsibilities and provides the personnel and administrative structure for administering the project.

The full staffing plan is included with the application at Attachment 37.

Weaknesses:

There are no weaknesses in this criterion.

Reader's Score: 15

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

1. In accordance with 34 CFR 75.105(b)(2)(ii), this priority is from 34 CFR 225.12. For FY 2018 and any subsequent year in which we make awards from the list of unfunded applications from this competition, this priority is a competitive preference priority. Under 34 CFR 75.105(c)(2)(i), we award up to an additional 15 points to an application, depending on how well the application addresses the priority.

This priority is:

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

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

Note:

With regard to paragraph (1), consistent with the ESSA, if applicants will be operating in States that have identified schools for comprehensive support and improvement or targeted support and improvement under the ESEA, as amended by the ESSA, "improvement, corrective action, or restructuring" refers to schools identified for "comprehensive support and improvement or targeted support and improvement" under the ESEA, as amended by the ESSA. If applicants will be operating in States that are delaying, as permitted by the Department, the identification of schools for comprehensive support and improvement or targeted support and improvement until school year 2018-2019, the Department will award competitive preference points under paragraph (1) to allow those applicants to target services to geographic areas in which a large proportion of public schools are, at the time of submission of an application under this competition: (i) elementary and secondary schools identified as in need of improvement, corrective action, or restructuring under the ESEA, as amended by NCLB; or (ii) elementary and secondary schools identified as a priority or focus school by the State prior to August 1, 2016 under ESEA flexibility. After school year 2018-2019, the Department will require a grantee that is operating in States that are delaying identification of schools, and that receives points under this priority, to amend its approved application, as needed, to describe how it will target services to geographic areas in which a large proportion of public schools are elementary and secondary schools identified for comprehensive or targeted support and improvement under the ESEA, as amended by the ESSA.

Strengths:

ESSA, as amended, gives the applicant an opportunity to reinforce their commitment to equal educational opportunity for all students. With this application and moving forward, the applicant will continue to target schools that are located in geographic areas and communities with a high proportion of students from low income families, and in geographic areas where a large proportion of students perform below proficient on state academic assessments. They also plan to target state identified schools for comprehensive support and/or improvement under ESEA as amended by ESSA.

Weaknesses:

There are no weaknesses in this criterion.

Reader's Score: 15

Status: Submitted

Last Updated: 07/09/2018 11:00 AM

Status: Submitted

Last Updated: 06/30/2018 02:47 AM

Technical Review Coversheet

Applicant: Local Initiatives Support Corporation (U354A180005)

Reader #3: *****

	Points Possible	Points Scored
Questions		
Selection Criteria		
Quality of Project Design and Significance		
1. Project Design	35	28
Quality of Project Services		
1. Project Services	15	12
Capacity		
1. Capacity	35	35
Quality of Project Personnel		
1. Project Personnel	15	15
Sub Total	100	90
Priority Questions		
Competitive Preference Priority		
Competitive Preference Priority		
1. Competitive Preference	15	15
Sub Total	15	15
Total	115	105

Technical Review Form

Panel #1 - Credit Enhancement - 1: 84.354A

Reader #3: *****

Applicant: Local Initiatives Support Corporation (U354A180005)

Questions

Selection Criteria - Quality of Project Design and Significance

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

Strengths:

This applicant created a strong design for the proposed credit enhancement tool, which will likely result in significant impacts for the charter schools they finance. Specifically, the applicant proposes rates that would be better than charter school currently receive in the financing markets. Also, the applicant will significantly leverage the grant at a ratio of 12.5:1 or more. (page e36) Moreover, the applicant developed an exhaustive assessment process for selecting charter schools to receive assistance, which targets capital access limitations, such as short-term loans from banks restricted to meeting the credit needs of low- and moderate-income neighborhoods under Community Reinvestment Act regulations, in the markets where potential borrowers operate. It also utilizes an extensive methodology with multiple evaluative factors designed to consider what makes a charter school successful, to determine whether the charter school borrowers its selects are in states with strong charter laws. (page e38) Furthermore, the applicant provided a project implementation plan and timeline that are sound and likely to achieve the measurable goals and objectives listed because its staffing is in place, demand for financing is strong, and its approach mirrors the successful elements of its previous grant awards. (page e27) Also, the applicant intends to use several effective methodologies (receipt of State Improvement Grants plus the Center for Education Reform and the National Alliance for Public Charter Schools' State Charter Law Rankings) to evaluate whether the states it targets have strong charter laws. (page e38). Lastly, the project costs are reasonable in relation to the objectives, design, and potential impacts achieved. The applicant has sufficient resources to cover its administrative costs above the funds set aside in the Credit Enhancement Award.

Weaknesses:

The LTVs (90% to 100%) for the charter school loans proposed by the applicant would not provide better terms for borrowers, since other intermediaries are lending with LTVs in excess of 100%, in some cases. (page e22) Also, the replicability of the applicant's model (page e33) relies heavily on an intermediary having access to the public capital markets where it can issue taxable debt. As such, this approach would be available to a limited number of financial institutions, since public capital market debt issues require a credit rating by an independent analyst. Most nonprofit lenders lack the financial strength to meet the criteria for obtaining these third-party ratings. Moreover, the applicant's model requires the creation of a special purpose entity (SPE) that will be the conduit for the issuance of debt backed by the charter school loans. If the applicant is unsuccessful in the SPE notes in the public capital market, then it must obtain other capital resources to support those obligations in order to maintain its overall credit quality.

Reader's Score: 28

Selection Criteria - Quality of Project Services**1. Quality of project services. In determining the quality of project services, the Secretary considers-**

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

Strengths:

As a thought leader in the charter school lending field, the quality of the project services presented by the applicant is strong and would meet the needs of the charter schools in the markets it serves. The applicant engaged several key stakeholders including charter schools, management organizations, and authorizing agencies in the design of the program and obtained letters of support for this application. (page e42). Also, the applicant plans to use an online portal to deliver technical assistance at scale. The provisions of seed grants to offset planning and feasibility analysis costs exemplify cost-effective approaches for these project services. (page 43)

Weaknesses:

The process that the applicant described for identifying charter schools with the greatest demonstrated need for assistance and the highest likelihood of success was ambiguous. (page e43) Specifically, aside from mentioning the awareness of the local needs obtained through multiple offices, the applicant doesn't cite how it would work with the states' education departments in targeting high quality and high-need charter schools.

Reader's Score: 12

Selection Criteria - Capacity**1. Capacity. In determining an applicant's business and organizational capacity to carry out the project, the Secretary considers:**

- 1. The amount and quality of experience of the applicant in carrying out the activities it proposes to undertake in its application, such as enhancing the credit on debt issuances, guaranteeing leases, and**

facilitating financing;

2. The applicant's financial stability;

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

4. The applicant's expertise in education to evaluate the likelihood of success of a charter school;

5. The ability of the applicant to prevent conflicts of interest, including conflicts of interest by employees and members of the board of directors in a decision-making role;

6. If the applicant has co-applicants (consortium members), partners, or other grant project participants, the specific resources to be contributed by each co-applicant (consortium member), partner, or other grant project participant to the implementation and success of the grant project;

7. For State governmental entities, the extent to which steps have been or will be taken to ensure that charter schools within the State receive the funding needed to obtain adequate facilities; and

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

Strengths:

The applicant is a strongly capitalized, financially stable, and well-managed financial intermediary. Specifically, as of December 31, 2017, the applicant had total assets of nearly \$730 million and total net assets in excess of \$287 million. (page e150) Additionally, the applicant was the first nonprofit community development financial institution to issue a rated taxable bond in 2017. It also has significant experience in carrying out the activities they propose to undertake, including the management of four prior Credit Enhancement grant award to facilitate financing for charter schools. It successfully deployed these awards through a combination of direct lending and guarantee funds serving distinct purposes based on prevailing market needs. Moreover, it has the necessary organizational infrastructure, such as written policies and procedures (see "Asset Monitoring Policies", page e1031 and "Underwriting and Lending Manual", page e1103) and trained and qualified staffs, to protect against unwarranted risk in their loan underwriting policies, with specific provisions for charter school financing (page e1103), as well as its overall portfolio monitoring and financial management strategies and practices (page e1365). Lastly, the applicant adequately demonstrated its expertise in evaluating the likelihood of success of a charter school through its prior lending activities, which effectively deployed \$41 million of Credit Enhancement grant awards over the past fifteen years.

Weaknesses:

No notable weaknesses in this area.

Reader's Score: 35

Selection Criteria - Quality of Project Personnel

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

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

2. The staffing plan for the grant project.

Strengths:

The applicant employs highly qualified personnel, who possess the requisite training and experience to successfully implement the proposed activities. The Director of Charter School Lending (project manager) has five years of lending experience with the applicant. (page e55) She previously led the New Markets Tax Credit unit at another CDFI, a skill set that is relevant to her current responsibilities. Moreover, several members of the applicant's charter school finance team have either direct work experience or board service with charter schools. Also, the applicant presented a staffing plan

(page e1401) adequately describes the functions and responsibilities required of each team member for the proposed activities, which further demonstrates its capacity to successfully implement the proposed Credit Enhancement grant award strategy.

Weaknesses:

No notable weaknesses in this area.

Reader's Score: 15

Priority Questions

Competitive Preference Priority - Competitive Preference Priority

1. In accordance with 34 CFR 75.105(b)(2)(ii), this priority is from 34 CFR 225.12. For FY 2018 and any subsequent year in which we make awards from the list of unfunded applications from this competition, this priority is a competitive preference priority. Under 34 CFR 75.105(c)(2)(i), we award up to an additional 15 points to an application, depending on how well the application addresses the priority.

This priority is:

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

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

Note:

With regard to paragraph (1), consistent with the ESSA, if applicants will be operating in States that have identified schools for comprehensive support and improvement or targeted support and improvement under the ESEA, as amended by the ESSA, “improvement, corrective action, or restructuring” refers to schools identified for “comprehensive support and improvement or targeted support and improvement” under the ESEA, as amended by the ESSA. If applicants will be operating in States that are delaying, as permitted by the Department, the identification of schools for comprehensive support and improvement or targeted support and improvement until school year 2018-2019, the Department will award competitive preference points under paragraph (1) to allow those applicants to target services to geographic areas in which a large proportion of public schools are, at the time of submission of an application under this competition: (i) elementary and secondary schools identified as in need of improvement, corrective action, or restructuring under the ESEA, as amended by NCLB; or (ii) elementary and secondary schools identified as a priority or focus school by the State prior to August 1, 2016 under ESEA flexibility. After school year 2018-2019, the Department will require a grantee that is operating in States that are delaying identification of schools, and that receives points under this priority, to amend its approved application, as needed, to describe how it will target services to geographic areas in which a large proportion of public schools are elementary and secondary schools identified for comprehensive or targeted support and improvement under the ESEA, as amended by the ESSA.

Strengths:

The applicant projects achieving a 95% threshold for the use of the CEP-leveraged debt with charter schools that meet all of the criteria for Competitive Preference Priority. In its prior CEP awards, the applicant achieved an 80% to 85% threshold for this target. The applicant will effectively service the “priority” communities through its on-the-ground presence in 29 different cities around the country, the utilization of state academic assessment data to analyze the academic performance of potential borrowers, and by targeting schools in individual neighborhoods where poverty rates are often more than three times the national average.

Weaknesses:

No notable weaknesses in this area.

Reader's Score: 15

Status: Submitted
Last Updated: 06/30/2018 02:47 AM