

PROGRAM NARRATIVE

Local Initiatives Support Corporation (LISC) proposes to develop and demonstrate innovative credit enhancement initiatives to assist charter schools in accessing private sector and other non-Federal capital to address the cost of acquiring, constructing and renovating facilities in multiple regions across the nation. We are requesting **\$12 million** from the U.S. Department of Education (ED) to support the development and expansion of charter schools through a new fund, the **SchoolBuild Capital Fund**. The \$12 million requested will not be used for the direct purchase, lease, renovation or construction of charter school facilities, but rather will be used to facilitate financing by leveraging **\$150 million** of private sector capital, providing technical assistance, promulgating best practices and promoting transparency, and other activities that directly promote lending to, and for the benefit of, charter schools.

COMPETITIVE PRIORITY

The Every Student Succeeds Act (ESSA), signed into law in December 2015, reauthorizing the Elementary and Secondary Education Act of 1965 (ESEA), presents a new and unique opportunity for LISC to reinforce our commitment to equal opportunity for all students. This project will advance ED's commitment to increasing public school choice by addressing the largest barriers to charter school growth: lack of appropriate facilities exacerbated by lack of access to adequate, affordable financing. LISC will help charter schools access the financing needed to: 1) build, construct or renovate facilities; 2) acquire land for facilities development; 3) purchase or lease "portable" classrooms; and 4) cover predevelopment costs required to assess sites and to commence or continue the operation of charter schools. To achieve these goals, we will utilize the ED Credit Enhancement for Charter School Facilities Grants Program (CEP) to help charter schools access a wide range of financial resources (e.g., LISC's balance sheet, the capital markets, New Markets Tax Credits, and early-stage grants).

To ensure that the students most critically in need of school choice are served, we will continue to target charter schools in geographic areas and communities with a high proportion of students from low-income families, and in geographic areas in which a large proportion of students perform below proficient on State academic assessments. With each State’s adoption of ESSA in 2018, we will also target State-identified schools for comprehensive support and improvement or targeted support and improvement under the ESEA, as amended by ESSA. LISC will use its extensive experience in education data and research, alongside an innovative Needs Index tool, to target these types of schools explicitly (Attachment 13). At a minimum, LISC will use the following criteria under “Community Need for Public School Choice”, which specifically addresses the priorities of ESEA, as amended by ESSA:

Public Schools Identified for Comprehensive Support or Targeted Support and Improvement.

This criteria addresses whether the local district(s), Local Education Agency (LEA), or a large proportion of individual schools within the district(s) from which the charter school draws or anticipates drawing its students are identified for comprehensive support and improvement or targeted support and improvement. If a State is delaying ESSA implementation or has not yet identified schools in need of comprehensive support and improvement or targeted support and improvement, we will target (i) schools that have been identified for improvement, corrective action, or restructuring under Title I of ESEA, as amended by the No Child Left Behind Act (NCLB) of 2001 or (ii) schools identified as a priority or focus school by the State prior to August 1, 2016 under ESEA flexibility.

We will target our financing and technical assistance to cities and communities where LISC has an on-the-ground presence. LISC has 29 local offices around the country, and a Rural program to cover areas outside our local office reach. Data, shown below, on our targeted

communities illustrates the distressed nature and clear educational needs that meet this competitive priority inherent in where LISC works (see Attachment 17 for LISC offices).

LISC Local Office	Public School District of LISC Local Office location	Districts Identified as a focus district by the State prior to 8/1/2016 under ESEA Flexibility	Number of public schools in the public school district designated as focus or priority schools by the State prior to 8/1/2016 under ESEA Flexibility or under ESEA, as amended by NCLB
Los Angeles, CA	Los Angeles Unified School District	Yes	651
San Diego, CA	San Diego Unified School District	Yes	154
San Francisco, CA	San Francisco Unified School District	Yes	48
Hartford, CT	Hartford School District	Yes	21
Jacksonville, FL	Duval County Public Schools	N/D	35
Atlanta, GA	Atlanta Public School District	N/D	19
Chicago, IL	City of Chicago School District 299	N/D	442
Peoria, IL	Peoria School District 150	N/D	16
Indianapolis, IN	Indianapolis School District	N/D	41
Boston, MA	Boston School District	N/D	47
Detroit, MI	Detroit City School District	N/D	23
Flint, MI	Flint City School District	N/D	2
Kalamazoo, MI	Kalamazoo Public School District	N/D	15
Duluth, MN	Duluth School District	N/D	1
Minneapolis, St. Paul	Minneapolis St. Paul School District	N/D	62 [^]
Kansas City, MO	Kansas City 33 School District	N/D	20
Newark, NJ	Newark Public School District	N/D	28
Buffalo, NY	Buffalo City School District	Yes	43
New York, NY	NYC Community School Districts 1-32	Yes	302
Cincinnati, OH	Cincinnati City School District	Yes	16
Toledo, OH	Toledo City School District	Yes	24
Philadelphia, PA	Philadelphia City School District	N/D	105
Providence, RI	Providence School District	N/D	14
Houston, TX	Houston Independent School District	N/D	77
San Antonio, TX	San Antonio Independent School District	N/D	41
Richmond, VA	Richmond City Public School District	N/D	14
Seattle, WA	Seattle Public School District	Yes	34
Washington, DC	District of Columbia Public School District	N/D	47
Milwaukee, WI	Milwaukee School District	Yes	84
		Total	2426

Data Source: <https://ed.gov/admins/lead/account/consolidated/sy14-15part2/index.html>

N/D: Focus Districts Not Defined

[^]: Schools in Minneapolis and St. Paul Public School Districts Combined

Districts or Communities in which a Large Proportion of Students Perform Poorly on State

Academic Assessments. We will target schools that recruit or plan to recruit students from a

geographic area in which a large proportion of students do not meet proficiency on state

academic assessments. Our staff uses publicly available State Academic Assessment data to

analyze the academic performance of the charter school and compare it with other public schools

within the geographic area. A recent report to the Walton Family Foundation showed that 80% of LISC's historical charter school financings were for schools located in a district where average ELA and Math proficiency was less than 50%, (see Attachment 14 for an excerpt of the most recent academic scan of LISC's charter school portfolio).

Communities with Large Proportions of Low-Income Students. This criteria addresses whether the anticipated or actual student population includes a majority of students identified as economically disadvantaged or qualified to receive free- or reduced-priced lunch (FRL, a standard measure of low-income status). We have identified low-income individuals and communities as our target demographic in LISC's mission statement: "Working with private and public sector partners, LISC seeks to forge resilient and inclusive communities of opportunity in urban and rural communities across America – great places to live, work, visit, do business and raise families. We provide low-cost loan capital, grant support, training and technical assistance that improves the quality of life of low-income individuals throughout the country." Individual neighborhoods LISC serves often see poverty rates of more than three times the national average.

Since our first charter school financing in 1997, LISC has historically lent primarily to charter schools that enroll or will enroll a large proportion of students from low-income areas. LISC as a whole and its Charter School Financing group in particular have an excellent track record and mission commitment to serving communities with the greatest needs, aligned with the competitive priorities listed above. The average FRL population of schools in LISC's outstanding portfolio is approximately 80%. A recent report to the Walton Family Foundation showed 86% of LISC's historical financings were for schools serving at least a 50% FRL population (see Attachment 14). One hundred percent of the schools in our immediate pipeline are in communities with the greatest need for public school choice as mandated by NCLB or

under ESEA flexibility (see Attachment 15).

POTENTIAL CONTRIBUTION OF THE PROPOSED GRANT PROJECT TO ACHIEVING THE PURPOSE OF THE CREDIT ENHANCEMENT FOR CHARTER SCHOOL FACILITIES PROGRAM

A. QUALITY OF PROJECT DESIGN AND POTENTIAL SIGNIFICANCE OF THE PROJECT.

LISC used a grant from the Walton Family Foundation to establish a dedicated Educational Facilities Financing Center in 2003 and intensify our charter school facilities financing initiatives. The Educational Facilities Financing Center, which was renamed LISC Charter School Financing in 2016, has received four grants totaling \$41.4 million through the Credit Enhancement for Charter School Facilities Grants Program (CEP), in 2003, 2006, 2009 and 2011. LISC has successfully deployed these awards through a combination of direct lending and guarantee funds serving distinct purposes based on prevailing market needs.

LISC has used our work in the sector over the past 20 years, our experience implementing past ED grants and ongoing outreach to schools and other stakeholders to gain significant insight into the sector. LISC will use the requested CEP grant to launch the SchoolBuild Capital Fund (SchoolBuild Capital Fund, or the Fund), which will expand on the success of LISC's prior CEP-enhanced direct lending funds, with two key innovations that directly support the purpose of the CEP program. First, LISC will employ its Standard & Poor's (S&P) 'AA' credit rating to access the bond market on behalf of charter schools (the LISC SchoolBuild Bond, or SchoolBuild Bond), creating a new, sustainable source of capital for charter school facilities. Second, in addition to expanding access to capital (both by leveraging a new source of capital and by creatively financing projects that don't meet traditional underwriting standards), the SchoolBuild Capital Fund will lower the cost of capital for charter school facilities projects. The Fund will accomplish this through several complimentary strategies: (1) using shorter-term and correspondingly lower-cost capital from LISC's balance

sheet to provide the lowest possible rate to schools for all loans, including mini-permanent and permanent loans; (2) issuing one or more SchoolBuild Bonds, backed by CEP grant and priced based on LISC's strong 'AA' credit rating, to refinance the short-term sources of capital, thus freeing up those lower-cost sources to make additional loans to more schools; and 3) utilizing the CEP grant to improve the risk rating of charter school loans through the SchoolBuild Capital Fund, resulting in a 50-100 basis point reduction in LISC's standard pricing for loans.

Despite record activity in the charter school bond market and strides in access to financing in some states, many charter schools still struggle to access affordable financing to acquire and develop facilities. Bank credit criteria is stringent, with maximum loan-to-values (LTV) of 65-75% and a continued preference for financing CMOs. Recent data on charter school bond issuance produced by market expert Wendy Berry of NewOak Capital indicates a continued trend toward CMO issuances, larger transaction sizes (average of \$22.7 million), and continued concentration in a handful of states (with the top 5 states accounting for 60% of total issuance). This leaves an access gap for early-stage schools (i.e. ≤ 3 years in operation and/or not yet at full enrollment), independent (non-CMO) schools including single-site schools and early-stage replications, schools with smaller financing needs than can attract competitive rates from investors, schools operating in states with limited track record and infrastructure for charter school bonds, and schools that otherwise don't meet bank and bond underwriting criteria. Within the past two years, LISC has seen increasing numbers of financing requests, primarily for 90-100% LTV mortgage and leasehold improvements loans, and primarily from independent schools undertaking their first or second facilities project. Financing these schools – many of which are serving traditionally underserved students and closing the achievement gap for these students – is a role that LISC and other non-profit capital providers have played since the

beginning of the charter school movement and is an ongoing need we will address with the SchoolBuild Capital Fund.

The proposed SchoolBuild Capital Fund explicitly addresses current market needs. The \$12 million request from ED would create a \$60 million fund that would lend directly to charter schools that lack access to bank and bond financing, or for whom bank or bond financing is cost-prohibitive. SchoolBuild Capital Fund will help leverage a total of \$150 million in financing for 30 charter schools over two phases. First, the credit enhancement will leverage existing LISC shorter-term capital sources such as bank loans and foundation PRIs to facilitate private lending to charter schools on flexible, favorable terms. Based on our recent projects and pipeline, we anticipate that at least 70% of the loans originated during this first phase of the fund will carry some form of heightened interim risk such as construction risk, enrollment risk (i.e. schools that are not fully-enrolled at the time of financing) or charter contract risk (i.e. schools that have not yet earned their first renewal or projects that depend on approval of new seats or grades to meet debt service obligations). Second, once these interim risks for the portfolio have been mitigated, LISC will use its strong credit rating to access longer-term financing from the capital markets on behalf of schools. By tapping the bond market via a ‘AA’ rated borrower and with the backing of the CEP grant as a first-loss reserve, LISC will be able to offer more schools access to financing on better terms than those schools could otherwise access directly.

The SchoolBuild Capital Fund is designed to address several other challenges and constraints expressed by the school leaders that LISC interacts with regularly as part of its technical assistance and financing activities. First, SchoolBuild Capital Fund is a one-stop shop from the school’s perspective. Schools go through one underwriting process and one closing, often with a single loan that supports construction and then converts to longer-term financing.

This single closing lowers costs and mitigates interest rate risk for schools. Rather than assuming short term construction debt that must be refinanced in one or two years at future market rates, the school can lock in longer-term, fixed interest rates at construction closing. LISC will use a hedging strategy (which it has successfully used in other specialized portfolios, such as the U.S. Department of Treasury Bond Guarantee Program) to offer fixed interest rate loans so that schools have known, fixed debt service obligations upon the initial, single closing. (The repayment of the original LISC capital sources with the bond proceeds will be seamless and invisible to borrowers.) Another advantage of this warehousing model is that LISC will be able to offer fixed rate, often long-term capital without prepayment penalties, which is a unique offering in the market and important for growing schools and networks that may be ready to access the bond market directly based on their own credit strength at some point in the future.

The Fund will offer a range of loan products including acquisition loans (typically up to 2 year term), construction-to-mini-permanent loans (5- to 10-year term) and permanent loans (up to 20 years). Based on our lending experience, we assumed that projects have an average financing need of \$4 million. Credit enhancement levels may vary based on the risk profile of each transaction (i.e., mortgage versus leasehold improvement loan, LTV, financial strength of borrower, etc.) but is assumed to average 20% of capital provided, which will be available on a pooled first-loss basis for all loans in the Fund. Our model projects providing 30 loans over the 10-year project period: five transactions annually for the first three years, then a hiatus on loan originations while we focus efforts on the bond offering in or around Year 4, then resuming origination of new loans using recycled capital and recycled credit enhancement funds with five transactions each in Years 6, 7 and 8 of the Fund. According to our model, the Fund will provide \$60 million in direct lending across thirty transactions which will leverage a total of \$150 million

in financing, resulting in 12.5:1 leverage of the ED grant.

1) Financing for Charter Schools at Better Rates and Terms. While LISC has a long history of using credit enhancement to create access to financing for charter schools deemed too risky by conventional lenders, offering better rates and flexible terms to keep schools' facility burden as low as possible is a driving force behind the design of the SchoolBuild Capital Fund. Based on LISC's charter school portfolio experience, we believe that some elements of perceived heightened risk – such as leasehold improvement loans, 90-100% LTV loans, and loans to independent schools – do not translate into higher defaults. With SchoolBuild Capital Fund, we intend to finance both perceived high-risk credits such as 100% LTV loans as well as stronger credits, and use the pooled ED grant funds to achieve lower interest rates on all transactions.

LISC recently transitioned to a risk-based pricing framework for all of its loans, laying the groundwork for this prospective credit enhancement grant award to be used to lower the risk rating of charter school loans and consequently lower the rate we can offer to schools. Based primarily on the weak collateral typical of charter school loans (whether related to high LTVs or limited repositioning options given the special-use nature of school facilities), most charter school loans initially risk-rate a [REDACTED], which corresponds to interest rates ranging from [REDACTED]. Contingent on a new credit enhancement award, all loans credit enhanced through the SchoolBuild Capital Fund will receive a “bump” into the next strongest credit category – from [REDACTED] to [REDACTED] – resulting in an interest rate range of [REDACTED]. This will result in a 50-100 basis point reduction for all loans, not just the stronger credits. These reduced rates are not only better than what LISC would be able to offer absent a credit enhancement grant; they also compare favorably to market rates which are 6-7% among most non-profit financing organizations. We view non-profit

financing organizations as the most appropriate comparison given that many of these loans will not meet bank underwriting criteria. If these schools could access the bond market at all, they would be priced as high-yield bonds with rates ranging from 6.5-10%, based on LISC's market research and input from charter school bond market experts such as [REDACTED] at [REDACTED], the largest underwriter of charter school bonds over the past few years.

LISC will also use a new credit enhancement grant to continue offering flexible, advantageous terms beyond what LISC's underwriting criteria dictate in the absence of credit enhancement. Examples of flexible terms include: extended interest-only periods of up to two years tied not only to construction completion but also to enrollment growth and available cash flow; long amortizations of up to 25 years for mini-perm loans (compared to standard bank amortizations of 15 years); staggered amortizations that mirror enrollment ramp-up or other dynamics ([REDACTED]) – a term rarely if ever offered by banks or bond investors; up to 100% LTV and otherwise limited collateral loans (such as loans for modular buildings and leasehold improvement loans), and long-term fixed rate debt without prepayment penalties. This last feature is something many schools we consulted with in designing the SchoolBuild Capital Fund mentioned as critical to their future growth and not currently offered by conventional lenders. Attachment 35 provides a comparison of market rates and terms for the three main categories of capital providers: Community Development Financial Institutions (CDFIs), banks and the bond market.

As described above, the proposed credit enhancement will be used in two phases, first to buy down the rate that LISC would otherwise charge given its existing sources of capital, and second to leverage capital market financing at the lowest possible rate given the backing of a

pool of credit enhancement. The two-phased nature of the model also helps reduce aggregate costs through the ability to tap lower interest rate debt for the shorter, warehouse period, and provide stronger, seasoned credits that will benefit from lower rates during the permanent period as well. LISC anticipates that bond investors will find the additional credit enhancement as a risk mitigant and a credit strength, regardless of the offering strategy. If LISC chooses to issue a general obligation bond, the CEP grant funds will bolster LISC's balance sheet and improve its credit worthiness. If the choice is made to issue through an off-balance sheet vehicle, the ED grant will be a crucial component and risk mitigant, providing security beyond the collateral securing the individual loans.

2) *Project Goals, Objectives and Timeline.* The proposed grant project will be driven by five goals and related measurable objectives.

Goal #1: Continue LISC's institutional commitment to increasing the high-quality educational opportunities available to the communities and students most in need of educational choices.

Measurable Objective:

1) Ninety five percent of charter schools receiving assistance through the SchoolBuild Capital Fund will meet one of the following criteria: a) be located in school districts in which a large number of schools have been identified as in need of improvement, corrective action or restructuring, or as priority or focus schools, under NCLB, ESSA or ESEA flexibility (depending on the status of ESSA implementation in that state); b) be located in school districts where less than 50% of students are proficient on state academic assessments; or c) serve at least 50% low-income students, defined by eligibility for free- or reduced-price lunch (FRL).

Goal #2: Provide credit enhancements to charter schools that facilitate access to financing for a

diverse set of schools and encourage flexibility in financing uses.

Measurable Objectives:

- 1) Provide credit enhancements to both early-stage and established schools and for a wide variety of facility needs (predevelopment, leasehold improvements, construction, etc.). At least 60% of SchoolBuild Capital Fund loans will support limited collateral projects (i.e., > 90% LTV, leasehold improvements, modular buildings) and other higher-risk profiles such as schools that are not yet fully enrolled, to ensure that charter schools are not hamstrung by traditional underwriting criteria that preclude these “riskier” projects.
- 2) Support ED grant funds with other resources, including NMTCs, technical assistance and the Educational Seed Grant Fund (Seed Fund), a legacy grant fund that makes technical assistance and facilities planning grants and predevelopment recoverable grants. LISC will allocate \$450,000 from the Seed Fund to facilities planning and predevelopment grants to facilitate exploration of the full range of real estate and financing strategies for schools served by the SchoolBuild Capital Fund.
- 3) Provide flexibility with loan terms to allow charter schools fiscal autonomy over their operating budgets. LISC will document the percentage of revenue dedicated to facilities debt (or leases) for each project. While sustainable and attainable percentages vary by market based on operating and capital funding and real estate costs, LISC will target an average “facilities burden” of less than 20% across the SchoolBuild Capital Fund portfolio. LISC will provide technical assistance and may provide Seed Fund grant funding to help schools rethink projects that place an outside burden on school operating budgets.

Goal #3: Leverage ED funds with new and additional sources of private capital, with an emphasis on leveraging the lowest-cost capital available through innovative capital market and

treasury strategies.

Measurable Objectives:

- 1) Capitalize the SchoolBuild Capital Fund with \$60 million in loan capital over three years, in order to meet immediate financing needs and build a portfolio for a SchoolBuild Bond offering. The \$60 million in SchoolBuild Capital Fund financing will further leverage \$150 million in capital, resulting in 12.5:1 leverage of the CEP grant.
- 2) Execute an innovative, if not first-of-its-kind, charter school bond offering of up to \$60 million. LISC successfully raised \$100 million via the first-ever general obligation public offering of a Community Development Financial Institution (CDFI) in March 2017. LISC will leverage this experience and its 'AA' rating from S&P to position the SchoolBuild Capital Fund for a successful future SchoolBuild Bond offering. LISC will explore all strategies to reduce the cost of capital and pass those savings on to charter schools, including potentially a taxable or tax-exempt bond offering, a LISC private placement, an offering based on the credit of an off-balance sheet entity consisting of the portfolio of SchoolBuild Capital Fund loans and enhanced with the CEP grant, or other options that would be attractive given market conditions at the time of the offering. (It should be noted that the bond offering may be for less than the full \$60 million originated depending on the size and composition of the portfolio at the time of the offering, i.e. if some loans have repaid or have imminent maturities. Based on the assumptions in our model, we anticipate the offering will be in the \$40-\$60 million range.)

Goal #4: Preserve ED grant funds by utilizing rigorous underwriting processes while leveraging the funds to address immediate credit needs for the maximum number of schools.

Measurable Objectives:

- 1) Generate a diverse pipeline by leveraging relationships with a variety of partners, including private funders, charter support organizations, authorizers, harbormasters, school leadership training programs, real estate developers and CMOs. LISC will maintain a pipeline of at least ten projects totaling \$40 million in financing requests at all times.
- 2) Maintain a loan loss rate for charter schools of 2% or less.

Goal #5: Document and disseminate findings on the SchoolBuild Capital Fund and the LISC SchoolBuild Bond to a wide variety of charter schools and stakeholders.

Measurable Objectives:

- 1) Present findings regarding the process of developing the SchoolBuild Capital Fund and the LISC SchoolBuild Bond, including leveraging the CEP grant, at events and via industry coalitions (e.g., the National Association of Charter School Authorizers, ED-sponsored events, the National Charter Schools Conference, the Charter School Lenders' Coalition). LISC will present at industry events at least once per year and will target 60 participants for each presentation, reaching a projected 600 stakeholders directly over a ten-year period. LISC presentations will be published on *SchoolBuild: From Idea to Construction* (*SchoolBuild*), our award-winning online portal to help school leaders plan and finance facilities projects, to reach a wider audience (see Attachment 24).
- 2) Incorporate resources and data specific to the CEP into a new module on *SchoolBuild*. Continue to update and market *SchoolBuild* to reach 12,000 page-views annually.
- 3) Provide technical assistance on real estate development strategy, project affordability, and financing options to 90 schools via *SchoolBuild* workshops and *SchoolBuild* "Help Desk" hours (average of 2 hours bi-weekly for 50 weeks over a 10-year period = 1,040 hours of technical assistance).

Implementation could begin immediately. Key personnel positions in LISC’s Charter School Financing group are staffed and demand for financing is strong. LISC scanned the charter school community through our many relationships and identified 15 projects totaling \$82 million that are in need of financing. The table below presents an implementation and deployment plan for the 10-year program period, during which LISC will provide a cumulative total of \$120 million in financing leveraging \$150 million in private sector capital to serve thirty schools, resulting in 12.5:1 leverage of the CEP grant and the creation of 12,000 seats at high-quality charter schools across the country.

Activity/Task	Target Completion Date
Grant Administration	
Establish reserve account for ED award	Within one month of award
Execute ED award grant performance agreement	Within four months of award
Submit Annual Performance Reports to ED	Annually
Capitalization	
Capitalize \$20 million in loan capital for SchoolBuild Capital Fund	Within four months of award
Allocate \$450,000 from LISC SEED Grant Fund to SchoolBuild Capital Fund	Within four months of award
Capitalize additional \$40 million in loan capital for SchoolBuild Capital Fund	Years 2-3
→ \$60 million capitalized for SchoolBuild Capital Fund	Cumulative, by Year 3
Issue LISC Charter School Facilities Bond	Year 4
Repay initial capital sources with bond proceeds	Year 4
Re-capitalize \$20 million annually in loan capital for SchoolBuild Capital Fund	Years 5-7
→ \$60 million recapitalized for SchoolBuild Capital Fund	Cumulative, by Year 8
Financing Activities	
Implement Needs Index-based targeting for all incoming loan requests	Immediately
Implement adjusted risk-based pricing policy for loans benefitting from ED grant	Within four months of award
Finance five schools annually with \$20 million leveraging at least \$25 million	Years 1-3
→ Finance a total of 15 schools with \$60 million leveraging at least \$75 million	Cumulative, by Year 3
Deploy \$225,000 in LISC Seed Fund grants	Cumulative, by Year 4
Begin recycling credit enhancement funds as Year 1-3 loans mature	Year 6
Finance five schools annually with \$20 million leveraging at least \$25 million	Years 6-8
→ Finance 15 additional schools with \$60 million leveraging at least \$75 million	Cumulative, by Year 10
Deploy an additional \$225,000 in LISC Seed Fund grants to additional schools	Cumulative, by Year 10
Technical Assistance & Dissemination	
Market and provide technical assistance to schools with SchoolBuild	Immediate and ongoing
Present sessions/workshops on SchoolBuild modules at industry conferences	Immediate and ongoing
Develop and publish a module on CEP for SchoolBuild	Year 5

3) *Likelihood that the Grant Project will Achieve Measurable Objectives that Further Program Purposes.* Based on LISC’s 39-year history of leveraging private-sector capital, successful deployment of \$41 million of prior CEP grants over the past fifteen years, and input from

schools and capital markets stakeholders such as bond underwriters ([REDACTED] [REDACTED]) and banks ([REDACTED]) – please refer to Attachment 16 for all letters of support), SchoolBuild Capital Fund has an extremely high likelihood of success. LISC has the capital on hand for the initial capitalization of the Fund via existing investors and funders such as [REDACTED] [REDACTED]. LISC successfully raised \$100 million via the first-ever initial public offering of a Community Development Financial Institution bond in March 2017. Our ‘AA’ rating from S&P positions us for a successful future LISC SchoolBuild Bond offering. We have a robust pipeline with a diversity of schools and project needs spanning educationally underserved urban districts across the country (see Attachment 17).

LISC has set measurable and attainable goals that advance the mutually-reinforcing purposes of ESEA, as amended by ESSA, and the CEP. Specifically, the SchoolBuild Capital Fund will leverage \$150 million for charter school facilities financing in communities with the greatest need for school choice (as described more fully in the Competitive Preference Priority section). LISC will track the number of schools assisted, the terms under which they receive financing, the socio-economic and student achievement data of the populations and geographic areas from which the charter schools pull, and compare it to existing public school options in each charter school’s respective district. LISC Charter School Financing’s dedicated operations and asset management staff will replicate the extensive monitoring and documentation procedures developed for past ED grants.

Although LISC will implement the grant project independently, we will rely heavily on our official and unofficial *SchoolBuild* partners to carry out the technical assistance and dissemination activities we propose to undertake. Our official partners for *SchoolBuild* include

the National Alliance for Public Charter Schools (NAPCS), Capital Impact Partners and the Charter School Growth Fund. NAPCS, our official marketing partner, has national reach and convening power and is highly engaged in promoting SchoolBuild among the charter school community, which will ensure demand for SchoolBuild Capital Fund financing, deliver technical assistance to the sector at an unprecedented scale, and provide a venue to disseminate the planned new SchoolBuild module featuring CEP.

LISC's on-the-ground presence in the cities we will target based on the Competitive Preference Priority will also support implementation of the CEP grant. We have experienced program, lending, and monitoring and evaluation staff that will help generate pipeline, deliver technical assistance (including connecting schools to other LISC programs and resources), and maintain relationships with our borrowers to ensure continued programmatic quality and repayment capacity and minimize loan losses.

4) Likelihood of Producing Replicable Results. LISC has a longstanding commitment to promoting transparency and replication of best practices in the charter school facility financing sector, exemplified by its *Landscape* and *Charter School Bond Issuance* series and more recently with *SchoolBuild*. For example, LISC's pioneering work establishing a correlation between charter school bond defaults and weak academic performance in the 2012 bond study (See Attachments 18a-c) resulted in lenders ranging from fellow nonprofits to bond investors incorporating academic quality screening into their investment criteria. SchoolBuild provides a dynamic platform for disseminating key lessons from the grant project to increase access to funding for more schools.

Two elements in particular have the potential to be replicated. First, LISC's new Needs Index (see Attachment 13), developed for this application and currently being piloted, can be

replicated to maximize CEP resources going to schools and communities with the greatest need for school choice. Further, combined with detailed portfolio monitoring data, we expect to demonstrate that schools in distressed communities, serving high-need populations and contending with more challenged facility and financing access environments are viable investments. Second, the LISC SchoolBuild Bond (whereby LISC will issue a bond using its credit rating and the backing of the ED grant, recapitalize its portfolio with bond proceeds, and then re-lend to additional schools using flexible low-cost sources of capital) can be replicated over time and by other credit enhancement program grantees. LISC will demonstrate that the ED grant can be leveraged to access the bond market on behalf of schools and in turn provide better rates and terms to schools (i.e., because investors will accept lower rates of return given the backing of the ED grant and/or because schools are not required to borrow for large debt service reserves as they would be absent the ED grant).

5) Criteria for Selecting Charter Schools to Receive Assistance. LISC's Charter School Financing group has developed a new tool to target assistance to schools and communities with the greatest need for support based on a comprehensive Needs Index (see Attachment 13). The Needs Index builds on our current selection criteria (academically high-performing schools serving low-income students and communities) by adding additional targeting criteria related to the need for quality school options and the relative strength or weakness of facility and financing access in the school's operating environment or based on its credit profile. Schools operating in states and localities where there is no access to district buildings, or no statewide issuer to access the bond market, for example, will receive higher scores on the Needs Index. LISC will target and prioritize these schools for support. This targeting closely aligns with LISC's overarching mission of serving low-income communities and filling gaps in access to capital. Every charter

school served must also meet at least one of the following criteria: (i) the definition of a “charter school” as defined in ESEA, as amended by ESSA, as required by ED for participation in the Credit Enhancement Program; or (ii) a CMO that establishes and manages charter schools as defined in clause (i).

Once projects are prioritized based on demonstrated need, LISC undertakes a rigorous due diligence and underwriting process for each transaction. (Please refer to Business and Organizational Capacity for a description of LISC’s underwriting process and criteria.)

LISC will tailor the type and amount of financing and credit enhancement to the specific needs of individual schools. While most schools approaching LISC for financing have already identified their needs (i.e. new construction, leasehold improvements, refinancing debt) and have a rough estimate of total development costs, LISC works closely with each borrower to vet the project fundamentals and structure a loan amount and terms that best support that school’s immediate and long-term needs. For example, a school that plans to issue a bond in the future to refinance maturing debt from a prior project may be better-served by a short-term-loan with a reduced interest rate and a balloon payment, rather than a standard seven-year amortizing loan. Schools that approach LISC without these basic elements of a plan are referred to *SchoolBuild* and are good candidates for Seed Fund grants to plan and optimize their facility strategy.

LISC’s dedicated charter school underwriters are highly skilled at sizing loans to ensure affordability to the school and thus repayment to LISC. We approach loan sizing from two primary angles: 1) an affordable facilities burden of no more than 20% of recurring public revenue and 2) a debt service coverage ratio of at least 1.15x. While calculating the debt service coverage ratio requires full underwriting of a school’s pro forma, we use the SchoolBuild Project Cost and Affordability Calculator to screen for outsized projects. The calculator takes a series of

simple inputs to determine how much a school can reasonably afford to pay in annual debt service without cannibalizing its instructional budget, and then multiplies this “affordable annual debt service” by a “multiplier” that calculates how much principal this affordable annual debt service can support on given terms (see Attachment 19).

The amount of credit enhancement allocated to each transaction will vary based on risk profile. We will target an average credit enhancement level of 20% of the financing amount across the portfolio of loans. Examples of cases where LISC might deploy more than 20% of the financing amount for a given transaction include financings that *exceed* 100% loan-to-value or transactions in which LISC is subordinate in lien or payment priority. LISC’s Charter School Financing staff will continue to work closely with the Senior Vice President of Lending and other members of LISC’s Credit Committee to ensure that we are stretching the credit enhancement to support as many schools and leverage as much capital as possible while preserving our ability to offer better rates and more flexible terms.

6) Leverage of Private and Public Sector Funding and Increased Assistance to More Schools.

LISC will use a \$12 million CEP grant to directly leverage \$60 million in private sector capital, which will further leverage \$75 million in total financing for fifteen schools within the first four years of the project period. Based on an average loan term of seven years, LISC expects to deploy an additional \$60 million in direct financing and \$75 million in total financing to fifteen more schools in Years 6-10, resulting in total LISC financing of \$120 million and total financing leveraged of \$150 million, or 12.5:1 leverage, over a 10-year period. For purposes of calculating total financing leveraged, our model assumes that LISC financing will amount to 80% of the financing need, on average. It is worth noting that although averages are useful for modeling purposes, it is more likely that LISC will finance 100% of project costs in some transactions and

a much smaller percentage in others, such as when we make leveraged loans into New Markets Tax Credit structures for larger projects.

Beyond the amount of private funding we will leverage with a CEP award, LISC will pioneer a new model for accessing the mainstream capital markets on behalf of schools via the LISC SchoolBuild Bond. With \$92 trillion in bond markets around the world, this represents a sustainable and effectively unlimited pool of capital that can be tapped at any time and serve as a model for addressing charter school facilities needs.

The majority (70%) of the \$120 million in financing will be targeted to schools that face obstacles accessing facilities financing due to their early-stage nature, smaller enrollment sizes, limited collateral due to depressed real estate values in low-income communities, and other risk factors. LISC has a long track record of serving this segment of the market, made possible by our prior CEP grant awards. Without credit enhancement, our loans would be capped at 90% LTV and we would primarily serve established CMOs that meet LISC's standard financial ratio benchmarks such as 90 days cash on hand, which few if any independent schools can meet. We will use our Seed Fund grant resources, of which \$450,000 has been set aside to support this project, to make small facilities planning grants to ensure that community-based schools get the planning support they need to bring projects to fruition that can then be financed through the Fund, thereby increasing the number and variety of schools we can support.

For example, we recently closed a Seed Fund grant to [REDACTED], a small independent high school with a niche mission and successful track record of preparing low-income students [REDACTED]. [REDACTED] is using the grant to prepare a facilities master plan to relocate the school from the campus it has outgrown into a permanent home that supports its future growth. This school has benefitted from direct technical assistance from LISC

staff (always provided at no cost), has used SchoolBuild to research real estate development and financing options and estimate project costs, is now using the Seed Fund grant to take its planning to the next level, and will be a prime candidate for financing through SchoolBuild Capital Fund within the next 12 months. Although this school hasn't benefitted from credit enhancement yet, due to its credit profile as a small independent school with planned enrollment growth and the limited equity it can put into the project, [REDACTED] would not have access to financing but for the credit enhancement.

7) Serving Charter Schools in States with Strong Charter Laws. In conjunction with our criteria for selecting schools with the greatest needs, the SchoolBuild Capital Fund will serve and prioritize charter schools in states that: 1) have multiple authorizers or a strong appeals process; 2) ensure charters schools have facilities funding assistance or access, as outlined in section 4303(g)(2) of the ESEA, as amended by the ESSA; 3) use best practices from charter schools to help improve struggling schools and LEAs; 4) support charter schools that serve at-risk students; and 5) ensure that all authorizers implement best practices for charter school authorizing.

These criteria will be evaluated in a number of ways. The first is to determine whether or not the State is a grant recipient of State Improvement Grants. Since this Federal program must give preference to states that fulfill these criteria, these recipients have already been deemed acceptable to ED and aligned with the priority criteria in section 4303(g)(2) of the ESEA as amended by ESSA, and committed to the goals of ESSA. Every State where LISC has a local office has received a State Improvement Grant to date.

The other methods of evaluation are to refer to The Center for Education Reform and the National Alliance for Public Charter Schools' State Charter Law Rankings (see Attachment 34). Both rankings assess states' public school laws using indicators such as transparency in appeals

and renewals, fiscally and legally autonomous schools, clear admissions policies, accountability systems, variety of authorizers, equitable operational funding, access to facilities, and more. In conjunction with the State Rankings, LISC will also use The Health of the Public Charter School Movement, an evaluation of the strength of each State's charter public school law using more output data. Indicators used include growth metrics, innovation, and quality.

Our experience indicates that in most but not all cases, states with the strongest laws and strongest authorizers tend to produce the most successful schools; therefore, our analysis of a potential charter school borrower will also include a market overview of the charter landscape, charter appeals process, monitoring process and oversight provided by authorizer, year law passed, political environment, growth obstacles, public funding, demographic comparison of charter school to district schools, and performance of district schools in the region.

8) Reasonableness of Grant Amount. LISC's \$12 million request is reasonable because it will maximize the amount of money leveraged to directly assist charter schools across the country. The grant project has broad national significance because it will pilot a new mechanism for accessing the capital markets which can be replicated by other CEP grantees and also serve as a model on which new State credit enhancement programs could be built. Currently there are only nine states with credit enhancement programs such as moral obligation provisions.

Program administration costs will be supported by the 2.5% administrative cost allowance from the CEP award, grant funding from [REDACTED] (raised in 2011 and being spent over time), and interest income earned on LISC's charter school loans. See Attachment 1 for Table 1 – Non-Grant Funds Projected to be Generated, and Table 3 – Budget Form: Grant Funds Expenditures (see Budget Narrative Attachment 2).

A 10-year financial projection has been developed for the SchoolBuild Capital Fund (see

Attachment 9 for the Cash Flow Pro Forma). Key assumptions are outlined below.

Timing: Our model assumes that the SchoolBuild Capital Fund will make five loans per year in each of the first three years (assumed to be full 12-month periods). In Year 4, LISC will issue the SchoolBuild Bond, the proceeds of which will repay the original short-term capital sources which will then be recycled to make an additional five loans per year in Years 6, 7 and 8, for a total of thirty loans over a 10-year period. For modeling purposes we assume a pause in originations during Years 4 and 5 and again in Years 9 and 10 while we focus efforts on the bond offering strategy and execution. While the original capital will be recycled with proceeds from the SchoolBuild Bond in Year 4, the credit enhancement will remain in place on the individual loans until those loans mature. Based on an average loan term of seven years, we anticipate that the credit enhancement will be recycled at least once over a 10-year period on average.

Level of Credit Enhancement: Our model assumes an average 20% enhancement level. Based on our experience, the 20% enhancement level is sufficient to mitigate risk and facilitate financing for “riskier” projects, as well as adequate to favorably impact pricing (both the internal pricing of LISC’s capital and the pricing for the SchoolBuild Bond).

Size of Projects: The average size of SchoolBuild Capital Fund loans is \$4 million based on LISC’s historical average for charter school loans and our current pipeline (in which the average loan size is \$5.4 million, though skewed by several particularly large projects).

Project Loan Interest Rates and Other Terms: We assume an average interest rate of 5.75% based on LISC’s pricing framework, adjusted based on the availability of credit enhancement as previously described. We assume an average loan term of seven years and a 20-year amortization period based on our lending experience. While a sustained change in prevailing interest rates could result in adjustments to LISC’s standard pricing, LISC, and therefore its

borrowers, are largely insulated from rate fluctuations as a result of our 2017 bond offering, which replaced almost \$100 million in variable-rate loans to LISC with \$100 million in fixed-rate debt in a low interest-rate environment. Additionally, all of our loans have fixed interest rates, further insulating our borrowers from interest rate risk.

Fees: Our model assumes legal fees charged to schools will total approximately \$10,000 per transaction, collected at the time of closing. A standard origination fee of 1% of the loan amount will also be collected at closing.

Investment of Funds in the Reserve Account: Grant funds from ED will be placed in a reserve account and invested in a blend of short- and medium-term U.S. government-backed securities at an assumed rate of 1%. All interest earned on the reserve account will be reinvested.

Loan Loss: Our model assumes a 0.5% annual loan loss. We believe this is reasonable given that the historical net loan loss rate for LISC's overall portfolio is less than 2% and our annual loan loss rate for charter school loans is 0.29%.

B. QUALITY OF PROJECT SERVICES.

1) Proposed Services Reflect Identified Needs of Charter Schools. Charter school facilities financing options have expanded significantly in the 27 years since the first charter law was passed, but they are still limited. The 2012 *Landscape* reveals that only 13 of the 43 jurisdictions with a charter law provide a per pupil funding stream specifically for facilities; only three provide such funding at a level of \$1000 or more. This data point conveys the critical importance of lowering the cost of capital and flexible structuring to keep schools' operating dollars 'in the classroom' as opposed to going towards debt repayment.

LISC has gained significant insight into the financing needs of charter schools over its twenty years of charter school lending and daily interactions with charter schools across the

country. The SchoolBuild Capital Fund was designed based on needs and pressure points identified by schools, such as the need for higher loan-to-value financing to preserve limited equity, longer amortization periods to make debt service more affordable, and flexibility in reserve requirements to avoid borrowing for large debt service reserves as is required by bond investors.

Schools also need and deserve fixed interest-rate debt, particularly given the relatively static nature of their primary revenue source, per pupil funding. Unlike businesses which can raise prices to cover increased debt service obligations when interest rates rise, schools have few if any levers to increase revenue. The SchoolBuild Capital Fund will directly address a commonly-expressed need for fixed-rate debt which is especially valuable in today's low interest rate environment.

2) Charter School and Chartering Agency Involvement in and Support for Grant Project. LISC surveyed our contacts at charter schools, CMOs and member associations such as [REDACTED] [REDACTED] to involve them in the design of this grant project. LISC has secured letters of support (Attachment 16) from multiple schools spanning single-site independent schools such as [REDACTED], to large regional CMOs such as [REDACTED]. Input regarding the specific needs of charter schools is continually collected through our technical assistance work including *SchoolBuild* "Help Desk" hours.

3) Strategies to Ensure that Financing Services and Technical Assistance are Cost Effective. The two-phased nature of the SchoolBuild Capital Fund is designed specifically to reduce aggregate financing costs through the ability to tap lower interest rate short-term debt and then pay down and recycle that capital with longer-term debt at below-market rates given the backing of a pool of credit enhancement. In relation to technical assistance, LISC's *SchoolBuild* online

portal exemplifies cost-effective – indeed free – technical assistance at scale. LISC does not charge for technical assistance under any circumstances, and has leveraged significant philanthropic support from the Walton Family Foundation to produce free, widely accessible tools such as the *SchoolBuild* online portal.

LISC’s Seed Fund grants, a \$450,000 allocation of which will benefit schools in the SchoolBuild Capital Fund, is another example of free yet high value-add technical assistance. These grants offset the costs of early planning and feasibility analysis as well as site searches, environmental assessments, and other costs that schools must incur before they can approach lenders for financing.

4) *Strategies to Target High-Quality and High-Need Charter Schools.* Rigorous yet flexible underwriting criteria, combined with neighborhood outreach, ensure that high-quality/high-need charter schools will receive assistance through the SchoolBuild Capital Fund. LISC operates in 29 communities across the country on a daily basis, so our staff is aware of the schools most in need of help. LISC will prioritize projects based on the Competitive Preference criteria which encompasses both academic performance and student/community need, and will use our Needs Index to target schools using additional criteria such as access or lack of access to district buildings and access to per pupil funding for facilities.

CEP IV will support schools associated with high-quality CMOs as well as independent schools. LISC will review individual school academic and financial performance, including the status of the school’s charter, the quality of its educational program, together with the qualifications and experience of the school’s leadership team. LISC will screen all potential project financings to ensure that each school’s debt burden is acceptable and will not adversely affect its academic program or performance.

C. BUSINESS AND ORGANIZATIONAL CAPACITY. 1) Amount and Quality of LISC's Experience.

Founded in 1979 by the Ford Foundation and six corporations, LISC is the nation's largest nonprofit community development organization. LISC has tremendous experience developing urban and rural areas over the past 39 years, ranging from the revitalization of parts of Los Angeles that were devastated in 1992, to the rebirth of entire neighborhoods in the South Bronx, Boston, Chicago, Cleveland, Washington, Newark and other cities. With urban programs operating in 29 cities and a national rural reinvestment program whose partners operate in 2,000 counties, LISC is unique among CDFIs. Its extensive footprint and on-the-ground approach aim to fuel local innovation, scaling of solutions and national knowledge sharing. LISC's community investment model supports improving conditions in some of America's poorest communities. LISC has demonstrated expertise in real estate financing by partnering with affiliates to invest more than \$18.6 billion in equity, loans and grants, which has leveraged \$56 billion in total development. We have financed the construction or rehabilitation of over 376,000 affordable homes, 63 million square feet of commercial, retail and community space, and over 796 schools, child care facilities and playing fields, affecting over 105,000 children.

Over LISC's history, we have secured many Federal awards. Our awards include 16 from the CDFI Fund Financial Assistance and Healthy Food Financing Initiative Awards totaling \$30.5 million, 11 New Markets Tax Credit allocations totaling \$993 million, three Capital Magnet Fund Awards totaling \$17.3 million and a \$50 million award through the CDFI Fund's Bond Guarantee Program. LISC is also one of only two organizations to receive HUD Section 4 funding awards annually since the program's inception in 1994. Our local offices and national programs receive annual and consecutive funding from a variety of federal sources, including but not limited to: USDA Rural housing programs, HUD CDBG financial and technical assistance,

Department of Justice funding for LISC's Community Safety Initiative as sponsor of the Byrne Institute of Justice, Corporation for National and Community Service funding for AmeriCorps, and Social Innovation Fund support for LISC's Financial Opportunity Centers and our recently established Pay For Success program. All of these awards require extensive annual and individual compliance and monitoring of financial and programmatic covenants, such as affordability requirements, financial health analysis and asset management.

Amount and Quality of LISC Charter School Financing group's Experience. LISC Charter School Financing has significant experience underwriting charter schools and assessing their academic, financial, and operational sustainability as evidenced by our cumulative portfolio. Since financing our first charter school in 1997, LISC has closed over \$219.8 million in grants, loans and loan guarantees for charter school facilities in 21 states and the District of Columbia, making LISC one of the largest providers of facility financing in the sector. Of that total, \$142.1 million in financing is supported by ED credit enhancement grants (summarized in Attachment 21). Because of our expertise and diligent underwriting standards, we have only experienced three defaults in our program history out of 197 transactions (Attachments 20 – 21 and Table 2).

LISC has produced multiple publications and articles addressing the charter school sector's needs. The two most significant publications are the *Charter School Facility Finance Landscape* (Attachment 22), a complete history and assessment of facilities and financing access for charter schools across the country, and *Charter School Bond Issuance: A Complete History*, volumes 1 -3 (Attachment 18), a comprehensive analysis of the charter school bond market. These two publications are direct outcomes of surveying our partners and borrowers on charter schools' needs, and showcase our ability to conduct high-quality charter school research and disseminate best practices. Additionally, in 2015, LISC partnered with the National Association

for Charter Schools Authorizers (NACSA) on a report, aptly titled “Charter School Lenders and Charter School Authorizers: Can We Talk?” (Attachment 23). The report was yet another example of LISC’s ability to gather input from key stakeholders in the charter school sector and disseminate important publications that fill a need.

In 2016, the Charter School Financing group transformed and expanded its original landscape study into a digital resource for charter schools, *SchoolBuild: From Idea to Construction*. SchoolBuild is a first-of-its-kind, one-stop shop for guidance and information about developing facilities for charter schools (Attachment 24). Our web portal includes basic how-to resources and templates for due diligence and budgeting, as well as a project cost calculator and an interactive map for visitors to determine State or Federal funding options tailored for their needs. In May 2018, SchoolBuild was selected to receive The Conference Board’s 2018 Excellence in New Communications Award in the nonprofit division in the Innovation in Digital Experience category.

2) *Financial Stability*. In 2016, LISC made an unusual move for a nonprofit investor in low-income communities – it sought a credit rating from S&P Global Ratings (S&P). LISC did this as a way to demonstrate the value of investing in places typically labeled as too poor or too risky for the private market. S&P assigned LISC a ‘AA’ credit rating, validating our organization’s financial stability, as well as comprehensive approach to improving the quality of life in low-income areas. The rating reflects S&P’s view of LISC’s stability and capital available to absorb loan losses; stable profitability and total-equity-to-total-assets ratio; diverse and ongoing growth in its asset base over the past five years; a strong history of loan performance and underwriting guidelines; low-risk debt profile for diverse lending platform with prudent reserve guidelines; experienced and prudent management; and, percentage of loans that are enhanced by federal

grants and that have credit enhancement based on guaranteed payments.

Utilizing our credit rating, LISC became the first CDFI to break into the bond markets, where we raised \$100 million in the first-ever initial public offering of a CDFI bond. LISC's bond was oversubscribed with all new investors, comprised of mainly financial services institutions and asset managers. To read more about the impact of this, see '*Community Development Leaders Go Where Amazon Goes When It Needs Cash*' and Impact Alpha's '*LISC offers first CDFI bond to bring private capital to low-income communities*' articles in Attachment 25a and 25b. In 2017, S&P affirmed its AA/Stable rating and issuer credit rating on LISC and its series 2017A taxable bonds (See Attachment 7 for credit reports).

LISC continues to maintain a strong financial position. Total net assets have grown to \$287 million and unrestricted net assets to \$142 million, respectively at December 31, 2017 (from \$245 million and \$113 million, respectively at December 31, 2014). We also maintain a strong capital and liquidity position. As of December 31, 2017, we had \$93 million in liquid unrestricted cash and marketable securities, as well as \$167.1 million in off-balance sheet capital on which we could draw. LISC has not ever filed for bankruptcy nor have any other areas of significant weakness been identified by our auditors or funders. LISC has not defaulted on any financial obligations to a third party nor been delinquent with respect to any obligations owed. See Attachment 8 for Audited Financial Statements for fiscal years 2015, 2016 and 2017, Attachment 10 for Articles of Incorporation and By-Laws, and Attachment 11 for IRS Form 990. *Portfolio Quality*. LISC has an excellent track record of loan repayment because we are flexible and patient with borrowers. LISC's loan portfolio has demonstrated strong performance over the past four years, increasing 107% over this period, from \$169.7 million at year-end 2014 to \$350.7 million at year-end 2017. During this time, the delinquency rate has stayed below our

2% benchmark, increasing slightly as the portfolio seasons. The rate was 1.1% at year-end 2014, fell to a low of 0.20% at year-end 2015 and equaled 1.57% at year-end 2017. Net write-offs have shown a similar trend, with recoveries exceeding write-offs in 2014 and net write-offs of 0.10% and 0.25% in 2016 and 2017, respectively. Currently, no charter school loans are delinquent.

LISC's loan loss allowance is based on historical loan loss experience and management's evaluation of the ability to collect on loans, taking into consideration project characteristics and trends. Currently, the focus is on loan product type. This methodology is reviewed by our auditors on an annual basis. At the end of 2017, LISC had a 6.3% reserve, triple the historic loss rate of 1.9% over the prior seventeen-year period. (See Attachment 30 for more on our policy)

LISC uses rigorous, yet flexible, underwriting guidelines to provide capital to borrowers not adequately served by the market. To date, LISC has experienced only three defaults in our charter school portfolio. The first write-off, in 2002, [REDACTED], prior to the establishment of a dedicated charter school financing group at LISC, when a school lost its charter for political reasons. The second write-off occurred in 2007 and was due to a school's poor financial management and inability to obtain a charter in the district in which it had located. LISC wrote off [REDACTED] participation loan for which [REDACTED] was the lead lender and [REDACTED] and [REDACTED] were co-lenders. [REDACTED] had provided a [REDACTED], or [REDACTED], collection guaranty for the financing. In 2017, a loan to Charter School Support Services to benefit [REDACTED], a start-up elementary school in [REDACTED] defaulted and was unable to make payments obligated to the loans. LISC drew down \$580,731.20 of CEP IV funds to recuperate losses on the loan.

3) Ability to Protect Against Unwarranted Risk in Loan Underwriting, Portfolio Monitoring, and Financial Management. LISC's financial management policies reflect our charitable mission, responsibilities to lenders and investors, and the needs of our borrowers. We have the underwriting expertise, understanding of the sometimes-idiosyncratic nature of loans made to community-based developers and loan management structure to effectively lend monies to these groups. LISC has an organizational infrastructure to rigorously review proposed loans and monitor them after closing. LISC's policies have been in place for nearly 40 years, are reviewed twice annually, and when necessary, revised and readopted by the Board of Directors. Our loan loss rate of less than 2% is an indicator of the effectiveness of LISC's policies (See Attachment 26 for LISC's Asset Management Policies and Attachment 28 for LISC's Underwriting Manual).

Loan Underwriting. LISC's traditional underwriting standards are also used to assess the creditworthiness of charter schools. LISC is a relationship lender and our LPO staff originate individual loan requests because they have intimate knowledge of and close working relationships with our borrowers. Projects are then referred to LISC's Charter School Financing group, where centralized charter school financing experts can provide technical assistance in formulating projects, broker other financing resources, and monitor and support project development and operations.

LISC's underwriting standards and criteria for charter schools have been refined over the course of 20 years and focus on 1) State Statutory Framework; 2) Charter Authorizer strength; 3) Public Funding Mechanisms; 4) Student Demand; 5) School Leadership; 6) Financial Management; and 7) Academic Performance and Student Demographic Profile. See Attachment 27 for a sample underwriting package. Our flexible yet rigorous due diligence process insures that the merits and constraints of each project receive careful consideration so that LISC is

responsive to the needs of individual borrowers while protecting our ability to repay our lenders. See Attachment 28 for LISC's Underwriting Manual. Loans through the SchoolBuild Capital Fund will follow LISC's credit approval process and utilize LISC's internal underwriting document, the Request for Program Action, the credit memorandum used to present to LISC's credit committee for loan approval. All investments over \$5 million need approval from the Program Review and Evaluation Committee of the LISC Board of Directors, and investments over \$8 million need approval from the LISC Board of Directors. See Attachment 29 for the Program Action Approval Process.

Portfolio Monitoring. All closed and disbursed financings are closely monitored by centralized asset managers in tandem with LISC's LPOs, and the same will be true for SchoolBuild Capital Fund investments. LISC's Portfolio Monitoring Committee is charged with carrying out board-mandated policies, which require an annual review of all outstanding loans and a semi-annual review of loans greater than \$1,000,000. Additionally, Loan Watch Committee meets quarterly and reviews loan in various stages of difficulty. All reviews are important features of LISC's loan portfolio monitoring activities and provide an opportunity for LISC to identify trouble that might be brewing with regard to a particular loan, or improvements that may have occurred, earlier rather than later. In turn, this can facilitate additional monitoring and/or intervention for troubled loans that ultimately could lead to an improved prospect of repayment. Details on LISC's loan portfolio monitoring procedures are included in Attachment 26. See Attachment 30 for LISC's Credit Risk Rating and Loan Loss Policy, Risk Rating Matrix, and Reserve Amount.

Financial Management/Risk Mitigation. LISC has rigorous risk management policies and procedures which contribute to overall performance and financial stability. Our risk management strategy entails diligent underwriting, loan approval and portfolio management

processes, and explicit financial covenants with key lenders and within our investment guidelines. LISC employs a series of strategies to manage our assets and mitigate risk. LISC's Statement of Investment Policy and Guidelines (see Attachment 31) details the duties of the Investment Committee of the Board, which include approving the duties and responsibilities related to LISC's Investment Portfolio and the management of LISC's Chief Financial Officer (CFO), Treasurer, Investment Managers and Investment Consultants. The statement includes cash management policies, asset allocations to ensure portfolio diversification, allowable and prohibited investment types and duration strategies. These guidelines are designed to preserve LISC's asset base while ensuring that resources are actively used for program purposes. The CFO provides quarterly reports to the Executive and Finance Committee of the Board. LISC also maintains a series of financial covenants with our key lenders. LISC has never been found to be in default under any of our federal contracts, mentioned previously. We have consistently met the financial soundness covenants and performance measures associated with CDFI Fund and other federal funding awards.

In addition to the large federal grants, LISC and LISC affiliates also receive and administer substantial funds from private institutions, state and local government agencies and foundations. These sources also have detailed performance measures and reporting requirements. For federal and private funds alike, we have a multi-layered system with internal policies and procedures set in place for monitoring and reporting the activities funded, expenditures and the impact of the work. Over the years, we have built customized IT systems to effectively report on our financial management, institutional and transaction-level data to the satisfaction of our public funders. LISC also has a designated Grants and Contracts Management Department that works with local and national programs to ensure compliance with all

government awards.

4) *Expertise in Education Evaluation of Charter Schools.* The Charter School Financing group's expertise in charter school underwriting enables LISC to support high-quality schools with the greatest chance of academic, financial and operational success. The Charter School Financing group is well-versed in interpreting the extensive, growing body of publicly-available data on charter school academic performance, accountability metrics, key demographic data, and the strengths of various charter authorizers nationwide. LISC routinely examines State Accountability and State Academic Assessment data, the improvement status of public schools in the area, and other sub-group data focusing on demographics, and diversity and inclusion metrics. A number of indicators are used to evaluate school academic performance, including: absolute performance, improvement in performance over time, performance in comparison to district and state averages, and sub-group performance. LISC generally recommends financing for schools that show positive results on at least two indicators. Analysis of LISC's charter school portfolio shows that LISC-financed charter schools outperformed their respective district schools on state assessments in English language arts and math, in the aggregate, by seventeen percentage points for the 2015-16 school year, serve a higher proportion of economically disadvantaged students (by six percentage points), and serve a higher proportion of minority black and Hispanic students (by ten percentage points) than their respective districts.

In addition to over 20 years of underwriting charter schools' academic and organizational quality, and LISC's track record of charter school market research as mentioned previously, LISC's Charter School Financing group has two staff members that were previously employed as Directors of Operations at Achievement First and Uncommon Schools-North Star Academy, two successful charter school networks in the Northeast. As Directors of Operations, our two staff

members were directly involved with charter school budgets, enrollment, growth, and facilities challenges. This intimate knowledge of charter school operations has been an asset to schools looking for lenders that “speak their language” and understand their specific concerns and constraints. For more information on our staff experience, see part D and Attachment 4.

LISC’s Charter School Financing group has recommended disapproval of school loan applications in several instances. We have turned down investments due to the poor academic and financial performance of charter schools seeking financing, governance concerns, as well as operational and programmatic concerns indicated by a school’s authorizer. In most cases, LISC will offer technical assistance (e.g. educational resources like SchoolBuild, connecting schools to other LISC programs and resources) for schools that are not yet ready to take on debt, or have credit issues that can be addressed and remediated over time.

5) Ability to Prevent Conflicts of Interest. LISC’s personnel and Board of Directors abide by explicit standards of conduct that are codified in LISC’s Conflict of Interest Policies for Personnel and Board of Directors. These policies require the disclosure of direct and indirect financial or other interests, mandate disinterested decision-making and indicate corrective actions to be taken in the event of violation. See Attachment 6 for LISC’s Conflict of Interest Policies for Personnel and Board of Directors, and Conflict of Interest Questionnaire for Personnel and Board of Directors, respectively.

6) and 7) do not apply.

8) Performance in Implementing Previous Grants. LISC has received a total of \$41.4 million in grant awards from ED: \$10 million in 2003 and 2004 (CEP I); \$8.2 million in 2006 (CEP II); \$8.3 million in 2009 (CEP III); and, \$15 million in 2011 (CEP IV). LISC has faithfully implemented all prior awards. We have met or surpassed the leveraging and fundraising goals in

many of our credit enhanced funds, and are in the process of amending goals that have not been met based on changes in market conditions, as outlined in our most recent performance reports from September 30, 2017 (see Attachments 12a-d). To date, LISC has closed on \$142.1 million in loans and guarantees that have leveraged \$920.3 million for 128 charter schools. LISC's loan loss ratio for CEP I, II and III is 0. In 2017, a loan to Charter School Support Services to benefit [REDACTED], a start-up elementary school in [REDACTED] defaulted and was unable to make payments on LISC's loan. LISC drew down \$580,731.20 of CEP IV funds to recuperate losses on the loan. A summary of investment activity and credit enhancement utilization follows:

Investment Type	Transactions	Schools	Financing Amount	Financing Leveraged with Credit Enhancement	Credit Enhancement Award	Credit Enhancement Activated To Date
CEP I	25	32	\$36,309,822	\$189,796,549	\$10,000,000	\$10,000,000
CEP I Earnings	4	5	\$2,604,508	\$10,325,478	N/A	\$2,076,508
CEP II*	46	49	\$14,331,770	\$341,452,114	\$8,200,000	\$5,809,250
CEP III (Bond Credit Enhancement Fund)	2	15	\$4,000,000	\$91,419,134	\$4,000,000	\$4,000,000
CEP III (National Charter Loan Fund I)	5	7	\$20,775,000	\$51,070,955	\$4,242,320	\$4,155,000
CEP IV (National Charter Loan Fund II)	18	20	\$64,045,885	\$236,203,494	\$15,000,000	\$12,809,177
Total	100	128	\$142,066,985	\$920,267,724	\$41,442,320	\$38,849,935

*Includes data and leverage from Massachusetts Charter School Loan Guarantee Fund transactions

D. QUALITY OF PROJECT PERSONNEL: THE GRANT PROJECT TEAM

1) *Project Team Qualifications.* The SchoolBuild Capital Fund project team will be comprised of highly skilled professionals who have the relevant education, training and experience in finance, charter school operations, and charter school underwriting required to successfully fulfill the project's goals and objectives. Through our due diligence work, the team has developed an expertise in evaluating the educational and authorizing components of these unique credits. The team will be managed by Sara Sorbello, Vice President for Charter School Financing, and by Yvonne Tou, deputy director of LISC Charter School Financing. Three additional LISC Charter School Financing staff members, Crystal Langdon, Daniel Stinfil, and

Charmian Stewart, Program Assistant, round out the project team. Following are brief summaries of their qualifications. See Attachment 4 for their résumés.

Sara Sorbello, Vice President, Charter School Financing – Ms. Sorbello has more than fifteen years of community development finance and public policy experience. Ms. Sorbello has been with LISC for five years. She most recently served as Vice President and Director of the New Markets Tax Credit program at Seedco Financial. Ms. Sorbello serves on the board of Friends of TEAM Academy. Ms. Sorbello holds a M.A. in International Affairs from Columbia University’s School of International and Public Affairs and a B.A. from Dickinson College.

Yvonne Tou, Deputy Director – Ms. Tou started at LISC in 2012 as the team’s first dedicated Asset Manager. Prior to her current role, she was Director of School Operations for a charter school, where she co-managed the renovation of a New York City school facility for her school to grow to full enrollment. Ms. Tou also worked at Goldman Sachs for five years in the Market Risk Management and Analytics division, and as a Product Controller. Ms. Tou serves on the board of Brooklyn Compass Charter School. Ms. Tou holds a B.A. from Syracuse University.

Crystal Langdon, Senior Program Officer – Ms. Langdon has been with LISC since April 2016. Previously, she worked as a Senior Loan Underwriter at TruFund Financial Services underwriting non-profit and small business loans, NMTC equity investments and leverage loans, and real estate development projects. Prior to LISC, she worked Urban Homesteading Assistance Board as a Finance and Construction Project Associate. Ms. Langdon holds a B.A. from Temple University and an M.B.A. from CUNY Baruch College.

Daniel Stinfil, Program Officer – Mr. Stinfil was recently recruited to join LISC as a Program Officer/Analyst. Before LISC, he worked as a Director of Operations for North Star Academy Charter Schools (part of Uncommon Schools) in Newark, NJ. Mr. Stinfil also co-founded an

educational technology start-up, helping students prepare for SAT and ACT testing. Previously he worked at Deutsche Bank and at The Bank of New York Mellon. He holds an M.B.A. from Columbia Business School and a B.A. from The State University of New York - Albany.

LISC Management. LISC will also involve other experts in implementing the SchoolBuild Capital Fund, including members of LISC management with substantial depth and breadth of experience in providing capital, financial expertise and other services to low-income community developers. Complete biographies and qualifications are included in Attachment 32).

LISC Board of Directors. The members of LISC's Board of Directors have a wealth of hands-on and senior supervisory experience that enables them to provide guidance in setting the strategy and goals that meet the needs of targeted communities and to exercise financial oversight (see Attachment 33 for a list of the Board of Directors and their affiliations).

2) *Staffing Plan.* The staffing plan for SchoolBuild Capital Fund very closely mirrors the team's current job responsibilities, with Ms. Sorbello managing the underwriting of loan packages for the SchoolBuild Capital Fund and overseeing implementation of the grant project. Ms. Tou manages LISC Charter School Financing's asset management, reporting, as well as underwrites loans alongside Ms. Langdon, and Mr. Stinfil will collect and monitor data on loan performance. Ms. Stewart will continue to provide administrative support. Various LISC personnel will assume critical roles in originating, structuring, underwriting, approving and monitoring SchoolBuild Capital Fund investments and in providing financial counseling and other services to the schools. A complete staffing plan is included as Attachment 37.