Executive Summary

Equitable Facilities Fund (EFF) is a two-year old non-profit, social impact fund for charter school facilities. We are requesting $8 million from the Credit Enhancement for Charter School Facilities program. This application is designed to meet two goals: 1) provide the lowest-cost long-term capital available to high-performing charter schools that serve low-income students; and 2) source new capital in an innovative manner. EFF provides nationwide funding with concentrations in key markets of California, Texas, Florida, and Tennessee. These markets are the home to the highest number of failing public schools.

EFF is a unique model formed by experienced charter school funders from the Charter School Growth Fund, Nuveen (the largest buyer of tax-exempt charter school bonds), and the Walton Family Foundation. This project started with a $200 million grant in 2017 and over $158 million of loans have been committed or closed. By 2022, EFF is expected to have deployed $600 million of charter school financing. Compared to alternative financing options, these funds will save schools a total of over $80 million in interest payments and create opportunities for more than 50,000 predominantly low-income, minority students to receive a quality education.

EFF has quickly become a leader in charter school financing by closing over $100 million in loans to schools in its first two years. This makes EFF the largest charter school loan fund by total annual loan amount. EFF has demonstrated its impact by providing schools an average gross savings of approximately $3 million per transaction over the term of a loan. Through a proven financing model borrowed from other public sectors, we will leverage the $8 million award 50:1 and raise over $400 million in capital from new sources, thereby expanding the pool of charter school investors.

This award will support EFF's first tax-exempt bond offering - an issue that will be priced at a significantly lower rate than charter schools could access on their own. The offering will be collateralized by EFF's initial loan cohort - 11 loans originated with a portion of a $200 million grant used to launch the fund - and the Credit Enhancement award. Proceeds will be used to originate the lowest-cost long-term loans available to charter schools,bringing an innovative financing approach and new capital to the sector. We will issue our first bond series in late 2019 to raise the first $100 million of debt for our revolving loan fund.

EFF will make a significant contribution toward meeting the purpose of the credit enhancement program. We will leverage the funds at a high rate to make loans to schools eligible for the competitive preferences and create an innovative solution for financing charter schools.

A. Quality of project design and significance

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

The Equitable Facilities Fund (EFF) was created with the sole purpose to provide high-quality charter schools with permanent, long-term financing at better rates and terms than they would otherwise be able to access. This grant proposal will help EFF achieve this goal.

EFF was formed in 2017 through a partnership with the Walton Family Foundation to demonstrate a better model for charter schools to access long term debt. Anand Kesavan, a former partner at the Charter School Growth Fund, designed a new financing model based on the way states finance small municipal water projects and deployed that model for charter schools. In the water and sewer infrastructure sector, small municipalities would pay higher interest rates if they issued tax-exempt bonds themselves because of their relatively higher credit risk along with the higher fees they would pay relative to the small size of their Bond Offering. The states solved this problem by pooling all of the financing needs of small municipalities and then issuing a much larger bond backed by each state. This dramatically reduces the interest rate and the fees for small municipalities. This is similar to the dilemma faced by charter schools. Smaller charter schools pay higher interest rates and a higher proportion of fees to issue long-term debt. EFF is designed to pool all of these financings and issue a larger bond to attract better rates with lower fees. EFF then passes these savings on to the schools.

The Walton Family Foundation is supporting this effort with a $200 million grant to demonstrate this concept. This grant will be leveraged with over $400 million in bond proceeds issued over the next three years ($100 - $180 million per year for three years). An $8 million Credit Enhancement award will be used as a loan loss reserve fund for the over $400 million in bond offerings.

EFF has earned an ‘A’ rating from S&P and anticipates its initial Bond Offering will price at approximately 3.30%. That is compared to most charter school ratings of BB by S&P which would price at 4.25% as of July 1, 2019. EFF is able to not only use its lower cost of capital to reduce interest rates for schools but also use its status as a direct lender to charge fewer transaction fees - approximately 2% of project cost compared to a sector average of almost 4.5%. Additionally, EFF allows charter schools to forgo borrowing additional monies to finance a loan loss reserve fund - approximately 10% of project cost. The typical savings to a charter school are shown below in Table 1. The savings for just one school is estimated to be $3 million.

Table 1. Sample Savings of EFF Loan[1]

	EFF Loan	Typical Bond Transaction
Project Cost	$10,000,000	$10,000,000
Loan Loss Reserve	$0	$1,000,000
Fees	$200,000	$450,000
Bond Proceeds	$10,200,000	$11,450,000
Interest Rate (30-year fixed)	3.75%	$4.25%
Annual Debt Service	$572,094	$683,400
Gross Savings Over 30 Years	**~$3,300,000**	

EFF has already proved this model using the $200 million grant from the Walton Family Foundation to originate its first cohort of loans. EFF has closed or committed to funding 11 long-term, fixed-rate loans in the past 12 months. These are shown in Table 2.

Table 2. Total Savings from EFF Loans

#	Charter School	Location	Loan Size ($M)	Approximate Savings Over 30-year Term ($M)
1	The Soulsville Charter School	Memphis, TN	$10.3	$4.6
2	Village Tech Charter Schools	Duncanville, TX	$8.7	$0.8
3	Arizona School for the Arts	Phoenix, AZ	$10.6	$4.7
4	Choices in Learning	Winter Springs, FL	$9.2	$3.3
5	KIPP Bay Area Schools	Oakland, CA	$16.0	$5.0

[1] Figures are estimates and for illustrative purposes only.

6	Arlington Classics Academy	Arlington, TX	$15.8	$6.5
7	Blackstone Valley Prep	Northeast RI	$16.0	$1.8
8	Rocketship United Academy	Nashville, TN	$15.9	$2.0
9	KIPP Nashville	Nashville, TN	$10.5	TBD*
10	James Irwin Charter Schools	Colorado Springs, CO	$26.4	TBD*
11	Alliance College-Ready Public Schools	Los Angeles, CA	$28.0	TBD*
	TOTAL		$158.0	$29.4

*Pending closing/final savings calculation.

The total gross savings expected from $400 million in new bond proceeds is approximately $120 million that can be redirected back into the classroom rather than spent on interest and fees. This is a significant return on an investment of an $8 million credit enhancement award.

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

EFF's project goals, measurable objectives, and timeline are fully described throughout this application, and summarized below. To assure progress in achieving these goals, EFF will collect and analyze data, document best practices and market the program to our core communities to ensure adequate pipeline to meet the stated goals. Performance results, best practices and lessons learned will be shared with organizations researching policy implications of education reform.

<u>Goal 1.</u> Further the goals of the Department of Education and applicable federal education laws and serve communities/schools in need.

<u>Measurable Objectives:</u>

• A minimum of 80% of the Charter Schools served during each project year will meet at least one of the following criteria:

- Located in a district where more than 50% of students do not meet the standard for proficiency in either math or language on the state assessment; or
- Located in a district with 60% or more of the student population eligible for free or reduced-price lunch; or
- Have more than 50% of current or projected student enrollment who are eligible for free or reduced-price lunch; or
- Located in a district where more than 25% of public schools have been identified for improvement or corrective action.

Goal 2. Increase the volume of affordable capital available for lending to charter schools at better rates and terms.

Measurable Objectives:

• EFF will raise over $400 million in new capital to provide acquisition, construction, renovation, and leasehold loans as senior debt per the following timeline:

- Secure at least $100 million in long-term lending capital through a Bond Offering in the first project year.
- Secure at least an additional $130 million in long-term lending capital through a second Bond Offering in the second project year.
- Secure at least an additional $170 million in long-term lending capital through a third Bond Offering in the third project year.

• Fully commit the first $100 million in bond proceeds to charter school loans within the first project year.

• All loans made with proceeds from the bond issuances will have the following financial terms:

- Term – up to 35 years
- Amortization - up to 35 years
- Interest only during construction
- Interest Rates – Based on the average cost of capital of the Bond Offering. The expected average spread is 50 basis points above EFF's cost of capital (which is estimated at 80 basis points above the MMD rate), but can vary based on the credit rating assigned to the project. The current projection is 3.50-4.00% based on MMD of 2.27% as of July 17, 2019
- LTV of up to 100% for all schools
- Maximum loan size - $35,000,000

• Provide technical assistance free of charge as a standard part of the loan application and due diligence process pursuant to EFF's mission.

<u>Goal 3:</u> Serve charter schools located in states with strong charter laws.

<u>Measurable Objective:</u>

• Deploy 80% of credit enhancements in states with strong charter schools laws as defined by section 4303 (g)(2) of the Elementary and Secondary Education Act (ESEA). The pipeline of projects for this program already includes schools in California, Texas, Florida, Arizona, Colorado, and Tennessee.

Goal 4: Serve at least 40 charter schools and leverage at least $400 million in loan capital during the grant period achieving leverage from the Credit Enhancement funds of 50:1 cumulative per the following timeline.

Measurable Objectives:

The following table summarizes the overall program performance measures and the project-specific performance measures.[2]

	Year 1	Year 2	Year 3	Total
# Loans Issued	11	13	16	40
$ Credit Enhancement	$8M	-	-	$8M
Bond Financing Leveraged w/ C.E. Award	$100M	$130M	$170M	$400M

The evidence for achieving these goals will be collected through our loan management system which also collects impact data. This allows us to produce timely Project Directors' reports for the Department of Education.

The goal of deploying the $8 million Credit Enhancement award is to raise $400 million in funds that will be used to provide high-performing charter schools long-term, low-cost financing. This $8 million request will have a 50:1 direct leverage ratio over three years. If we were to include

[2] These figures are for goal-setting purposes. The figures in the attached financial projections reflect projections in EFF's current financial model and demonstrate modestly greater leverage of C.E. award funds.

the indirect benefits of proving a new financial model and creating a new method of raising funds, the ratio would grow exponentially.

EFF's overall objective for this Credit Enhancement allocation is to fund 40 charter school obligated groups that serve 50,000 students during the three-year project. These students will be overwhelmingly minority students with more than 60% qualifying as low-income through eligibility for Free and Reduced Lunch or another indicator.

The timeline for the first bond offering has already started. The bond offering will go to market in 2019. The proceeds from the first bond will be deployed in one year. The total proceeds from the three bond offerings will be deployed over the three project years. The draft of the Preliminary Official Statement (POS) for the bond offering is attached to this application.

We will document the project procedures and results by using data collected through our loan management system and through the municipal bond reporting platform, EMMA (Electronic Municipal Market Access). We will submit the annual Project Director's report and attend any Project Director's meetings hosted by the Department of Education.

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

This project is likely to achieve the objectives based on the recent history of EFF and the proven methodology proposed herein. EFF has already lent or committed over $158 million to 11 schools to finance over 17,000 obligated group seats.

This expertise of the EFF's existing lending program demonstrates a high probability of successfully meeting the project's ambitious measurable objectives with Credit Enhancement funds.

The implementation plan for the bond offering and the continuation of the lending program are already underway. EFF has drafted a Preliminary Official Statement for the bond offering. EFF is also working closely with our current partners to identify new schools that need financing assistance and has developed a pipeline of potential charter school loan projects. Our partners include the Charter School Growth Fund with its portfolio of 800+ schools, CDFIs seeking to help schools refinance short-term loans, financial advisors seeking the best rates and terms for their clients, the Walton Family Foundation with its portfolio of schools receiving start-up grants, and state associations in Texas, California, and Tennessee. These groups helped inform this application to market the program to prospective borrowers, ensuring an ongoing and adequate pipeline each year to meet the specific performance goals related to deployment.

EFF conducts direct outreach to charter authorizing agencies, CMOs, state charter school associations, education philanthropies, capital providers, and community sponsors to cultivate relationships and obtain introductions to stakeholders who have created, or are considering creating, new schools. EFF participates in regional and national charter school conferences and workshops and utilizes Governing and Advisory Board members to generate referrals of charter schools that meet our mission-driven criteria and would be good candidates for EFF's funding.

The project team reviews pipeline projects weekly and identifies those meeting the competitive preference priorities of this program. These sourcing efforts combined with the immense value EFF loans provide to schools will facilitate a strong pipeline of potential deals throughout the project period.

EFF has developed an impact report to track the annual performance of its charter school clients and the overall social impact performance of its loan portfolio in addition to its financial performance. To assure accountability and achievement of the aforementioned goals, EFF will work closely with state associations and other support organizations to research the need for facilities finance programs for new schools. These reports will also help to disseminate results and assist in efforts to replicate characteristics of this program.

The bond offering will produce measurable results indicative of its success. We will know at the time of the sale of the bond the amount of new money raised. To measure the deployment of these funds, EFF uses its Loan Management System to track the loans made with proceeds from the bonds. The Loan Management System can provide a snapshot and history of the deployment of these funds to charter schools. The Loan Management System (LMS) can also track the leverage ratio of the bond's proceeds and the impact on the number of students by socio-economic and geographic characteristics.

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

This grant project has three aspects which we believe can be replicated:

1) The first is the use of a pooled loan portfolio to raise capital through the bond market. This idea has its roots in the state revolving loan funds for municipal water and sewer projects. In that example, a state will pool a number of smaller municipal water projects and then collateralize the portfolio to issue tax-exempt bonds under rates and terms that could not be accessed if the projects were financed on an individual basis. EFF is now replicating this program for charter schools and it could be further replicated by others.
2) EFF's project could encourage additional states to create similar funds. A few states (CO, UT, ID, AZ, IN) have created their own state credit enhancement programs for long-term charter school debt. These programs, combined with the EFF model, could lead to a broader adoption of many more statewide credit enhancement programs for

charter schools. The success of EFF would allow other states to implement a similar program without having to develop the internal capacity and expertise. They could partner with EFF to manage the programs for their own states, at very little cost or risk.

3) The EFF Bond Offering will put competitive pressure on the tax-exempt bond market in a way that will benefit charter schools. We have already seen three effects of EFF's model that have benefited other charter schools outside of our portfolio:

   a) The compression of pricing on long-term bonds. Historically, the tax-exempt bond market for charter schools has charged a large spread over the MMD base interest rate. For a typical BB+ rated school, the spread has been around 180 basis points. In the last year, with EFF's better rates, the rest of the market is shrinking the spread to closer to 150 basis points. While this seems like a small improvement in pricing, the impact could be enormous. On the $19 billion in charter school issued tax-exempt debt, a decrease of 30 basis points could save charter schools $60 million a year (or $1.8 billion over 30-year terms).

   b) The reduction in fees. Charter schools often have to pay significant fees to financial advisors, bond underwriters, and legal counsel. EFF's model has less fees and over the past year we have seen the fee structure begin to decrease for charter schools outside of our portfolio.

   c) The need for a smaller reserve fund. Charter schools often have to borrow an additional year's worth of principal and interest payments to provide a reserve fund. This increases a charter school's borrowing amount and borrowing costs. The smaller reserve fund proposed by EFF is intended to demonstrate that the typical reserve requirements should be open to negotiation and ultimately reduced.

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

EFF will deploy approximately 50% of the bond offering proceeds in our four key markets where we have in-depth market intelligence and understand the charter school market risks. We work with local charter support organizations including the authorizers, trade associations, and foundations to identify new, expanding, and replicating charter schools with the best chances of delivering quality education. These organizations have conducted research on the school leaders, academic models, governing boards, and business plans to ensure these schools will be successful. These organizations also understand which schools will be serving students most in need of high-quality academic programs, including those with high free and reduced lunch populations, high minority populations, and other at-risk indicators.

We will first target high-quality schools that are growing or replicating . Our credit rating methodology addresses a range of risk factors and is similar to that used by the rating agencies which has been the key success factor for the bond market.

We will evaluate each project based on our underwriting criteria to determine its risk level and fit for this program. Our underwriting criteria measures:

1) Project Risk including the cost of the project, the fees paid to third parties, the sources and uses of funds, the collateral, the adequacy of the project, the development team and the timeline.
2) Operator Risk including school management, governance, the relationship to a parent organization, academic performance, the alignment of the program to the needs of the community, enrollment projects, waiting lists, competition from other schools, a

marketing plan for student recruitment, financial measurements for debt service, and adequacy of a proforma tested through a sensitivity analysis.

3) Political Risk including legal and regulatory issues, the length of the charter, and the political culture of the community.

A detailed description of the underwriting and application process can be found under "Capacity."

All of the loans will be pooled and pledged to the bond offerings that will be enhanced with the funds from this grant award. Therefore, all of the loans will participate in the Credit Enhancement program equally.

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 beyond what would be accomplished absent the program.

EFF projects the grant will be leveraged at 50:1 to support $400 million in new monies. This grant will be used as a loan loss reserve for three incremental bond offerings of $100 - $180 million each, or a total of at least $400 million. Much of the bond proceeds will be raised from investors that are new to the charter school sector. Typically, when a charter school issues tax-exempt debt, the bonds are sold to high-yield bond investors. Funds such as Nuveen, Invesco, and Lord Abbett are frequent buyers of charter school tax-exempt bonds. Charter schools have not been successful in selling to the low-yield investors that manage the mutual funds that most people recognize – funds such as Vanguard, Fidelity, Pimco, etc. By creating a pooled, overcollateralized portfolio, EFF is able to make the quantum leap from the high-yield investment community that often focuses on below-investment-grade schools and create a product that is attractive to the investment-grade community. This opens the doors to a new marketplace of bond buyers.

EFF will serve 40 charter school obligated groups over the next three years with funds raised from the credit enhanced bond offerings. Many of the obligated groups are composed of standalone schools or small networks that may be discouraged from issuing tax-exempt bonds because of the relatively high costs of fees associated with bonds. Examples in our pipeline include early childhood charter schools, alternative education charter schools, arts schools, and an autism charter school. These small schools often transition from one short term loan to another and are exposed to interest rate risk every few years. This is especially concerning in this historically low interest rate environment when all schools should try to lock in long-term fixed rates. These types of schools and small networks typically receive below-market credit ratings (typically BB+, BB, or Non-Rated according to S&P) and pay interest rates and fees that are much higher than those offered by EFF.

The EFF bond offerings will leverage new sources of private sector funds. These additional funds will allow us to expand quality loan product offerings to a higher number and a broader array of charter schools. Without this program, the immense resources of the private sector bond fund market would be largely untapped. As this new market opens up to charter schools, it can lead to changes in the way charters are financed beyond this program. Someday we expect that the bond fund industry will see charter schools as an attractive asset class for their portfolios. This will increase the number and variety of schools assisted. These schools would struggle to find attractive financing absent this 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 Elementary and Secondary Education Act of 1965.

EFF is targeting states demonstrating a need for corrective action. These include California; Florida; Texas with its large markets of Houston, Austin, San Antonio, and Dallas; and Tennessee with a focus on Memphis and Nashville. The Center for Education Reform is a recognized authority for analyzing the nation's charter laws and assigns each state a letter grade based on a combination of factors. Similarly, the National Alliance for Public Charter Schools ranks each state in order of its relative strength based on 20 components. EFF has set a goal of deploying approximately 50% of funds in the four states listed above (TN, TX, CA, and FL) with a rating of "A" or "B" or "C".

EFF has already closed or committed financing in 7 states. Based on the criteria described above, six of the seven states where EFF is engaged have strong state charter laws that support the priorities set forth in ESEA. A basic comparison of their state laws is below.

	National Alliance Ranking	CER Ranking (44 states)
Arizona	15	2 (A)
Colorado	2	6 (B)
California	18	7 (B)
Florida	9	8 (B)
Texas	28	12 (C)
Tennessee	29	19 (C)
Rhode Island	38	39 (D)

The thorough comparison of state law rankings published by both the National Alliance for Public Charter Schools[3] and The Center for Education Reform[4] demonstrates a significant need for charter school financing options in these regions. While all these states have "equitable" funding codified in law, most have some form of facilities assistance, and all share considerably active charter authorizing environments, access to adequate facilities and capital is limited. Approximately 250,000 students are on charter school waiting lists in Florida, California , Tennessee and Texas. Assuming 400 students per school, this equates to an unmet demand of 600 schools. Through this program and with these grant funds, EFF is well-positioned to meet the demand for high-quality charter school seats.

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

The $8 million credit enhancement award will increase EFF's capacity to provide essential capital to schools in struggling cities. The demand for programs and services specifically targeted to the needs of these schools - many of them in the early phase of their operating history - is critical to the continued growth of the charter school movement. As further described in the "Capacity" section, EFF has the personnel, pipeline and resources to fully leverage the $8 million grant to its projected $400 million level.

This grant will be used solely to fund a loan loss reserve fund that will be leveraged for $400 million of EFF bond offerings. EFF will not use any of the award funds for administrative or

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[3]https://www.publiccharters.org/sites/default/files/documents/2018-01/2018%20MEASURING%20UP%20TO%20THE%20MODEL%20Final_0.pdf

[4] https://edreform.com/national-charter-school-law-rankings-scorecard-2018/

transaction-related costs. This is the lowest cost basis of any Credit Enhancement award in the history of the Credit Enhancement program.

Further, this award will lead to EFF borrowing funds at least 100 basis points lower than what charter schools could otherwise expect to borrow. These savings are passed on to the schools. This is a direct correlation between the credit enhancement award and the cost of debt to a school. The pricing difference between a credit enhanced transaction and a non-credit enhanced transaction is highly significant - as shown in Table 1 earlier.

The significance of this award is also noticeable. An $8 million award will attract new investors - including large bond funds - to the charter school facility finance market. This could have ripple effects by bringing new investors to the marketplace for not only EFF, but also other charter school lenders and individual schools and CMOs.

Financial projections are in the attached Cash Flow Proforma and do not show any indirect or administrative uses of grant funds. The revenues reflect the historically low interest rate environment. To the extent that interest rates improve, earned interest on the grant funds will increase while indirect and administrative expenses will remain at zero. Total revenue from the reserve account is projected to be over $1,800,000 for a ten-year period. This will increase the significance of this award.

B. Quality of project services

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

The majority of charter school borrowing is long-term debt. A total of approximately $19 billion of tax-exempt debt has been issued for over 1,000 charter schools. Charter schools say their biggest need is to reduce the interest rate they pay. Charter school leaders emphatically state that their schools are sound investments but they end up paying a higher risk-adjusted rate of return than they should.

Since 2000, the default rate for charter schools has been approximately 3% of total bond par amount issued. This is similar to other industries that are rated much higher by the rating agencies. According to a bond report by LISC in 2015, charter schools that receive BB ratings from S&P are often as secure as BBB-rated or A-rated companies in other sectors.. Other rating agencies are even more stringent or have ceased to cover charter schools.

The need is to find a way to convince the rating agencies, and the bond market, that charter schools are improperly rated. EFF model has developed a portfolio of cross-collateralized charter school loans that has earned a better rating than any of the individual school credits. This allows schools to borrow at much lower interest rates than they could otherwise. This will help show over time that charter school debt issues should have a lower risk premium than the market is currently pricing.

This $8 million credit enhancement request will support an ever-increasing portfolio over time as each year EFF will lend at least an additional $150 million. This loan loss reserve, in combination with philanthropic support that serves to overcollateralize the portfolio, allows EFF to borrow at a significantly lower cost of capital than schools can acquire on their own. EFF then passes those lower borrowing costs on to the schools in the form of discounted rates and lower transaction fees.

EFF's fixed-rate financing empowers school governing boards by bringing stability to their facility and occupancy expenses. With terms and amortization schedules of up to 35 years, EFF's products assure boards that school leaders can focus on producing strong educational programs and solid academic results without the financial pressure of fluctuating interest rates or the need to refinance short-term debt.

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

Charter schools, chartering agencies, and charter support groups were consulted for this project and this grant proposal. EFF worked closely with the three board members to design this program. The staff members at the Charter School Growth Fund (CSGF) provided invaluable insight with the input from their portfolio of 800+ charter schools. This concept was originally proposed at a conference attended by CSGF's charter school portfolio members and the founder received valuable feedback to fine tune the model. The feedback included the recommendation that EFF this program nationwide rather than limit it to a few geographies which already receive considerable financial support from the philanthropic community and other federal grants.

Similarly, EFF was designed with the help of the National Association of Charter School Authorizers (NACSA). Once EFF was created, the leaders of both CSGF and NACSA were asked to join the founding Board of Directors to ensure that the voices of charter schools and authorizers continued to be heard. These board members are responsible for providing input and feedback regarding our services and ensuring that our financial products are tailored to the needs of the members' constituents.

Additionally, EFF is a genuine partner to the schools that it lends to. School leaders have indicated they are very satisfied with the care and attention provided by EFF's team (in addition to the immense savings for their operating budgets). Letters of Support for this project that attest to EFF's efforts to thoroughly consider the needs of schools are attached to this application.

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.

The EFF grant project team consists of experts in charter school finance who regularly provide one-on-one counseling free of charge to both prospective and client schools. EFF's technical assistance is customized to address each school's specific area of need. Topics often focus on financial modeling, growth and business planning, budgeting and forecasting, cash flow analysis, cost benefit analysis; and financial performance monitoring and evaluation. These services can start 12 months before a school may be ready to access the financial markets. EFF staff members help coach school personnel through the complex world of long-term debt.

These services are cost effective because we rely on proven and publicly accessible credit rating methodologies. We can distribute the S&P Charter School Credit Rating Methodology report to all prospective charter school borrowers. This methodology allows the schools to know exactly what factors will be reviewed and how the evaluation criteria are measured. This transparent process takes much of the guesswork out of charter schools trying to determine what metrics to target. This standardization of the credit methodology in the long-term financing market allows schools to know exactly what they should do, and makes the technical advisory services more scalable and cost-effective.

EFF's services help prospective and current clients accurately assess their potential to borrow long-term debt and develop business plans to support the achievement of their goals. EFF helps schools choose the best term for their loans by requiring schools to address the following during the application process: leadership development, financial contingency planning, marketing and student recruitment strategies, and academic accountability plans. As part of the initial due diligence process, staff works with school management to identify weaknesses and strategies for improvement. Some charter school applicants may be better off with short-term debt and EFF will help them find other sources of capital.

EFF charges significantly lower fees for financing. A typical fee charged by others for long-term debt on a hypothetical $10 million project is approximately $450,000. Our fees are less than half of that and are closer to $200,000. The terms of the loan are also more attractive. Because EFF can borrow long-term money at a lower cost than a school could borrow on their own, EFF can pass the lower cost of funds on to the school. See Tables 1 and 2 for detail on projected savings per deal and actual savings for EFF's initial loan portfolio.

4) The extent to which the services to be provided by the proposed grant project are focused on assisting charter schools that have the greatest needs for assistance under the program.

The focus of this project on opening up a new source of funding for long-term capital meets a need that is currently unfulfilled. As described earlier, most other credit enhancement awardees are focused on short-term debt, certainly an important need. However, the majority of charter school debt is long-term. Since 2001, approximately $19 billion of long-term tax-exempt debt has been issued to support charter schools. There are no new financial products that are focused on this market and aim to change the marketplace for the benefit of all schools, especially those that are below investment grade. The majority of single-site schools are below investment grade and would struggle to reach an S&P rating of BBB- or better. These single-site schools are the ones who need access to better pricing to achieve financial sustainability without the support of philanthropy.

Five out of the eleven schools in EFF's initial loan portfolio are below investment grade and receive financing from EFF that is significantly more affordable than they could otherwise access on the bond market. They may have a high-quality academic programming, but their small size often limits their ability to generate financial performance metrics most valued by the bond rating agencies. EFF intends to use the Credit Enhancement award to increasingly serve such schools: we anticipate at least 60% of the 40 schools we lend to throughout the project period will possess credit that is below investment grade.

C. Capacity

The following sections demonstrate EFF's ability to carry out the proposed grant project based on our people, our systems, and our enviable financial position.

(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;**

EFF is a unique non-profit loan fund in that we focus exclusively on long-term financing for charter schools and their facility projects. By concentrating our expertise into this single sector of community development, we have become experts in discerning high-quality charter schools and in recognizing the need for affordable, long-term facilities solutions. We know that access to facilities is the single most persistent gap in a successful charter school's plan. By providing the most affordable permanent financing, EFF eases the strain for charter school leaders and allows them to focus on their core expertise, which is providing a high-quality education to all children.

EFF has provided the most direct loans to charter schools in the past twelve months of any lender. All loans receive the full due diligence and underwriting required of all EFF charter school loans and projects, and are subject to Credit Committee and Board approval process.

EFF has just completed its inaugural year of operations with great success and strong leverage of the initial $200 million in capital. Highlights include:

- Financing closed or committed for 11 different charter schools resulting in over $158,000,000 in total financing.
- Over 17,000 charter school seats financed by the loans committed with philanthropic support.
- No delinquencies or defaults in our loans.

(2) The applicant's financial stability;

Founded with a $200 million grant from the Walton Family Foundation, EFF is poised for sustained financial stability stemming from an extremely low cost of capital, a hedged program of advance loans, and effective implementation of our lending program. The zero-interest initial seed philanthropy capitalized EFF's loans.

Since inception, EFF has maintained a strong financial position, and our business model is developed such that fund operating expenses will be covered by lending revenue at scale. We have received over [redacted] of operating grant funding for our startup years from the Walton Family Foundation, and we anticipate receipt of another [redacted] over the next three years.

This will bridge our fund to fiscal self-sustainability in 2023. As of December 31, 2018, EFF reported over $200 million in Net Assets and a Net Asset ratio of close to 1.0. EFF will naturally take on increasing liabilities with its bond offerings. However, these issues will be structured such that strong debt service coverage - at least 1.2x - and operating margins are maintained throughout the project period and beyond.

EFF has not had any non-performing loans or loan charge-offs. We have not had a facility related loan loss. Our loan loss reserves will cover maximum annual debt service of the portfolio and provide a conservative cushion against any potential losses.

All our audits to date have been unqualified and confirm full compliance with reporting requirements. Our most recent annual audit and the most recent Form 990 are attached to this application.

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

The key to EFF's ability to issue debt is a solid understanding of the individual marketplace, the ability to identify high-quality schools, and the flexibility to accommodate unusual situations. We underwrite each school with a robust evaluation of the school's risk factors. Our Credit Rating Methodology is attached to this application and describe our underwriting process in more detail.

1. Market Risk. Each state and municipality where EFF has a strong presence, namely Florida, California, Tennessee, and Texas is evaluated in-depth to understand the charter law, the current legislative environment, the strength of the authorizer, the government funding stream and any potential hazards or opportunities therein. Each loan and credit

enhancement underwriting package includes a state landscape section that is updated with every transaction, and EFF's employees and/or contacts in each state or municipality are utilized to make sure information is updated accurately.

2. School Operator Risk. EFF's Credit Methodology examines in-depth the features that we look for in a high-quality school. Most important is governance structure, solid management and leadership at the school level as evidenced by past performance and detailed plans for current and future academic needs. Board members and/or leaders are interviewed, site visits are performed, and, when possible, authorizers are contacted to discuss the performance of a given school. When a school is still in a startup phase, identifying strong leaders and good governance practices is critical, as academic performance is not yet available. In these cases, we also look for strong sponsors, such as foundations or charter networks who have the will and means to support a fledgling school.
3. Project Risk. In the 20 plus years since charter schools have been in existence, the one constant is the challenge of securing and affording a good facility. We evaluate the risk of both the project and the financial position of the school to service any debt. Our staff's experience in financing over 200 school projects allows us to understand the development and/or property risks. We understand the financial risk of the school and the need for bond investors to also feel secure.

In addition to these factors, EFF offers technical assistance to charter schools who may need help navigating the real estate world; project affordability analyses, contacts with reputable real estate brokers, and help with overall budget projections are some ways EFF provides technical assistance to charter schools and ensures that they can afford a facilities project. This thorough understanding of the school's management and financing during the feasibility phase of project planning helps evaluate the strength of the organization and its plan.

Portfolio monitoring and financial management practices include quarterly board reports on lending activity, policy exceptions for approved loans, and reports on loans determined to have higher risk potential. Each loan is examined for payment timeliness and covenant reporting at least quarterly, and more often in the case of loans that have been determined to have greater risk factor. Each loan is subject to an Annual Review that examines its payment record, covenant reports, academic performance, status with the authorizer, and financial performance as shown in annual audited statements. The results of this review inform the risk rating of the loan and adjust the loss reserve calculations of the portfolio.

EFF's portfolio servicing procedures include quarterly portfolio quality reports to monitor risk and track write-off provisions and delinquency protocols. The lending team monitors quarterly/annual financials, covenant requirements, and all academic reports provided to the authorizing entity as it pertains to meeting performance-based goals and proficiency rates. Each month, the entire loan portfolio is reviewed for payment status and reporting compliance. A quarterly report to the Board of Directors includes a current Loan Receivables report along with individual risk ratings, loan loss reserves, policy exceptions, and loan modifications.

For loans that require restructuring, revised terms will be determined by the CEO and the Chief Credit Officer, supported by cash flow projections of the Borrower, collateral evaluation, and market assessments.

On an annual basis in conjunction with preparation of the annual financial statements, the Chief Credit Officer conducts a review of the individual loans, the loan portfolio, and the loan policies and procedures. The individual loan files are monitored to determine if the risk rating is appropriate and if the loan is meeting all covenants. During each fiscal year, EFF contracts with a third party to conduct an external review of our loan portfolio. These findings are shared with the board and recommendations are implemented by the Chief Credit Officer.

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

EFF only works in the charter school sector. We do not provide financing for affordable housing or health care centers or in any other sector. As such, all of our staff have an in-depth understanding of charter schools.

The senior staff has worked at EFF since its first year. The CEO, Anand Kesavan, founded EFF. He previously worked as an executive at the Charter School Growth Fund and was the CFO at KIPP Austin. Prior to joining the charter school sector, he worked in municipal finance where he learned how this pooled, diversified, overcollateralized bond product worked.

Michelle Getz, the Chief Credit Officer, was the lead charter school analyst for Nuveen, an institutional bond fund and the largest purchaser of charter school tax-exempt debt. Over 18 years at Nuveen, she developed and refined the firm's investment methodology and implemented it via analysis of over 300 charter schools and CMOs.

Similarly, our VP of Structured Products and Research , Wendy Berry, is a thought leader in improving charter school credit standards and has authored or co-authored several publications on the sector.

Our Director of Finance, Brian Kates, previously served as the Director of Finance and Operations at Intrinsic Schools and conducted charter school analysis for the Charter School Growth Fund. He also ran an education-focused consulting practice that supported charter schools in strategic and operational planning. He currently sits on the board of a charter school in Chicago.

Our Chief of Staff, Mike McGregor was the COO of the Great Oaks Foundation, where he oversaw the CMO's efforts to procure facilities, secure major grant revenues, and cultivate various stakeholders to support the expansion of a four-state charter school network. Prior to Great Oaks, he served as an administrator and teacher at Match Charter Public School in Boston.

Our Senior Advisor, Mark Medema, worked for the KIPP Foundation training school leaders and supporting them in the planning year, managing the real estate portfolio, and managing the school quality inspection team. He has provided interim leadership for organizations in transition or needing short-term support for leaders on maternity leave. He served as an interim CEO of KIPP Denver, interim President of KIPP DC, interim Executive Director of KIPP Chicago, and the interim Executive Director of Somerset Prep in DC. He also sits on the credit committee of the D.C. Office of the State Superintendent of Education's Charter School Loan and Credit Enhancement Fund.

One of our Investment Associates, Shannon Falon, started her career as a Teach for America Corps Member in Jacksonville, Florida.

The employees of EFF are focused on charter schools and education programming. Their experience allows them to review schools and have a solid understanding of the key success factors for a successful school. The resumes of all senior staff are attached.

(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;

EFF has a board approved Conflict of Interest policy in its Employee Handbook. This is attached to this application. The Standards of Conduct apply to all decision-making and contractual arrangements within EFF.

For our loan transactions, we have set up a series of checks and balances at different levels of transactions. The Chief Credit Officer is responsible for ensuring a fair approval process, free from conflicts of interest. Any approver--EFF executive, Credit Committee member or other Board member--who may have an outside interest in a transaction, must recuse himself or herself from the approval role.

Each loan transaction is subject to a thorough underwriting process and must go to the full board for approval. This structure allows EFF to be accountable to the board and funders of the $200 million grant by maintaining full transparency and integrity to its board and any external examiners.

D. Quality of Project Personnel

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

Resumes for the entire senior management team are attached. The primary participants on the grant project team are listed below.

Anand Kesavan, CEO, founded the organization and created this model based on his years of work in the municipal finance sector prior to working with charter schools. Prior to founding Equitable Facilities Fund, Mr. Kesavan led the Structured Finance Group and ran the Facility Fund for the Charter School Growth Fund, where he helped identify the nation’s best schools and invest in them. Prior to CSGF, he served as Chief Financial Officer of KIPP Austin Public Schools. Prior to KIPP, Mr. Kesavan spent more than a decade in senior investment banking roles, financing more than $10 billion in public projects including state revolving funds and K-12 schools with a specialty in credit ratings & quantitative structuring.

Michael McGregor, Chief of Staff, is the Project Director for this grant. He oversees EFF's internal finance and operations team and has coordinated the work revolving around EFF's first bond offering. As noted above, his professional background involves experience with all facets of charter school operations.

Michelle Getz, Chief Credit Officer, leads the lending team and was responsible for the closing of the first 11 loans totaling $158 million. Ms. Getz previously worked for an institutional investor that analyzed and purchased the most charter school tax-exempt bonds in the country.

Wendy Berry, SVP of Structured Finance, is a lead underwriter for transactions and also the liaison with Standard and Poor's for charter school credit ratings. She is the foremost expert on charter school tax-exempt bonds and has published the annual Charter School Tax-Exempt Bond Market Update for years. This is used by all of the banks and investors to understand the pulse of the charter school tax-exempt bond market.

Support Staff – EFF's staff consists of 9 full time employees and several consultants who will provide back-up coverage for any of the project team's responsibilities, including the Finance team who will help manage the invoicing and recording of payments, and the Lending team who will source transactions and provide technical assistance. This team is composed of finance and charter school experts. EFF does not need any additional staff to implement this program.

EFF has retained consultants to help with this effort. Two notable additions include:

Eugene Clark-Herrera is bond counsel with Orrick. He is the leading bond counsel for charter schools in the U.S.

John Snider heads RBC Capital Markets' Charter School Finance Group and has been involved with over $10 billion in municipal bond financings. RBS is the leading underwriter for charter schools in the U.S.

Governing Board - EFF's three-member Board of Directors has broad expertise that guides the strategic vision and mission for supporting the expansion of high quality and high potential charter schools.

Buddy Philpot (Chair). Family Adviser/Special Projects, Walton Family Foundation. Prior to joining Walton Enterprises, Buddy was the Executive Director of the Walton Family Foundation from 2001-2016. As Executive Director, he lead program strategy and grew the foundation's annual grantmaking from $40 million in 2000 to $374 million in 2014. Before joining the foundation, Buddy spent more than 20 years in commercial banking, joining the Arvest Bank Group in 1987 as a founding team member and later serving as President for 10 years. He continues to serve the bank as a member of the Board of Directors and on the Executive Loan Committee.

Greg Richmond (Secretary). CEO of the National Association of Charter School Authorizers. Greg founded NACSA and is a leading voice in the nation's debates on public charter school quality, access, and accountability. In 2017, he was chosen as an inductee to the National Charter School Hall of Fame, which recognizes individuals for their innovation, long-term commitment, and pioneering efforts in the charter school sector.

Kevin Hall. CEO of the Charter School Growth Fund. Kevin has served as CEO of CSGF since 2009. Before joining CSGF, Kevin was chief operating officer of the Broad Foundation, where he led various aspects of the foundation's grant investment strategy. Prior to Broad, he co-founded and led business development for Chancellor Beacon Academies, a manager of charter and private schools across the United States. Previously, he ran a division of infoUSA and worked at McKinsey & Co., Goldman Sachs, and Teach for America.

EFF's Credit Committee reviews funding requests and consists of five (5) members with experience in lending, real estate development, underwriting and deal structuring, and nonprofit governance.

Bob Boehmler. Mr. Boehmler was previously the Executive Vice President of Arvest Bank. He brings an in depth knowledge of a financial institution's credit process for lending.

Nguyen Huynh. Mr. Huynh is a senior advisor for the Walton Family Foundation's K-12 Education Program focused on facilities. He brings extensive debt capital markets experience, most recently serving as executive vice president at Gates Capital Corporation.

The other three members include EFF's CEO, Anand Kesavan; Chief Credit Officer, Michelle Getz; and Senior Advisor, Mark Medema, who were described earlier.

All five of the credit committee members have worked for financial institutions that provide structured finance.

Advisory Board – EFF maintains an Advisory Board consisting of representatives of the charter schools in its portfolio. It is charged with providing charter school referrals and constituent input as it relates to the design and implementation of this project and EFF's product offerings.

2) The staffing plan for the grant project.

This grant project is fully staffed with Michael McGregor overseeing project implementation and ensuring accountability, and day to day activities will be carried out by the project team identified above. EFF has a total of 9 full-time employees, with five staff members responsible for underwriting and administering its loans with support from another four employees responsible for loan administration and portfolio monitoring as noted above. The teams' efforts are further supported by external legal counsel and bank underwriters in the design of the Bond Offering.

The Bond Offering and the resulting lending initiatives proposed in this application are well within the current staff's bandwidth to implement. The Preliminary Official Statement for the Bond Offering will be prepared before this grant award is announced. The existing team has committed or closed 11 loans for over $158 million in the past twelve months which demonstrates that EFF has ample capacity to achieve the project's proposed goals and objectives within the specified timeline.

E. Competitive Priority (15 points)

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 comprehensive support and improvement or targeted support and improvement under the ESEA, as amended by the Every Student Succeeds Act (up to 5 points);

Since its inception, EFF has been highly mission focused to support students living in underserved communities. Our charter school lending has always prioritized geographic areas with a high percentage of students living in a low socioeconomic status and/or low student achievement. Through the Credit Enhancement for Charter Schools Program, EFF will continue to advance this goal by prioritizing credit enhanced funding for these schools.

The four states EFF targets have received an ESEA Flexibility waiver from the U.S. Department of Education, and have transitioned their accountability framework to designate "Reward," "Priority" or "Focus" schools. "Priority" schools are the lowest five percent of Title I schools for both achievement and lack of progress for students and; "Focus" schools have the largest achievement gaps and demonstrate a lack of progress for several years between groups of students, such as racial and ethnic groups, students from economically disadvantaged backgrounds, students with disabilities, and English-language learners.

- **Florida:** In its 2015 ESEA Waiver Renewal representing data from 2013-2014, Florida designated 330 Focus schools and 150 Priority schools. The highest concentration of these schools is located in urban areas including Miami, Ft. Lauderdale, Orlando and Tampa.[5]
- **Tennessee:** Last reported in 2014, Tennessee has designated 81 Priority schools (100% Title I) and 131 Focus schools (79% Title I) with the largest concentration in Memphis. Fifty-six or 69% of the state's Priority schools are located in Memphis. Nashville has 24 schools designated as either Focus or Priority.[6]

[5] http://www.fldoe.org/accountability/accountability-reporting/eseaw.stml

[6] https://www.tn.gov/education/article/2015-school-accountability

- **Texas:** In 2016-2017, Texas designated 298 Priority schools and 598 Focus schools. These are located across the state with concentrations in urban areas including Houston (82 schools) and San Antonio (50 schools).[7]
- A large proportion or number of public schools have been identified for support under ESSA in these states.

EFF will target services to the following geographic areas:

• A minimum of 80% of the Charter Schools served during each project year will meet at least one of the following criteria:

- Located in a district where more than 50% of students do not meet the standard for proficiency in either math or language on the state assessment; or
- Located in a district with 60% or more of the student population are eligible for free or reduced-price lunch; or
- Have more than 50% of current or projected student enrollment who are eligible for free or reduced-price lunch; or
- Located in a district where more than 25% of public schools have been identified for improvement or corrective action.

(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 (up to 5 points); and

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[7] http://tea.texas.gov/Student_Testing_and_Accountability/Monitoring_and_Interventions/School_Improvement_and_Support/Priority,_Focus,_and_Reward_Schools/

According to the National Assessment of Educational Progress (NAEP) California, Florida, Tennessee and Texas all perform at or below the U.S. average in 8th grade reading and math. While each state has adopted its own form of assessment ranging from administering Texas' STAAR or Florida's FSA, proficiency rates remain abysmally low. Considering the differences in state assessments, using the most recent NAEP available (2017) provides the most comparable data across state lines on student proficiency. The table below demonstrates the percentage of 8th grade students scoring below Proficient on Reading and Math.

	8th Grade Reading below proficient[8]	**8th Grade Math below proficient[9]**
California	68%	71%
Florida	65%	71%
Tennessee	69%	70%
Texas	72%	67%
US Avg.	65%	67%

(3) The extent to which the applicant would target services to communities with large proportions of students from low-income families (up to 5 points).

The National Center for Children in Poverty reports that 41% of children live in low-income families in the United States.[10] The percentage of students living in poverty in California,

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[8] https://www.nationsreportcard.gov/reading_2017/states/achievement?grade=8

[9] https://www.nationsreportcard.gov/math_2017/states/achievement?grade=8

[10] http://www.nccp.org/profiles/US_profile_6.html

Florida, Tennessee and Texas exceeds the national average. Over 60% of the students attending schools that EFF has loaned to thus far qualify as low-income through Free and Reduced Lunch eligibility or direct certification. EFF has set goals to further increase the percentage of low-income students its loans support throughout the project period.

F. Invitation Priority. Applicants proposing to-- (1) Target services in one or more qualified opportunity zones as designated by the Secretary of the Treasury; or

EFF intends to identify schools in opportunity zones. In our initial portfolio, almost half (5 of 11) of the borrowers are located in opportunity zones: KIPP Nashville, Rocketship Nashville, Soulsville, KIPP Bay Area, and Alliance for College Ready Schools.

We expect this trend to continue and will set a target to maintain this level of investment in opportunity zones.

(2) Partner with one or more qualified opportunity funds under section 1400Z-2 of the Internal Revenue Code, as amended by the Tax Cuts and Jobs Act, in financing charter school facilities.

Note: The Department is also interested in applications that leverage newly created or previously untapped sources of capital or other assistance, which may include non-Federal programs, in financing charter school facilities.

EFF has been working with a foundation interested in setting up a new qualified opportunity zone fund. More importantly, EFF addresses the Note in the Invitational Priority and will leverage previously untapped sources of capital. As described earlier, the issuance of bonds by EFF will be sold to low-yield institutional investors. This is a very large source of untapped funds.