

Status: Submitted

Last Updated: 08/26/2019 07:10 AM

Technical Review Coversheet

Applicant: Building Hope Finance (S354A190006)

Reader #1: *****

	Points Possible	Points Scored
Questions		
Selection Criteria		
Quality of project design and significance		
1. Quality Project Design	35	30
Quality of Project Services		
1. Project Services	15	14
Capacity		
1. Capacity	35	31
Quality of Project Personnel		
1. Project Personnel	15	15
Sub Total	100	90
Priority Questions		
Competitive Preference Priority		
Competitive Preference Priority 1		
1. CPP1	5	5
Competitive Preference Priority 2		
1. CPP2	5	5
Competitive Preference Priority 3		
1. CPP3	5	5
Sub Total	15	15
Total	115	105

Technical Review Form

Panel #2 - FY19 Credit Enhancement Panel 2 - 1: 84.354A

Reader #1: *****

Applicant: Building Hope Finance (S354A190006)

Questions

Selection Criteria - Quality of project design and significance

1. In determining the quality of project design and significance, the Secretary considers--

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

Strengths:

- (1) The Credit Enhancement dollars through the Department of Education program will assist the applicant in filling significant funding gaps. Charter schools will be able to borrow capital to achieve 100% LTV. The applicant estimates the cost of financing secured by the Credit Enhancement funds will range between 5-6%. Financing costs to charter schools were disclosed in the document. After the cost of the credit enhancement of 1% yearly, the cost of the credit enhanced debt will be approximately 4-11% lower than the typical cost of equity of 10-18%. (page e28)
- (2) The applicant will target schools in markets that meet specific criteria defined in the application. They have developed an advanced Logic Model. Their goals, measures, objectives, and timelines are described in detail. To assure progress in achieving goals, they will collect and analyze data, document best practices and market the program to their core communities to ensure an adequate pipeline to meet the stated goals. (page e29)
- (3) Building Hope has set project performance targets to allocate \$33 million in total financing and loans over a 3-year project period. A robust pipeline of schools exist in their current markets and a potential pipeline of new schools have been identified. Project performance measures are in place to measure the success of the projects.
- (4) The applicant has a proven track records of deploying Credit Enhancement Funds that are replicable. They have recycled federal Credit Enhancement funds eightfold totaling \$42,943,865. These have resulted in over \$524 million in

total financing which helped create over 2.5 million square feet of school facility space for over 30,000 students. (page e33)

(5) The applicant has procedures in place to vet charter schools in order to use the most effective risk mitigation strategy. The schools are evaluated using stringent underwriting processes to determine risk levels. They estimate that the size of loan credit enhancements will range from 5% up to 30% of the total cost of transaction. The average loan is estimated to range from \$900,000 to \$2,700,000. (page e36)

(6) The applicant projects that the grant will be leveraged at 14.4 times to provide \$476 million in financing to 35 charter schools.

(7) Historically, 80% of Building Hope's grants have been deployed "A" or "B" rated states by Center of Education Reform (CER) and over 80% have been deployed at the top 50th percentile of states ranked by the National Alliance for Public Charter Schools (NAPCS). (page e37) The targeted states and the District of Columbia have strong charter laws that support priorities set forth in ESEA. Thus demonstrating a need in these areas.

(8) Over 300,000 students are estimated to be on charter school waiting lists in Washington, D.C., Florida, Texas, Idaho and Nevada assuming the average enrollment of 400 students per school, this translates to an unmet demand of over 750 charter schools in the prospective markets. The costs are reasonable in relation to the design of the program. (page e38)

Weaknesses:

Pipeline is referenced but not included in the application. This along with the types of expected financing needs per facilities would be help in strengthening a request of this size.

Reader's Score: 30

Selection Criteria - Quality of Project Services

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

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

Strengths:

(1) Building Hope has been in the business of addressing charter school needs for sixteen years. The programs are designed to offer schools a one-stop-shop for financing needs. They have been helpful to new and newly expanding charter schools allowing them access to funds in the marketplace that would otherwise be unavailable.(page e40)

(2) The applicant has letters from nineteen organizations and strategic partners including public charter schools, authorizers, funders, advocacy associations, and state agencies. (page e91-e110)

(3) The project team has experts within each region of Building Hope's Five Initiatives, offering expertise in financial modeling, real estate and school opportunities. Technical assistance includes the following formats; subject matter specific trainings in-person, or via webinar, high level financial analysis, and best practice operations support. (page e41)

(4) Building Hope has incurred a default rate of .03% establishing a direct link between the level of technical assistance provided and the sustained quality of its portfolio. (page e42) The education and expertise mitigates the risk a school entering into a bad transaction with no cost to the school. This track record is an indicator that the grant project will be focused on assisting charter schools with a likelihood of success.

Weaknesses:

No philanthropic partnerships are included in the application design. Recommend that they align themselves with foundations with similar interest.

The pipeline information for the targeted markets would clarify the strategy.

Reader's Score: 14

Selection Criteria - Capacity

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

(1) The amount and quality of experience of the applicant in carrying out the activities it proposes to undertake in its application, such as enhancing the credit on debt issuances, guaranteeing leases, and facilitating financing;

(2) The applicant's financial stability;

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

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

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

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

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

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

Strengths:

(1) Since, 2003 Building Hope has financed 273 projects with an overall investment of \$281,928,999 supporting over \$1.7 billion in project costs. They have created or financed 9,271,839 sq. ft. of school facility space resulting in over 133,314 seats for students. (page e21) They are building on proven experience and expanding the impacts focusing on new developments that ensure long-term affordability for schools.

(2) The applicant has received a credit rating from AERIS Rating Services in 2018. This entailed three stars for "Impact Management" and A+ for "Financial Strength and Performance Rating". They were awarded a loan from the USDA Community Relending Program which requires an AERIS rating of "1" or "2" and thorough evaluation of the organization's credit, review of internal controls and policies and procedures. (page e46)

(3) As of December 31, 2018, Building Hope reported \$89.6 million in total assets and \$46.0 million in Net Assets for a Net Asset ratio of 51%. In their 16 year history there have been only four loan charge-offs, all for operating loans totaling \$678,500 which is .3% of their loan activity. This demonstrates their ability to mitigate risk. (page e46)

The applicant has a solid track record impacting 133,000 and invested over \$281 million through direct loans, credit and real estate development.

(4) The applicant underwrites each school with a robust evaluation of the school's risk factors. This criteria has helped identify three primary factors to protect against unwarranted risk: 1) Public Policy risk, 2) Operator Risk, and 3) Project Risk. (page e48)

Building Hope's expertise in education is built within the organization. The majority of the staff have either worked in a charter school or have helped lead them.

(5) The applicant has a board Conflict of Interest policy. (page e161) They also have a Standards of Conduct that applies to all decision making and contractual agreements within the organization. Each finance transaction has the same approval process aligning with a tiered approval structure. (page e50) These processes enable them to maintain transparency and integrity to its Board and external stakeholder examiners.

(8) They have recycled federal Credit Enhancement funds eightfold totaling \$42,943,865. These have resulted in over \$524 million in total financing which helped create over 2.5 million square feet of school facility space for over 30,000 students. (page e33)

Weaknesses:

Given their current size, the amount of the request is questionable. The application referenced a pipeline throughout however, the attachment was missing. This would have clarified the anticipated activity as it pertains to financing types and amounts.

Reader's Score: 31

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

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

(2) The staffing plan for the grant project.

Strengths:

(1) The Vice President of the Mid-Atlantic Region is the Project Director who has successfully managed prior Credit Enhancement grants for 15 years and will remain at the helm of this project. This reflects the stability of the organization.

(2) The staffing plan already exists within the organization this includes a staff of 38 full-time personnel many who have been with the organization 5-10 years. The model has the project team headquartered in Washington, DC and key field staff located in Florida, Texas, Idaho and Nevada. The application could address staff additions associated with the new projects and whether they were to be located at the headquarters or regional offices.

Weaknesses:

No weakness noted.

Reader's Score: 15

Priority Questions

Competitive Preference Priority - Competitive Preference Priority 1

- 1. For FY 2019 and any subsequent year in which we make awards from the list of unfunded applications from this competition, this priority is a competitive preference priority. Under 34 CFR 75.105(c)(2)(i), we award up to an additional 15 points to an application, depending on how well the application addresses the priority.**

This priority is:

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

- (1) The extent to which the applicant would target services to geographic areas in which a large proportion or number of public schools have been identified for comprehensive support and improvement or targeted support and improvement under the ESEA, as amended by the Every Student Succeeds Act (up to 5 points);**

Strengths:

Priority 1: The applicant's STAR Accountability Framework was approved by the U.S. Department of Education in 2017. This framework designates schools from 1 (lowest performing) to 5 (highest performing). Of the District's 203 schools 147 were rated low-performing 1, 2, and 3. The Office of the State superintendent of Education (OSSE) has identified schools in DC for Comprehensive Support and Improvement (CS&I). The other targeted markets; Texas, Florida, Idaho, and Nevada have state approved ESSA plans where schools have been identified. (page e54)

Weaknesses:

No weakness noted.

Reader's Score: 5

Competitive Preference Priority - Competitive Preference Priority 2

1. For FY 2019 and any subsequent year in which we make awards from the list of unfunded applications from this competition, this priority is a competitive preference priority. Under 34 CFR 75.105(c)(2)(i), we award up to an additional 15 points to an application, depending on how well the application addresses the priority.

This priority is:

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

- (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

Strengths:

Priority 2: The National Assessment of Educational Progress (NAEP) results for 2017 indicate that all of the targeted states fall below the U.S. average in 8th grade and math. All but the exception of Texas fall below the national average (78%) for the public high school graduation rate. (page e55)

Weaknesses:

No weakness noted.

Reader's Score: 5

Competitive Preference Priority - Competitive Preference Priority 3

1. For FY 2019 and any subsequent year in which we make awards from the list of unfunded applications from this competition, this priority is a competitive preference priority. Under 34 CFR 75.105(c)(2)(i), we award up to an additional 15 points to an application, depending on how well the application addresses the priority.

This priority is:

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

- (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).

Strengths:

Priority 3: The application indicates the percentage of students that are considered low-income and eligible for the federal Free and Reduced Lunch (FRL) program in the target markets; D.C., Florida, Idaho, Nevada, and Texas.

Weaknesses:

No weakness noted.

Reader's Score: 5

Status: Submitted

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Technical Review Coversheet

Applicant: Building Hope Finance (S354A190006)

Reader #2: *****

	Points Possible	Points Scored
Questions		
Selection Criteria		
Quality of project design and significance		
1. Quality Project Design	35	27
Quality of Project Services		
1. Project Services	15	12
Capacity		
1. Capacity	35	30
Quality of Project Personnel		
1. Project Personnel	15	15
Sub Total	100	84
Priority Questions		
Competitive Preference Priority		
Competitive Preference Priority 1		
1. CPP1	5	4
Competitive Preference Priority 2		
1. CPP2	5	4
Competitive Preference Priority 3		
1. CPP3	5	4
Sub Total	15	12
Total	115	96

Technical Review Form

Panel #2 - FY19 Credit Enhancement Panel 2 - 1: 84.354A

Reader #2: *****

Applicant: Building Hope Finance (S354A190006)

Questions

Selection Criteria - Quality of project design and significance

1. In determining the quality of project design and significance, the Secretary considers--

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

Strengths:

1. The applicant's planned use of the requested award would provide significant benefits to the assisted schools by making financing available when it would not otherwise be available, and by making it possible to obtain higher loan to value ratios.
2. The applicant's project goals, objectives and timelines are measurable and achievable and would further the purposes of the program.
3. The applicant has a strong network of partnerships that helped to design the project plan and would play an important part in achieving the stated goals.
4. The specific approaches that the applicant would use in its five target markets could be replicated provided subsidy or grant dollars like the requested CE is available.
5. The applicant has taken care in selecting areas to target based on the opportunities
6. The applicant has taken care to select target communities where it sees a particular opportunity to help build the charter sector with facility financing assistance and it's selection of individual schools to be assisted is to be based on the recommendations of local charter support organization and its own underwriting process (e35) that has been developed and tested by its previous facility financing work.
7. The applicant demonstrates that it would achieve strong leverage with the requested award.
8. The applicant's plan would leverage significant private resources and would assist schools in obtaining facilities that would otherwise be unlikely to.

9. The applicant indicates that the four states and Washington DC where the applicant's activities would be targeted have strong charter laws.
10. The award amount that the applicant seeks for each of the five geographically and programmatically distinct projects for which it seeks support appear to be reasonable and appropriate to requirements and plan for each of them

Weaknesses:

1. The interest rates that the applicant's financing would offer are only low relative to commercial equity or mezzanine financing - neither of which charter schools typically utilize.
2. The applicant's assistance would provide financing to early stage schools and other schools facing an immediate problem in obtaining the financing needed to secure facilities, but it appears that the assistance would be short-term only – typically three to five years (e29). While early stage schools could improve their finances through enrollment growth or other efforts during the loan period, the applicant does not address how the schools would secure or how it would assist the schools in securing the long-term facility financing that they would need at the end of their short-term assistance that would be aided by the requested CE.
3. The revenue growth driven by growing enrollment that the applicant cites as the reason for the short-term of its loans (e29) seems unlikely to address some of the specific facility challenges that the applicant describes; for instance the imbalance between facility rental or purchase costs and reimbursement levels that they aim to address in their Initiative #1 in DC (e21-23) seems unlikely to be resolved by school revenue growth and it is difficult to understand how, at the end of five years schools would be able to secure long-term financing without the kind of credit enhancement that the applicant had been providing.
4. The applicant has targeted specific markets for assistance, and as a result, their ability to pick and choose among schools will be limited as in most cases it appears that they would assist all or most of the schools in the market that are facing the identified financing obstacle.
5. The charter laws in two of the four states where the applicant's activities would be targeted are not rated very highly, Idaho (21) and Texas (29) by NAPCS ratings and three of them (Idaho, Nevada and Texas) have "C" ratings from CER (e38).
6. The amount of the request seems excessive relative to the potential significance of the outcomes, especially given that it is made up not of one large project, but five programmatically and geographically distinct efforts.
7. The requested grant amount is larger than the applicant's existing loan (\$22.9 million, e196) and credit enhancement portfolios (\$15.25 million, e205-206).

Reader's Score: 27

Selection Criteria - Quality of Project Services

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

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

Strengths:

1. The applicant has taken care to select target communities where it sees a particular opportunity to help build the charter sector with facility financing and its proposed approach would help schools in those areas address the immediate challenges that they face in securing school facilities financing.
2. The applicant directly provides a range of services related to facility financing as well as connection to other services relating to developing facilities and operating schools.
3. The applicant does not typically charge fees for its services (e42) and its lending/credit enhancement terms appear to be reasonable and cost effective.
4. The applicant demonstrates that they have a process for determining likelihood of success and that they are focusing on early stage schools that have a particular need for assistance based on the local situation and opportunities.
5. The applicant demonstrates involvement from charter schools in the design of the program and they provide evidence in support letters that charters, and charter support organizations, support the effort.

Weaknesses:

1. The applicant does not explain how they are addressing, or positioning assisted schools to address, their long-term facility financing needs when the three to five year credit enhancements that the applicant means to offer expire.
2. The applicant mentions consulting charter authorizers in the design of the program, but does not demonstrate that they support the program.

Reader's Score: 12

Selection Criteria - Capacity

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

Strengths:

- The applicant's previous programs and its extensive experience with charter facility development give it good background experience for carrying out the proposed activities.
- The applicant has a large balance sheet and is rated by Aeris, the CDFI rating agency.
- From its existing programs aimed at developing and financing the development of charter facilities the applicant has substantial experience and systems for risk management in loan underwriting, portfolio management and financial management.
- From their substantial experience with charter school facility financing and development the applicant has substantial educational expertise and experience and the demonstrated capacity to effectively assess charter school's likelihood of success.
- The applicant has conflict of interest requirements and policies with respect to individual conflicts and a process for ensuring that approval processes are free of conflicts.
- Based on the applicant's report and the CE program report included in the appendices the applicant has performed satisfactorily with previous CE awards.

Weaknesses:

- The sizes of the applicant's loan portfolio (\$22.9 million, e196) and credit enhancement portfolio (\$15.25 million, e205-206) indicate that the scale of the proposed activities would be significantly larger than those they have undertaken in the past.
- The applicant's Aeris rating for Financial Strength and Performance, A+, is solid, but not strong (e174-175), as they illustrate by noting that they did not qualify for the exemption from a separate evaluation of their credit by the USDA Community Relending Program that they would have received had they had a higher AERIS rating.
- The applicant has appropriate conflict of interest policy with regard to individual conflicts, but does not address issues that may arise from their different lines of business, particularly lending and development, and the way the applicant's activities and interests may, in some cases, conflict among themselves and with the interests of schools that they are assisting.
- The applicant has targeted specific markets for assistance, and seems to intend to assist most, if not all the qualifying schools in each market and that may make it difficult for underwriting to drive their decision making process.
- How the applicant's school development and sale and leasing business has performed should impact the evaluation of the applicant's risk management abilities, but the applicant does not provide sufficient information to assess that performance.

Reader's Score: 30

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

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

(2) The staffing plan for the grant project.

Strengths:

- By virtue of the roles that they have played in building the organization's substantial track record (more than 270 school facilities assisted with more than \$250 million in financing (e43), and previous professional experience and training they are well qualified to carryout the proposed activities.
- The applicant staffing plan for the project seems reasonable as they will rely on existing, in-place, staff that has carried out similar previous projects, and most have been with the organization for a number of years.

Weaknesses:

No weaknesses noted.

Reader's Score: 15

Priority Questions

Competitive Preference Priority - Competitive Preference Priority 1

1. For FY 2019 and any subsequent year in which we make awards from the list of unfunded applications from this competition, this priority is a competitive preference priority. Under 34 CFR 75.105(c)(2)(i), we award up to an additional 15 points to an application, depending on how well the application addresses the priority.

This priority is:

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

- (1) The extent to which the applicant would target services to geographic areas in which a large proportion or number of public schools have been identified for comprehensive support and improvement or targeted support and improvement under the ESEA, as amended by the Every Student Succeeds Act (up to 5 points);

Strengths:

- The applicant will give preference to geographic areas "in which a large proportion or number of schools have been identified for improvement" (e30) and that meets Priority 1.

Weaknesses:

- The applicant's commitment that each assisted school will meet at least one of the priority criteria is good, but it would be stronger if they had committed to having each assisted school meeting each priority.(e30)

Reader's Score: 4

Competitive Preference Priority - Competitive Preference Priority 2

1. For FY 2019 and any subsequent year in which we make awards from the list of unfunded applications from this competition, this priority is a competitive preference priority. Under 34 CFR 75.105(c)(2)(i), we award up to an additional 15 points to an application, depending on how well the application addresses the priority.

This priority is:

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

- (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

Strengths:

- The applicant will give preference to geographic areas “in which a large proportion of students perform below proficient on academic assessments” (e30) and that meets Priority 2.

Weaknesses:

- The applicant’s commitment that each assisted school will meet at least one of the priority criteria is good, but it would be stronger if they had committed to having each assisted school meeting each priority.(e30)

Reader's Score: 4

Competitive Preference Priority - Competitive Preference Priority 3

1. For FY 2019 and any subsequent year in which we make awards from the list of unfunded applications from this competition, this priority is a competitive preference priority. Under 34 CFR 75.105(c)(2)(i), we award up to an additional 15 points to an application, depending on how well the application addresses the priority.

This priority is:

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

(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).

Strengths:

- The applicant will give preference to geographic areas “in which a large proportion of students are from low-income communities (e30)” and that meet Priority 3.

Weaknesses:

- The applicant’s commitment that each assisted school will meet at least one of the priority criteria is good, but it would be stronger if they had committed to having each assisted school meeting each priority.(e30)
- The applicant’s standard for meeting Priority 3, areas where 50% or more of the student population is eligible for free and reduced lunch (e30), is relatively weak given how many charters have significantly higher concentrations of low-income students.

Reader's Score: 4

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Technical Review Coversheet

Applicant: Building Hope Finance (S354A190006)

Reader #3: *****

	Points Possible	Points Scored
Questions		
Selection Criteria		
Quality of project design and significance		
1. Quality Project Design	35	30
Quality of Project Services		
1. Project Services	15	13
Capacity		
1. Capacity	35	30
Quality of Project Personnel		
1. Project Personnel	15	12
Sub Total	100	85
Priority Questions		
Competitive Preference Priority		
Competitive Preference Priority 1		
1. CPP1	5	5
Competitive Preference Priority 2		
1. CPP2	5	5
Competitive Preference Priority 3		
1. CPP3	5	5
Sub Total	15	15
Total	115	100

Technical Review Form

Panel #2 - FY19 Credit Enhancement Panel 2 - 1: 84.354A

Reader #3: *****

Applicant: Building Hope Finance (S354A190006)

Questions

Selection Criteria - Quality of project design and significance

1. In determining the quality of project design and significance, the Secretary considers--

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

Strengths:

[a1] Building Hope requests \$33 million to address five major facility capital initiatives in Washington, D.C., Florida, Texas, Idaho and Nevada. The applicant targets schools in markets where they meet specific criteria defined as: 1) schools in their first years of operation (0-5 years old) are unable to meet traditional lending underwriting standards; 2) schools located near failing traditional district schools, unable to meet traditional lending underwriting standards due to lack of capital; 3) schools in regions where credit enhancement dollars have historically not been utilized to support charter school financing of construction development projects; and 4) schools in regions in which philanthropic support has been exhausted. [e21-28]

[a2] The project implementation plan specifies five goals each with measurable objectives. They are appropriate for the program as they address the number of charter schools to be supported with credit enhancement, leveraging benchmarks, the QOZs under one initiative, and the competitive preference priorities. [e29-30]

[a3] Building Hope has already identified a potential pipeline of new schools that need the assistance of the Credit Enhancement award. Partners include state education agencies, charter school authorizers, state charter school associations and advocacy groups, new and established charter school networks, and philanthropic and community leaders in the five impacted jurisdictions (DC, FL, ID, NV, TX). Building Hope has developed an advanced impact report to track the annual performance of the charter schools it serves and the overall social impact performance of its loan

portfolio and financial performance. The double bottom line portfolio monitoring conforms to Building Hope's ongoing policies with each new school loan risk-rated at the time of approval and tracked to assure diligent performance monitoring and data collection. [e31-32]

[a4] Building Hope has significant experience in the charter school sector (having recycled its federal Credit Enhancement funds with more than an eight-fold increase for a total investment of nearly \$43 million in credit enhancements) and brought such experience to bear in proposing its five initiatives. The applicant makes the case these are replicable models as they do address financing challenges common to a number of charter school states. [e33-34]

[a5] Building Hope often works with schools prior to their authorizer proposal submission, and through their planning year should their charter application be awarded. The applicant estimates that the size of loan credit enhancements will range from between 5 to 30 percent of the total cost of transactions, based on the inability to obtain financing without credit support. Based its estimated average total cost for facilities in each of the initiative markets, credit enhancements for loans could range from \$900,000 to \$2,700,000. [e35-36, Appendices B & C]

[a6] To date, Building Hope has provided credit enhancements for 70 school facility projects. The new grant will be leveraged at 14.4 times to provide \$476 million in financing to 35 charter schools. The applicant cites non-federal Program Related Investments (PRI) from partners like Opportunity Finance Network (\$1million PRI), the Walton Family Foundation (\$15 million PRI), J.A. and Kathryn Albertson Family Foundation (\$23 million PRI), Calvert Foundation (\$1 million PRI), Opportunity180 in Nevada, and the Sallie Mae Fund (\$28.5 million grants). The applicant expects continued growth in the markets served by our Five Initiatives will attract new private sector capital from local foundations, including City Education Partners, KLE Foundation, and Good Reason Houston in Texas. [e21, e36-37]

[a7] The five initiative markets where Building Hope is engaged have strong state charter laws as ranked by the National Alliance for Public Charter Schools and the Center for Education Reform. While the five markets share considerably active charter authorizing environments, have equitable funding codified in law, and most have some form of facilities assistance, access to adequate facilities and capital is limited. [e37-38]

[a8] The \$33 million grant request would leverage over \$476 million in total financing and loans over a 3-year project period. Project costs are nominal and related to subsidizing closing costs and legal fees of borrowers. Total revenue from the reserve account for the ten-year contract period is estimated at \$3,300,000 and expected to match same amount \$3,300,000 in expenses that would be expected to be charged to the reserve account. [e39, Budget]

Weaknesses:

[a1] While Building Hope plans to work with new charter schools in the start up stage when financing is otherwise least accessible to them, the proposed initiatives involve short-term equity and the applicant did not provide an explanation of how its initiatives would be sustainable in the long term for most charter schools that still face facilities financing challenges even at full enrollment status. [e29]

Reader's Score: 30

Selection Criteria - Quality of Project Services

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

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

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

(3) The extent to which the technical assistance and other services to be provided by the proposed grant project involve the use of cost-effective strategies for increasing charter schools' access to facilities financing, including the reasonableness of fees and lending terms; and

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

Strengths:

[b1] The loan programs of Building Hope are designed to offer schools a one-stop-shop for financing needs -- charter school operators have the ability to secure credit enhancement equity through our program in conjunction with other in-house financing capital. By providing subordinate debt for all or part of the loan that a charter is seeking, Building Hope provides an increased level of security that brings much needed capital to the table that would otherwise be inaccessible to these schools. [e40]

[b2] Building Hope has an advisory board, responsible for providing input and feedback regarding its services and ensuring that our financing products are tailored to the needs of the members' constituents. Nineteen organizations submitted letters of support for the application to include public charter schools, authorizers, funders, advocacy associations, and state agencies. [e41, Appendix E]

[b3] The team regularly provides one-on-one consulting free of cost to both prospective and current charter school clients. TA also includes navigating the real estate and finance world; project affordability analyses, contacts with reputable real estate brokers, and help with overall budget projections to ensure they can afford a facilities project. [e41-42, e49]

Weaknesses:

[a4] While Building Hope stated it had identified a potential pipeline of new charter schools, it did not reference specific schools or their characteristics, which made it difficult to verify if the proposed initiatives would assist the charter schools with a likelihood of success and the greatest demonstrated need for assistance. [e32]

Reader's Score: 13

Selection Criteria - Capacity

- 1. In determining an applicant's business and organizational capacity to carry out the project, the Secretary considers--**
 - (1) The amount and quality of experience of the applicant in carrying out the activities it proposes to undertake in its application, such as enhancing the credit on debt issuances, guaranteeing leases, and facilitating financing;**
 - (2) The applicant's financial stability;**
 - (3) The ability of the applicant to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management;**
 - (4) The applicant's expertise in education to evaluate the likelihood of success of a charter school;**
 - (5) The ability of the applicant to prevent conflicts of interest, including conflicts of interest by employees and members of the board of directors in a decision-making role;**
 - (6) If the applicant has co-applicants (consortium members), partners, or other grant project**

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

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

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

Strengths:

[c1] The credit enhancements have resulted in over \$524 million in total financing creating over 2.5 million square feet of school facility space for nearly 30,000 students. The majority of this space is occupied by students (63 percent) coming from low- income families (as measured by the percentage of the student population that qualifies for Free and Reduced Lunch). In addition, the charter schools Building Hope serves are overwhelmingly either African American or Latino, both under-served groups. [e44]

[c2] Building Hope generates positive net income without the need for grant funds or any subsidies. As of December 31, 2018, Building Hope reported \$89.6 million in Total Assets and \$46.0 million in Net Assets for a Net Asset ratio of 51 percent. It generated a positive change in net assets in excess of \$51.9 million in FY 18. All audits, which are prepared on a consolidated basis by BDO for BHH and its subsidiaries and affiliates, to date have been unqualified. Building Hope received a credit rating from AERIS Rating Services in 2018 of three stars for "Impact Management" and an A+ for "Financial Strength and Performance Rating." In 2016, Building Hope was awarded a loan from the USDA Community Relending Program, which required either an AERIS rating of "1" or "2" or a thorough evaluation of the organization's credit. This thorough evaluation included a review of internal controls; policies and procedures for safeguarding assets, including cash management; asset liability policy with minimum liquidity and operating reserve targets; and risk mitigation strategies. Building Hope also passed the thorough evaluation by three federal government agencies and, as a result, has been awarded 1) a \$25 million loan from the USDA 2) a \$25 million loan from the CDFI Fund, and 3) a \$2.3 million loan from the US Treasury Small Business Lending Fund. [e46-47]

[c3] Building Hope explains that it mitigates against three primary risks: 1) Public Policy Risk by focusing on geographic locations with a strong and clear law governing charter school and a large need for high quality public schools where district schools have failed students; 2) Operator Risk by utilizing underwriting guidelines that include an in-depth analysis of what constitutes a high-quality charter school, including ensuring solid management and leadership at the school level as evidenced by past performance and detailed plans for current and future academic needs (noting when a school is still in a startup phase, identifying strong leaders and good governance practices is critical since academic performance is not yet available); and 3) Project Risk by evaluating the financial position of the school to service any debt. Regarding the latter, the applicant noted a shift in certain markets where traditional commercial banks have stepped in to provide senior debt, but there are still cases where real estate is far more expensive than commercial debt will accommodate, and markets where commercial lenders have yet to step in for even the low perceived risk of senior debt. In Building Hope's 16-year history, there have been only four loan charge-offs, all for operating loans totaling \$678,500. This is 0.3 percent of total loan activity. The applicant has not had a facility related loan loss. Loan loss reserves of 2.7% of the portfolio provide a cushion against any future losses. [e46, 48-49]

[c4] Many senior members of the leadership team have been with Building Hope since its inception and the majority of the staff have either worked in a charter school or have helped lead charter schools. [e49, Appendices H & R]

[c8] Building Hope, and through its acquisition of America's Charter School Financing Corporation, has provided credit enhancements to 70 of charter school facility projects. Building Hope has recycled its federal Credit Enhancement funds with more than an eightfold increase for a total investment of \$42,943,865 in credit enhancements. These credit enhancements have resulted in over \$524 million in total financing creating over 2.5 million square feet of school facility space for nearly 30,000 students. [e50, Appendix P]

Weaknesses:

[c2] It bears noting that the applicant's AERIS rating is in the good (not great) range. Furthermore, the \$33 million request by Building Hope is substantially greater than the organization's outstanding portfolio of loans, which calls into question the applicant's capacity to effectively administer its initiatives.

[c5] While the applicant has the requisite Conflict of Interest policy, it did not address whether and how it keeps separate the facilities financing support and its business lines that offer fee-based financial and operational services to schools. [e45, 50, Appendix J]

Reader's Score: 30

Selection Criteria - Quality of Project Personnel

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

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

(2) The staffing plan for the grant project.

Strengths:

[d1] Building Hope has had the same project manager over Credit Enhancement grants for the past 15 years. Four additional team members are identified in the proposal each with responsibilities for due diligence and loan structuring; CDFI operations and management; real estate developments in educational facilities; and loan origination and servicing, including monitoring individual credit transactions. [e51-51, Appendices B, H & S]

Weaknesses:

[d2] While the applicant provided very brief mention of its staffing level of 38 full-time employees, including field staff in all the five initiative markets, no details were provided as to the number of staff in the field and their roles and responsibilities or the organizational structure of the team. [e53]

Reader's Score: 12

Priority Questions

Competitive Preference Priority - Competitive Preference Priority 1

1. For FY 2019 and any subsequent year in which we make awards from the list of unfunded applications from this competition, this priority is a competitive preference priority. Under 34 CFR 75.105(c)(2)(i), we award up to an additional 15 points to an application, depending on how well the application addresses the priority.

This priority is:

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

(1) The extent to which the applicant would target services to geographic areas in which a large proportion or number of public schools have been identified for comprehensive support

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

Strengths:

The applicant proposes to use its requested Credit Enhancement funds to support the facility needs of charter schools that satisfy at least one of the competitive preference priorities, such as being located in a geographic area where more than 50 percent of public schools have been identified for comprehensive or targeted support and improvement under ESSA. In so doing, it cited data appropriate for this priority. [e30, e54-56]

Weaknesses:

None noted.

Reader's Score: 5

Competitive Preference Priority - Competitive Preference Priority 2

- 1. For FY 2019 and any subsequent year in which we make awards from the list of unfunded applications from this competition, this priority is a competitive preference priority. Under 34 CFR 75.105(c)(2)(i), we award up to an additional 15 points to an application, depending on how well the application addresses the priority.**

This priority is:

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

(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

Strengths:

The applicant proposes to use its requested Credit Enhancement funds to support the facility needs of charter schools that satisfy at least one of the competitive preference priorities, such as being located in a geographic area where more than 60 percent of the student population performed below proficient on academic assessments. In so doing, it cited State proficiency data appropriate for this priority. [e30, e54-56]

Weaknesses:

None noted.

Reader's Score: 5

Competitive Preference Priority - Competitive Preference Priority 3

- 1. For FY 2019 and any subsequent year in which we make awards from the list of unfunded applications from this competition, this priority is a competitive preference priority. Under 34 CFR 75.105(c)(2)(i), we award up to an additional 15 points to an application, depending on how well the application addresses the priority.**

This priority is:

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

(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).

Strengths:

The applicant proposes to use its requested Credit Enhancement funds to support the facility needs of charter schools that satisfy at least one of the competitive preference priorities, such as being located in a geographic area where 50 percent or more of the student population is eligible for the federal free or reduced-price lunch (FRL) program. The applicant noted that charter school facility space it previously financed is occupied by 63 percent of students coming from FRL-eligible families. It cited FRL data demonstrating its five proposed initiatives are appropriate for this priority. [e30, e44, e54-56]

Weaknesses:

None noted.

Reader's Score: 5

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