

Status: Submitted

Last Updated: 09/26/2019 02:45 PM

## Technical Review Coversheet

Applicant: Equitable Facilities Fund, Inc. (S354A190009)

Reader #1: \*\*\*\*\*

	Points Possible	Points Scored
<b>Questions</b>		
<b>Selection Criteria</b>		
<b>Quality of project design and significance</b>		
1. Quality Project Design	35	33
<b>Quality of Project Services</b>		
1. Project Services	15	12
<b>Capacity</b>		
1. Capacity	35	32
<b>Quality of Project Personnel</b>		
1. Project Personnel	15	14
<b>Sub Total</b>	100	91
<b>Priority Questions</b>		
<b>Competitive Preference Priority</b>		
<b>Competitive Preference Priority 1</b>		
1. CPP1	5	3
<b>Competitive Preference Priority 2</b>		
1. CPP2	5	3
<b>Competitive Preference Priority 3</b>		
1. CPP3	5	3
<b>Sub Total</b>	15	9
<b>Total</b>	115	100

# Technical Review Form

Panel #3 - FY19 Credit Enhancement Panel 3: 84.354A

Reader #1: \*\*\*\*\*

Applicant: Equitable Facilities Fund, Inc. (S354A190009)

## 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:

The applicant provides a compelling case to leverage a Credit Enhancement award of \$8 million as a loan loss reserve for several public bond offerings totaling \$400 million over the 3 years. By proposing to originate individual long-term loans to charter schools out of a much larger public bond offering, the applicant makes the case that it will be able to pass meaningful savings on interest expense (about 50 basis points) along to the borrowers that they would not likely be able to secure based on their own S&P ratings. As a direct lender, the applicant lays out a framework to also provide better terms to borrowers, specifically by charging lower transaction fees and not requiring the borrowers to fund a loan loss reserve. On page 5, the applicant estimates that over the life of these loans, its project will generate upwards of \$120 million in savings for borrowers to be redirected back into classrooms.

On pages 6-8, the applicant describes 4 goals with specific, measurable objectives. Both the goals and the underlying objectives are appropriately aligned with the broader goals and objectives of the Credit Enhancement program. Specifically, the applicant outlines selection criteria that will ensure more than a majority of charter school borrowers will meet at least one of the Credit Enhancement program's competitive preference priorities. The applicant codifies within its goals and objectives the number of borrowers it intends to serve, the prospective terms, and the leverage ratio of the Credit Enhancement funds. These goals and objectives are anchored in an overall timeline that appears reasonable and congruent with their past loan origination activities.

The applicant provides a credible case that its project implementation plan and activities are likely to achieve its objectives as evidenced by its recent experience lending or committing over \$158 million to 11 schools over the last two years. The applicant cites specific partnerships it has cultivated, specifically the Charter School Growth Fund, the Walton Family Foundation, as well as various CDFIs, state association and charter school financial advisors to generate a pipeline for schools that need financing assistance and qualified projects.

The applicant articulates two specific aspects that lend themselves to being replicable, as well as making the case that the applicant's bond offering will generate broader competitive pressure on the tax-exempt bond market to improve interest pricing for charter schools, reduce transaction fees, and require a smaller reserve fund.

The applicant presents that the 40 charter school borrowers it intends to serve will likely be standalone operators or small networks that would be discouraged or potentially unable to issue tax-exempt bonds because of the transaction costs, thereby increasing the number and variety of charter schools assisted in meeting their facility needs beyond what would be accomplished without the Credit Enhancement award.

50% of the funds deployed will be in four states (TN, TX, CA, and FL) that all were included in the top 20 rankings of state charter school laws by the National Alliance for Public Charter schools and the Center for Education Reform.

The applicant proposes a prudent use of the \$8 million Credit Enhancement request: to exclusively fund a loan loss reserve for \$400 million of bond offerings and not to finance administrative or transaction-related costs. Moreover, the applicant suggests that the loan loss reserve should generate almost \$2 million in interest earnings, expanding the size of the reserve.

#### **Weaknesses:**

The applicant presents limited underwriting criteria, but rather a broader description of what categorically its underwriting criteria measures. It does offer its Credit Rating framework which informs some of this matter.

Public bond offerings as the new source of capital represents a meaningful change from how the applicant's lending activities are currently capitalized. The applicant doesn't identify any meaningful differences in how the design of its existing lending activities that are capitalized by the Walton Family Foundation will change with the new source of capital, complicated with a potential Credit Enhancement award and the associated compliance, reporting, and requirements.

A loan loss reserve of 2% seems to be misaligned with the reported data point on page 20 that since 2000, the default rate for charter schools has been approximately 3% of total bond par amount issued. This raises the question that while the leverage ratio may otherwise be the largest ratio for any Credit Enhancement award to date, it might be inadequate or over-leveraged as proposed or as the applicant understands the potential risk.

**Reader's Score: 33**

#### **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:**

The applicant articulates a clear alignment between the services to be provided – low cost, long-term financing – and the majority of debt need by charter schools being long-term.

The applicant lays out evidence of participation of the Charter School Growth Fund and the National Association of Charter School Authorizers (NACSA) in both the design and support of the proposed project. The applicant provided several letters of support from several charter schools for the applicant and its activities.

The applicant outlines the various types of technical assistance that is available to both prospective and current clients geared towards helping charter schools navigate the complex world of long-term debt.

The applicant presents a compelling argument that a Credit Enhancement award will allow it to create long-term borrowing opportunities for charter schools that have high quality academic programming, but size constraints that limit their ability to generate the financial performance and ultimately access the bond market.

**Weaknesses:**

While NACSA does work closely with authorizers and representatives of authorizers may serve in advisory capacities to NACSA, ultimately NACSA does not constitute a chartering agency.

The technical assistance does not appear to be available to a broad spectrum of charter schools, but rather only prospective and current clients of the applicant.

**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 has experience both enhancing credit and debt issuance as well as with lending and facilities financing.

The applicant provides evidence of financial stability with strong financial fundamentals, as evidenced by net assets of \$200 million at the end of FY 2018 and a net asset ratio of close to 1.0. The applicant has earned an "A" rating from S&P. The applicant is projected to have its operating expenses fully covered by its lending activities when it reaches scale in 2023.

The applicant provides an extensive credit rating methodology, which provides insight and lends credence to the applicant's ability to protect against unwarranted risk in underwriting, portfolio monitoring, and ongoing financial management. As of the application, the applicant had not had any non-performing loans or loan charge-offs, not had it suffered any facility related loan losses.

The applicant has a singular focus on the charter school sector, and the executive team has deep experience and expertise on matters of charter school finance, facilities, and operations. A number of the staff have previously worked in charter schools or charter school networks or on governing bodies of charter schools. Collectively, this experience and expertise supports the applicant's ability to evaluate the likelihood of success of a charter school.

The applicant has provided a copy of its Conflict of Interest policy, and it discusses the steps it takes to identify and prevent conflicts of interest in a clear and thoughtful manner.

**Weaknesses:**

The applicant is a first-time applicant to the Credit Enhancement program, and to date, its lending activities have been capitalized by a philanthropic grant. Both the change in source of capitalization, along with the added complexity of a potential Credit Enhancement award, present enough significant differences in the applicant's current activities that, along with the organization's relatively young age, that will present new challenges that the applicant may not be anticipating.

**Reader's Score: 32**

**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:**

The applicant has an executive team with deep experience and expertise in the charter school finance, facility, and lending sectors, as well as several experts in the tax-exempt bond financing for charter schools.

The applicant has an existing set of staff and infrastructure to support the project and lending activities.

**Weaknesses:**

The applicant does not appear to have anyone who has prior experience with the Credit Enhancement program.

**Reader's Score: 14**

**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 demonstrates knowledgeability around how its target markets in California, Florida, Tennessee, and Texas are comprised of public schools identified for comprehensive support and improvement or targeted support and improvement under the ESEA. This knowledgeability lends support to the applicant's ability to ultimately target services to these geographic areas, and the applicant articulates the objective of having a minimum of 80% of charter schools served meeting at least one of the three competitive preference priorities.

**Weaknesses:**

Because the applicant aggregates the objective of having a minimum of 80% of charter schools served during each project year meeting at least one of the three competitive preference priorities, it is unclear to what extent this specific competitive preference priority will actually be targeted. It is also not clear if charter schools who received technical assistance but otherwise did not receive financing would be considered as "served during each project year."

**Reader's Score: 3**

**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 makes a strong case that the four target state markets of California, Florida, Tennessee, and Texas represent a compelling set of geographic areas where students are largely performing below proficiency at a rate equal to or greater than the US average. This comparison of proficiency levels by state and nationally lends support to the applicant's ability to ultimately target services towards these geographic areas, and the applicant articulates the objective of having a minimum of 80% of charter schools served meeting at least one of the three preference priorities.

**Weaknesses:**

Because the applicant aggregates the objective of having a minimum of 80% of charter schools served during each project year meeting at least one of the three competitive preference priorities, it is unclear to what extent this specific competitive preference priority will actually be targeted. It is also not clear if charter schools who received technical assistance but otherwise did not receive financing would be considered as "served during each project year."

**Reader's Score: 3**

**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 asserts that the four target state markets of California, Florida, Tennessee, and Texas, all exceed the national rate of children living in low income families in the United States. The applicant also offers up its own track record to date lending to schools, specifically that 60% of students attending schools it has loans thus far qualify as low-income through free and Reduced lunch eligibility or direct certification.

**Weaknesses:**

Because the applicant aggregates the objective of having a minimum of 80% of charter schools served during each project year meeting at least one of the three competitive preference priorities, it is unclear to what extent this specific competitive preference priority will actually be targeted. It is also not clear if charter schools who received technical assistance but otherwise did not receive financing would be considered as "served during each project year." Additionally, the applicant states that it has set goals to further increase the percentage of low-income students its loans support

through the project period, but that does not appear to be reflected in the proposal goals and objectives.

**Reader's Score:** 3

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**Status:** Submitted

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## Technical Review Coversheet

**Applicant:** Equitable Facilities Fund, Inc. (S354A190009)

**Reader #2:** \*\*\*\*\*

	Points Possible	Points Scored
<b>Questions</b>		
<b>Selection Criteria</b>		
<b>Quality of project design and significance</b>		
1. Quality Project Design	35	34
<b>Quality of Project Services</b>		
1. Project Services	15	13
<b>Capacity</b>		
1. Capacity	35	33
<b>Quality of Project Personnel</b>		
1. Project Personnel	15	15
<b>Sub Total</b>	100	95
<b>Priority Questions</b>		
<b>Competitive Preference Priority</b>		
<b>Competitive Preference Priority 1</b>		
1. CPP1	5	4
<b>Competitive Preference Priority 2</b>		
1. CPP2	5	4
<b>Competitive Preference Priority 3</b>		
1. CPP3	5	4
<b>Sub Total</b>	15	12
<b>Total</b>	115	107

# Technical Review Form

Panel #3 - FY19 Credit Enhancement Panel 3: 84.354A

Reader #2: \*\*\*\*\*

Applicant: Equitable Facilities Fund, Inc. (S354A190009)

## 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 Equitable Facilities Fund (EFF) formed through a partnership with the Walton Family Foundation to demonstrate a better model for charter schools to access long term debt. The model is designed to pool all financings and issue a larger bond to attract better rates with lower fees. These savings pass on to the schools. This allows charter schools to forgo borrowing additional monies to finance a loan loss reserve fund which is approximately 10% of the project cost. (page 3-4) This represents interest rates of 3.75% versus 4.25%.

(2) The applicant's project goals, measurable objectives, and timeline are clearly specified and measurable. The information presented included that a minimum of 80% of the Charter Schools served each project will meet one of the competitive priorities and serve at least 40 charter schools leveraging at least \$400 million in loan capital during the grant period. This \$8 million request is expected to achieve leverage from the Credit Enhancement funds of 50:1 over three years. (page 8-9)

These 40 charter school obligated groups will serve 50,000 students during the three-year project. Program performance and project-specific performance measures will be monitored using data collected through their loan management system and through the municipal bond platform, EMMA (Electronic Municipal Market Access). (page 9)

(3) The applicant has already lent or committed over \$158 million to 11 schools financing representing over 17,000

group seats. (page 10) They have developed an impact report to track the annual performance of their charter school clients and overall social impact performance of its loan portfolio. This demonstrates the ability to document management of project implementation activities.

They have developed a pipeline of potential charter school loan projects. EFF has ongoing partnerships with the Charter School growth Fund who has a portfolio of 800+ schools, CDFIs, financial advisors seeking better rates and terms, and the Walton Family Foundation with its portfolio of schools receiving start-up grants, and state associations in Texas, California, and Tennessee. (page 10) These relationships and participation in regional and national charter school conferences and workshops further documents their business model.

(4) The applicant has three different aspects that can be replicated; 1) use of pooled loan portfolio to raise capital through the bond market, 2) a few other states (CO, UT, ID, AZ, IN) have also created state credit enhancement programs for long-term charter school debt which may lead to partnerships, and 3) the project's competitive pressure on the tax-exempt bond market. (page 12) Overall benefits include reduction in fees and better rates and terms.

(5) The application notes that 80% of the charter schools served will meet at least one of the competitive priorities. The applicant is deploying approximately 50% of bond proceeds in four target markets. This model includes marketing intelligence and understanding school market risks. Ongoing relationships with local charter support organizations including the authorizers, trade associations, and foundations help them identify new, expanding, and replicating charter schools. (page 13)

Projects with target high-quality schools using the following underwriting criteria measures; 1) project risk, 2) operator risk, and 3) political risk.

(6) EFF projects the rate will be leveraged at 50:1 to support \$400 million in new funds. It will serve as a loan loss reserve for three incremental bond offerings of \$100-\$180 million for a total of at least \$400 million.

The application notes that they will serve 40 charter school obligated groups over the next three years with funds raised from the credit enhanced bond offerings. Examples include early childhood charter schools, alternative education charter schools, arts schools, and an autism charter school. They typically transition from one short term loan to another exposed to interest rate risk every few years. (page 16) They will benefit from this low interest rate market.

(7) The Center for Education Reform, the recognized authority for analyzing the nation's charter school laws and the National Alliance for Public Charter Schools ranks each state based on its relative strength based on 20 components. Four of the states in their target market (TN, TX, CA, and FL) have a rating of "A", "B", or "C" and have strong charter school laws.

(8) The \$8 million credit enhancement award given the project scope is reasonable in relation to the objectives, design, and potential significance. The grant will fund 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 transaction-related costs. The structure enables them to borrow funds at least 100 basis points lower than what charter schools could otherwise expect to borrow. The savings will pass on to the schools.

#### **Weaknesses:**

Primary focus of the model is for long-term transactions only which is limited and hasn't been tested in the market place. This limits the type of assistance the organization is willing to give charter schools.

### 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 majority of charter school borrowing is long-term debt with the applicant identifying rate reduction as a major need. The default rate in this segment has been approximately 3% of total bond par amount issued. The EFF model portfolio of cross-collateralized charter school loans has earned a better rating than any of the individual schools.
- (2) The applicant's current structuring has them imbedded in the industry. Charter schools, chartering agencies, and charter support groups were consulted for the project. EFF also worked with staff members at the Charter School Growth Fund (CSGF) gaining insight from their portfolio of 800+ charter schools. Additionally EFF was designed with the help of the National Associations of Charter School Authorizers (NACSA). Leaders of CSGF and NACSA were invited to join the founding Board of Directors insuring that voices of charter schools and authorizers continue to be heard. (page 21)

The application included letters from school leaders. (page 65-67)

- (3) The EFF grant project team consists of experts in charter school finance who provide one-on-one counseling free of charge to both prospective and client schools. The technical assistance is customized based on specific needs focusing on financial modeling, growth and business planning, budgeting and forecasting, cash flow analysis, cost benefit analysis; and financial performance monitoring and evaluation. (page 22)

The services are cost effective because they rely on proven and publicly accessible credit rating methodologies. The transparent process helps charter schools understand important metrics to target.

- (4) EFF anticipates that at least 60% of the 40 schools throughout the project period will possess credit that's below investment grade and would struggle to reach an S&P rating of BBB- or better. This is representative of their target market as outlined in the application.

#### Weaknesses:

- (1) The applicant focuses on long-term financings is not representative of all charter school needs. Therefore, the financings are not open the different types of charter school issues. This limits the charter schools that they are willing to engage with in the target market. (2) Technical assistance lines up financing opportunities specific to onboarding new charter schools for a limited period of time.

### 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) EFF is a non-profit loan fund that focuses exclusively on long-term financing for charter schools and their facilities projects. They've completed their inaugural year of operations leveraging \$200 million in capital for 11 different charter schools resulting in over \$158,000,000 in total financing. This translates to over 17,000 charter school seats financed with no delinquencies or defaults in their loan portfolio.
- (2) EFF was founded with \$200 million grant from the Walton Family Foundation. They have received over \$12 million of operating grant funding and anticipate another \$10 million over the next three years. Audits to date have been unqualified and confirm full compliance with reporting requirements. (page 26)
- (3) EFF identifies high-quality schools using a robust evaluation of their risk factors include; 1) market risk, 2) school operator risk, and 3) project risk. This enables them to understand the financial risk of the school and need for bond investors to feel secure. (page 28)

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. Policy insures that quarterly reports to the Board of Directors includes the review of Loan Receivables report along with individual risk ratings, loan loss reserves, policy exceptions, and loan modifications.

Each fiscal year, EFF contracts with a third party to conduct an external review of their loan portfolio.

- (4) The applicant works solely in the charter school sector. The senior staff have extensive experience in charter

schools and finance. The experience enables them to review schools with a solid understanding of the key success factors.

(5) The Conflict of Interest policy is included in the application. (page 51-52) The Standards of Conduct apply to all decision-making and contractual arrangements within the organization. The Chief Credit Officer is responsible for ensuring a fair approval process. The structure allows EFF to be accountable to the board and funders of the \$200 million grant maintaining full transparency and integrity to its board and external examiners. (page 32)

**Weaknesses:**

The applicant only has little over a year in business. The new product and associated activities are new and not proven.

**Reader's Score: 33**

**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 application included resumes for senior management. (page 53-64) They have extensive experience and knowledge in the charter school and finance sector. The CEO founded and created EFF based on years of experience in the municipal finance sector prior to working with charter schools. He ran The Facility Fund for the Charter School Growth Fund and helped identify the nation's best schools. Other members have unique experience and depth in this sector.

(2) The staffing plan is already complete with the Chief of Staff serving as the Project Director for this grant. In addition to overseeing EFF's internal finance and operations teams they coordinated work revolving around their first bond offering. His experience involves all facets of charter school operations.

The support staff includes 9 full time employees and consultants with responsibilities that include lending, finance, and technical assistance. The two consultants include bond counsel and the head of RBC Capital Markets who is the leading underwriter for charter schools in the U.S.

The Governing Board has board expertise that guides the strategic vision and mission including; Family Adviser/Special Projects from the Walton Family Foundation, Secretary of the National Association of Charter School Authorizers, and the CEO of Charter School Growth Fund.

**Weaknesses:**

No weaknesses found.

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 four states selected by the applicant, California, Florida, Tennessee, and Texas have received an ESEA Flexibility waiver from the U.S. Department of Education. Their accountability framework has transitioned to designate "Reward," "Priority" or "Focus schools. (page 38)

#### Weaknesses:

The document is not clear as to what percentage of the selection criteria will be allocated to this category. The language is broad and no detail is included in the document for the charter school selection process to determine how much funding will be allocated to this competitive preference priority.

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 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. (page 39) Although each state has adopted its own form of

assessment the applicant used NAEP 2017 data which provides the most comparable data across state lines.

**Weaknesses:**

The document is not clear as to what percentage of the selection criteria will be allocated to this category. The language is broad and no detail is included in the document for the charter school selection process to determine how much funding will be allocated to this competitive preference priority.

**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 percentage of students in the target areas of California, Florida, Tennessee and Texas exceed the national average of children living in poverty. The National Center for Children in Poverty reports that 41% of children live in low-income families in the United States. (page 40)

60% of students attending schools in the applicant's portfolio qualify as low-income through Free and Reduced Lunch eligibility or direct certification.

**Weaknesses:**

The document is not clear as to what percentage of the selection criteria will be allocated to this category. The language is broad and no detail is included in the document for the charter school selection process to determine how much funding will be allocated to this competitive preference priority.

**Reader's Score:** 4

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**Status:** Draft  
**Last Updated:** 09/17/2019 01:05 PM

Status: Draft

Last Updated: 09/18/2019 02:43 PM

## Technical Review Coversheet

**Applicant:** Equitable Facilities Fund, Inc. (S354A190009)

**Reader #3:** \*\*\*\*\*

	Points Possible	Points Scored
<b>Questions</b>		
<b>Selection Criteria</b>		
<b>Quality of project design and significance</b>		
1. Quality Project Design	35	29
<b>Quality of Project Services</b>		
1. Project Services	15	12
<b>Capacity</b>		
1. Capacity	35	27
<b>Quality of Project Personnel</b>		
1. Project Personnel	15	14
<b>Sub Total</b>	100	82
<b>Priority Questions</b>		
<b>Competitive Preference Priority</b>		
<b>Competitive Preference Priority 1</b>		
1. CPP1	5	3
<b>Competitive Preference Priority 2</b>		
1. CPP2	5	3
<b>Competitive Preference Priority 3</b>		
1. CPP3	5	3
<b>Sub Total</b>	15	9
<b>Total</b>	115	91

# Technical Review Form

Panel #3 - FY19 Credit Enhancement Panel 3: 84.354A

Reader #3: \*\*\*\*\*

Applicant: Equitable Facilities Fund, Inc. (S354A190009)

## 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 financing would provide significant benefits to the assisted schools by aggregating the facility financing funding from a number of schools into a single bond offering and enhancing the offering, by over-collateralizing the pool and providing additional cash reserves. As a result of the enhancement the applicant would be able to obtain investment grade pricing which the assisted schools would not be able to achieve on their own and that would produce cost reductions that would often reach into the millions when calculated over the 30 year term of the financing.
2. The applicant's project goals, objectives and timelines are detailed, measurable and achievable and would further the purposes of the program.
3. The applicant's plan to pool the bond financing requests of numerous individual schools seems promising and might be replicated, and doing so at the state level might prove to be an effective way to help more charters obtain low-cost, long-term facility financing.
4. The applicant plans to use the criteria based on those used by credit rating agencies (page 14) to assess the financial capacity of schools and to determine the level of assistance that would be provided.
5. The applicant's plan would obtain tremendous leverage relative to the size of the requested award.
6. At last half of the applicant's activities would be in state's with strong charter laws.
7. The applicant's requested award is modest in relation to the objectives, design, and potential significance of the proposed project.

**Weaknesses:**

1. The applicant is a start-up organization and while its approach is promising it is one that they have not yet tested. They have made or committed to eleven facility loans using capital from their founding grant, but they have not yet secured any bond funding for charter school facilities.
2. The applicant has already achieved an investment grade rating for their planned initial bond offering (page 3), and that they have been able to do that prior to the commitment of the requested award indicates that they are able to provide all of the enhancements needed to achieve the "A" rating without the CE award.
3. The applicant does not offer a clear explanation of how exactly they would determine which schools they would choose to include in the bonding pools. They make clear that they will rely heavily on local partners for their judgment about the educational prospects and impacts of schools that might be included (pages 13-14), but they do not name the partners or describe how that input would be received or factored into the financial underwriting process. They also do not indicate what factors will ultimately drive their underwriting decisions, whether it is creditworthiness of schools, geography, neediness of the students served, past educational performance or other factors.
4. Though the applicant's approach to pooling bond offerings from a number of schools is promising the biggest benefit of the approach derives from enhancing the aggregated pools so that they obtain investment grade pricing and that is much harder to replicate. The applicant is only able to provide that needed level of enhancement because of the \$200 million grant that it received at its founding, as even the requested CE award would provide only a small portion of the improvement in credit quality needed to obtain significantly better pricing.
5. Though the applicant indicates that the requested award would play a central role in its model, it seems as if its role would be minor and potentially non-essential. The applicant is committing to over-collateralize by 20% (from loans made with the \$200 million grant) which comes to \$80 million for the \$400 million in bond financing that is envisioned (page 2 of S&P Global Ratings document attachment) and from that it appears that the requested \$8 million award would form only a small part of the required enhancement.

**Reader's Score: 29**

**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's plan effectively addresses the needs of assisted charter schools both through the long-term financing that the applicant plans to offer and through the assistance in obtaining that financing that it would provide.
2. The applicant reports engaging charter schools, chartering agencies and charter support groups in the design of

the project and through membership on the advisory board and support letters there is evidence of their support for the project.

3. The provides services to support schools to which it might provide financing, and the rates and fees that it plans to offer to the schools that receive assistance are reasonable.

4. The applicant appears to have a good process for assessing the likelihood of school's financial success.

#### **Weaknesses:**

1. The applicant does not offer a clear explanation of how exactly they would determine which schools they would choose to include in the bonding pools and because of that they do not provide information about how they would assess schools likelihood of educational success (apart from their employment of local partners to assist with this) or to what extent they would pick schools with the greatest demonstrated need.

2. The applicant's focus on providing long-term financing narrows the schools that can be assisted since schools that are ready for long-term financing are typically those with a longer or stronger track record and some significant financial strength, so they are not usually the schools with the greatest needs.

**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 has closed or committed large, long-term loans to 11 eleven schools over the last two years using capital from its founding grant, and it has earned an "A" rating from Standard and Poors for an initial charter facility bond issue that it expects to bring to market before the end of 2019.

- The applicant has a substantial base of net assets.
- The applicant's staff has substantial experience and the applicant has developed systems for risk management in loan underwriting, portfolio management and financial management.
- The applicant has conflict of interest requirements and policies that include a series of checks and balances to identify and deal with potential conflicts of interest.
- The applicant's staff has substantial experience with charter schools and it also has partnerships with organizations with education and charter school administration knowledge.

**Weaknesses:**

- The applicant has not yet done the type of bond-financed pooling of charter school facility loans that it proposes, and though it has closed or committed eleven loans all of them have been made very recently so it does not yet have any significant loan performance track record.
- The applicant has only been in existence for two years and while it was initiated with a very large grant and as a result has a strong balance sheet it is still in the start-up period and does not yet have enough of a financial track record to assess its stability.
- The applicant describes depending on local partners to help it "identify new, expanding, and replicating charters schools with the best chances of delivering quality education (p. 13)," but does not name these partners or detail their roles or responsibilities in describing the applicant's educational expertise and ability to evaluate the likelihood of success of a charter school.

**Reader's Score: 27**

**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:**

- The applicant's staff have very strong backgrounds in working with charter schools, credit ratings and bond issues, and other types of finance and based on that experience, and their other professional background and training they are well highly qualified to implement the proposed project.
- The organization is fully staffed and the staffing plan for the project seems reasonable

**Weaknesses:**

While the applicant's staff are very well-qualified to undertake the planned program because the applicant is a start-up they do not yet have experience in working together or doing these activities for the applicant.

**Reader's Score: 14**

**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 does not make a specific commitment with respect to Priority 1, but it does makes a commitment that at least 80% of the schools that it will assist will meet at least one of the priorities.

### Weaknesses:

- Though the applicant's commitment to meeting the priority preferences is good it is not as strong as it would be if they committed to all assisted schools meeting each priority.

Reader's Score: 3

## 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 does not make a specific commitment with respect to Priority 2, but it does makes a commitment that at least 80% of the schools that it will assist will meet at least one of the priorities.

### Weaknesses:

- Though the applicant's commitment to meeting the priority preferences is good it is not as strong as it would be if they committed to all assisted schools meeting each priority.

**Reader's Score: 3**

**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 does not make a specific commitment with respect to Priority 3, but it does makes a commitment that at least 80% of the schools that it will assist will meet at least one of the priorities.

**Weaknesses:**

- Though the applicant's commitment to meeting the priority preferences is good it is not as strong as it would be if they committed to all assisted schools meeting each priority.

**Reader's Score: 3**

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**Status:** Draft  
**Last Updated:** 09/18/2019 02:43 PM