

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

Status: Submitted

Last Updated: 09/02/2021 01:13 PM

## Technical Review Coversheet

**Applicant:** Massachusetts Development Finance Agency (S354A210002)

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

	Points Possible	Points Scored
<b>Questions</b>		
<b>Selection Criteria</b>		
<b>Quality of Project Design and Significance</b>		
1. Quality of Project Design	35	32
<b>Quality of Project Services</b>		
1. Project Services	15	13
<b>Capacity</b>		
1. Capacity	35	35
<b>Quality of Project Personnel</b>		
1. Project Personnel	15	15
<b>Sub Total</b>	100	95
<b>Total</b>	100	95

# Technical Review Form

Panel #2 - FY21 Credit Enhancement - 2: 84.354A

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

Applicant: Massachusetts Development Finance Agency (S354A210002)

## 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 has the unique advantage to issue tax exempt bonds, larger loans, and provide services through their agency which allows some charters to obtain loans without requiring collateral. The applicant provides convincing evidence to demonstrate how they can provide financing at a higher loan to value than traditional bank lenders without the enhancement. In the scenario where the charter is leasing buildings and property and unable to use this as collateral, the agency demonstrates their ability to provide a guarantee or issue the loan from their funds. The applicant is in a unique situation as they can assist the charter school program by providing loans from their own agency, as well as offer through their guarantee program, a higher collateral to provide a higher loan to value to lenders for financing. The guarantee program is a more feasible way of obtaining funding at a lower rate than traditional methods. (Pages e15-e20)
- (2) The applicant provides a strong argument through the goals and objectives to justify how 100% of the requested grant funds will be allocated and used to meet the project goals. Purchasing tax-exempt bonds at lower than market rates through lenders they have already established a relationship with, will allow the Credit Enhancement funds to be maximized. The applicant makes reasonable assurances that the Implementation Plan will address specific areas including marketing, program, lending/bond and guarantee transactions, and grant administration. The timeline based on the calendar quarters after receipt of the grant will hold the applicant accountable for implementing as projected. (Pages e20-e24)
- (3) The applicant discusses and provides historical information supporting the collaboration between the Massachusetts Charter School Loan Guarantee Fund, different organizations, and agencies. The applicant details their collaboration with charter schools, potential fund investors, and the finance community to design a Guarantee Fund in a manner that will leverage the maximum amount of private capital and provide services that meet the needs of Massachusetts charter schools. The applicant shares convincing evidence that based on the success of five other charter programs, the same design, structure and systems will be implemented. The applicant provides several letters to demonstrate the support for the grant application. (Page e24)

(4) The applicant provides convincing evidence which recognizes the collaboration of the applicant's and partners' development of an effective model that can be used to generate funding. The applicant specifies the key components that center around obtaining funding from their previous success as well as how their model has been recognized to be duplicated by other entities. (Page e25)

(5) The proposal adequately indicates the priority for grant funded services to different schools that are high performing which also meet at least one low-income criteria. The applicant presents examples of projects that meet specific considerations such as new and early-start schools, school revenue and commitment of other public resources and the ability to be financed or have financing offered with acceptable terms. The applicant describes that a needs assessment developed in 2003 is updated periodically, reported semi-annually and stakeholders who comprise an advisory committee meet annually to review needs, funding opportunities, issues, and determine compliance. (Page e26)

(6) The applicant documents financial commitment to 36 charter schools using US Department of Education grant awards and private funding. With the concern of rising construction and facility costs, the applicant documents their pipeline information to ensure that needs are being addressed with multiple funding sources including private foundations to achieve the 7:1 minimum leverage. The applicant lists additional funding previously committed to their programs. (Pages e13-e16)

(7) The applicant shares the state law and the state's newest provisions to increase charters and address lowest performing districts. The applicant discusses their intent to prioritize the charters to be served by ranking, based on criteria established, to include high performing schools and low-income student criteria. (Pages e13, e16, e19)

(8) The applicant specifies that all funds will be maximized over the 5 years with the exception of the allowable administrative cost of 2.5% for administrative costs equals [REDACTED]. The applicant discusses that the enhancement lenders will be able to provide loans up to 120% collateral compared to the 80% advanced by banks. The applicant further discusses that due to circumstances with increased construction costs, limited cash availability, non-alignment of appraisal values, collateral insufficiencies, and variable interest rates, the grant funding would address expansion at a lower cost. The applicant demonstrates using a table, examples of financing options for comparative purposes. The applicant also outlines the use of tax-exempt bonds and QZABs for charter school programs in the State. (Pages e16-20, e367)

#### **Weaknesses:**

(1) Activities and tasks designed to ensure the leverage and obligation of bonds were not specifically outlined in the proposal. The use of credit enhancements to leverage loans or bonds beyond the 5th quarter after receipt of the grant funding is not discussed. (Pages e23-e24)

(2) The partnerships do not outline what specific services they offered beyond their role on the Advisory Board or as lenders. Additional partnerships with new collaborators are not discussed. (Page e26)

(8) The budget narrative did not explain what percent of personnel costs were budgeted to align with the amount stated on budget. The overall budget summary breakdown is not included in the grant proposal to show distribution of supplemental funds to pay for personnel, benefits, marketing, or bond purchases. The logic model indicates roles and provisions, but it does not include non-profits. (Page e76)

**Reader's Score: 32**

#### **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 presents their intent to replicate and provide continued services to charter campuses previously identified, as well as to add new programs to increase the number of charter schools addressing student needs. The applicant details the ongoing process of recognizing needs and addressing progress to those needs through the multiple stakeholders including the Charter School Advisory Committee who are updated two times per year through a reporting process as well as their annual meeting. The criteria to address high performing students reinforces the desire to continue to support programs who have met original expectations. Since this funding source addresses charters without access to state funding for facility access, it now allows opportunities to utilize other lenders for bank loans and tax-exempt bonds. (Page e25)

(2) Charter school administrators and chartering agencies helped comprise the qualified list of stakeholders involved in ongoing support of the development of the state's charter school process. The applicant provides a list of the Charter School Advisory Board members and their affiliation with the charter program. They are tasked to analyze semi-annual reports and attend annual meetings. (Pages e33-e34)

(3) The applicant justifies using the technical assistance already in place to assist charter schools. Due to the agency's track record, the expertise is available to assist with planning, specific technical issues, financing, bonds, loans, direct lending, and banking. (Page e34)

(4) The proposal specifies measures and targets to ensure efforts will focus where there is a likelihood of success and a demonstration for need from the student populations. The applicant reveals the plan to determine the schools with the greatest needs by identifying them as high performing student populations who also meet the low-income student criteria. The applicant qualifies the probable success by using established criteria and measures that includes strict quality control, the Composite Performance Index used to determine academic proficiency in content areas, and multiple reviews of performance of charters by the Department of Elementary and Secondary Education. (Pages e23 -e24, e36-e37)

**Weaknesses:**

(2) The applicant does not share any use of solicitation of student, parents, and teachers to discuss concerns, issues, and needs using focus groups or open opportunities to increase communication and support.

**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.

**Note: The 35 available points under this selection criterion will be allocated evenly among the factors applicable to a particular applicant. For example, for an applicant for which none of factors (6)-(8) apply, the 35 available points will be allocated among the first five factors. Similarly, for an applicant that is a State governmental entity that is a previous grantee under the charter school facilities programs, the 35 available points will be allocated evenly among factors (1)-(5), (7), and (8)**

#### **Strengths:**

- (1) The applicant provides historical documentation of the reputation, experience, ongoing support, and promoting student success by serving traditionally underserved populations, managing projects, and generating alternative funding sources for their programs. The applicant shares that it has issued 89 tax-exempt bonds and Qualified Zone Academy Bonds (QZABs) totaling [REDACTED] primarily for low-income communities. (Pages e24-e25)
- (2) The applicant's assets exceed liabilities by [REDACTED] demonstrated by their recent credit ratings, audited financial statements and short and long term investments. (Pages e104, Attachments 7 and 8)
- (3) The applicant discusses the processes and procedures that are in place to protect and mitigate unwarranted risks through a process that includes: documentation, monitoring, external reviews, monthly reporting, as well as systems designed to ensure appropriate accounting standards. The applicant utilizes the Government Accounting Standards Board (GASB) procedures to ensure appropriate processes are followed. (Page e31)
- (4) The applicant provides approximately 25 years of charter school development that has received recognition at both state and federal levels. The agency has been awarded different federal funds including: Credit Enhancement Loan Grant programs and National Leadership Grants. (Pages e32-e33, e108)
- (5) The applicant discusses the state legislation that reinforces standards of conduct including codes of ethics and conflicts of interest. In addition, to the state civil and criminal penalties, the agency will follow the bans regarding participation due to conflicts of interest as well as restricting any participation where it could be deemed inappropriate. There is a training component for staff and vendors, handbooks of guidelines as well as a reporting process to help ensure appropriateness of all decisions and processes. The applicant also shares that there is a procurement policy in place to ensure third party vendors are accountable and are chosen based on quality or services as well as price. (Pages e47, e70)
- (7) Since the applicant is considered as a quasi-state agency with responsibilities to help charter schools obtain low-cost funding for both acquisition, construction and or renovation of facilities, they are focused on securing and using Credit Enhancement funds to meet their objectives. The applicant shares that they have financed 36 charter schools previously and it is feasible to consider that the funds being requested, will be used to generate funding through the issuance of low cost loans or tax-exempt bonds, or the applicant's guarantee for better interest rates for the nine schools in their pipeline. (Pages e4, e12)
- (8) The applicant documents their previous five different U.S. Department of Education Credit Enhancement for Charter School Facilities Program grant awards. In addition, the applicant shares the resulting leverage impact as well as the proven success through proven risk management. Recognized success include the access to funding at lower interest rates, high level ratios achieved that range in excess of 28.4:1 to 4.2:1, proven risk management techniques resulting in no losses paid through Credit Enhancement funds and increase of private funding and relationships with bank partners. (Pages e48 -e49)

**Weaknesses:**

None noted

**Reader's Score: 35**

**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 applicant describes the key personnel and provides current responsibilities as well as previous experience. The applicant includes current resumes which detail more specifically each of the key personnel's experiences and credential. Experience ranges from many years in the finance realm which includes lending, underwriting, risk management, loan administration, and investment banking. In addition, each of the key personnel held positions within the charter program operation. (Pages e50-e51)
- (2) The applicant included the present staffing plan which details how the different entities within the organization who provide service and technical assistance are connected. The applicant not only names specific staff in the agency but explains that each have access to the entire staff and resources in the Finance Programs Division. The applicant emphasizes that the department is fully staffed with personnel who have previous experience and expertise in the different areas of investment banking, charter school loans, credit enhancements, loan guarantees, underwriting and loan management.(Pages e50-e52)

**Weaknesses:**

None noted

**Reader's Score: 15**

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Status: Submitted

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## Technical Review Coversheet

**Applicant:** Massachusetts Development Finance Agency (S354A210002)

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

	Points Possible	Points Scored
<b>Questions</b>		
<b>Selection Criteria</b>		
<b>Quality of Project Design and Significance</b>		
1. Quality of Project Design	35	35
<b>Quality of Project Services</b>		
1. Project Services	15	12
<b>Capacity</b>		
1. Capacity	35	35
<b>Quality of Project Personnel</b>		
1. Project Personnel	15	15
<b>Sub Total</b>	100	97
<b>Total</b>	100	97

# Technical Review Form

Panel #2 - FY21 Credit Enhancement - 2: 84.354A

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

Applicant: Massachusetts Development Finance Agency (S354A210002)

## 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:

- a.1. The applicant proposes a compelling use of the grant funds to provide guarantees to charter schools to increase typical loan to value limitations of 80% to as much as 120% (page e16), expand project financing eligibility to leasehold improvement transactions (page e17) that are not normally accessible to prospective charter school borrowers, and reduce interest rates between 100 and 200 basis points on both first position and subordinated debt (page e17).
- a.2. The applicant outlines (page e21) specific and measurable goals, objectives, and timeline to leverage the [REDACTED] requested grant funds with [REDACTED] over three years, achieving a 7:1 ratio. The goals are specific, outlining the targeted number of charter schools to be assisted and the criteria charter schools will have to meet.
- a.3. The applicant describes its prior experience with past grant allocations (page e27) and provides its track record for 5 separate allocations that demonstrate deployment, achieved leverage rates greater than 7:1, and which grant funds are currently being recycled. On page e31, the applicant states that it has provided 36 charter schools credit enhancement with no loss on any of the transactions. Lack of loss on prior grants and the achieved leverage rates in prior grant rounds are adequate indicators that the applicant has the experience and has thought out the project implementation plan and activities in a manner that has a high likelihood of success.
- a.4. The applicant provides a clear set of ranking criteria on page e26 that aligns with the requirement of supporting high performing, high need charter schools. The applicant provides a rationale behind the criteria that aligns with identifying high performing, high need charter schools.
- a.6. The applicant provides its track record in securing [REDACTED] in additional funding for its existing credit enhancement guarantee programs (page e26) and outlines that it has relationships with 15 banks (page e28) to provide

financing to complement the guarantees, which reflects a robust and diverse source of private funding avenues for charter schools and is reflective of a strength.

a.7. The applicant provides an overview of improvements in MA charter law, specifically facilitating the increase of charter school seats in the lowest-performing school districts by more than double and only awarding those seats to proven providers (page e29). This presents as a strength because the MA charter law is creating a mechanism for the addition of high-quality charter school seats in communities and districts reflecting the highest need to be operated by proven operators.

a.8. On page e367, the applicant proposes to reserve 97.5% for providing guarantees, reserving 2.5% to support administrative expenses. The projected administrative expenses are anticipated to be lower than the reserved 2.5% and appear to be potentially covered by earned interest.

**Weaknesses:**

No weaknesses noted.

**Reader's Score: 35**

**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:**

b.1. The applicant provides a strong case for addressing the challenges and needs charter schools face, namely equity limitations, by proposing to facilitate saving enough money to bring equity to a potential facility transaction (page e32), lowering interest expenses and providing a mechanism for a guarantee that exceeds the charter term (page e33).

b.2. The applicant maintains a charter school advisory board (page e34) that includes representation by various stakeholders including charter schools, the Massachusetts Charter Public Schools Association (MCPSA), and the state authorizer Massachusetts Department of Elementary & Secondary Education (DESE). The applicant's approach to incorporating multiple stakeholder representation, along with a mechanism for soliciting ongoing input and feedback reflects a credible involvement by charter schools and chartering agencies in the design and ongoing implementation of the credit enhancement program.

b.3. The applicant describes offering access to low interest predevelopment loans and site assessments, as well as remediation loans on page e35.

b.4. The applicant proposes to use DESE evaluations and annual reviews (page e36) as part of identifying high quality charter schools, and that it will target a subset of schools with the greatest need that are also designated by DESE

as high performing.

**Weaknesses:**

b.3. While the applicant describes offering technical assistance on page e35, it is described in generic terms of assessing a school's needs and providing expertise as needed. The application lacked specific examples of what that technical assistance entails. The applicant would make a more compelling case if it provided examples of technical assistance offered to address the specific needs of a charter school.

Furthermore, while the applicant identifies that it provides access to low interest predevelopment and remediation loans on page e35, it does not provide any approximation of what charter schools might otherwise have access to without its products.

b.4. While the applicant outlines its use of DESE reviews and performance index scores on page e36, it does not explain how, specifically if there is a minimum or a cut-off, and it does not establish what index score correlates or signifies a high performing school.

**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.**

**Note: The 35 available points under this selection criterion will be allocated evenly among the factors applicable to a particular applicant. For example, for an applicant for which none of factors (6)-(8) apply, the 35 available points will be allocated among the first five factors. Similarly, for an applicant that is a State governmental entity that is a previous grantee under the charter school facilities programs, the 35 available points will be allocated evenly among factors (1)-(5), (7), and (8)**

**Strengths:**

- c.1. Starting on page e37, the applicant quantifies and qualifies its experience implementing the proposed use, specifically describing its 20 years in experience in lending, financing, and credit enhancement. The applicant details a broad and diverse portfolio of projects as the state's finance and development authority, managing or financing 341 projects in the past fiscal year alone. Additionally, the applicant offers as evidence [REDACTED] in tax exempt and QZA bonds on behalf of charter schools. Together, these reflect a sizable lending footprint, indicative of significant internal capacity, staffing, policies, and procedures.
- c.2. On page e41, the applicant shares that it has an S&P rating of A+/Stable/NR, which reflects a financially stable organization. Additionally, the applicant details that it has access to approximately [REDACTED] in net assets and [REDACTED] in cash liquidity as of the end of fiscal year 2020.
- c.3. The applicant outlines a detailed and articulated application, diligence, and approval process on pages e41 and e42. The application also outlines its risk rating framework, along with its annual monitoring process (page e43). Additionally, the applicant describes its use of an external party to provide independent portfolio quality review and its monthly reporting cadence to staff and its asset management team. Detailed processes and risk rating frameworks are industry aspects of risk management, and the use of an external party in monitoring lends additional credence to the applicant's risk management approach.
- c.4. Starting on page e45, the applicant describes its extensive experience with successful charter schools and access to industry expertise via partnership with MCPSA, the state charter association, and DESE's Charter School Office, to enhance its ability in identifying schools and implementing the credit enhancements. The incorporation and access to two key parties bodes well for the applicant's continued ability to evaluate the likelihood of success of a charter school.
- c.5. The applicant affirms on page e46 the applicability of state conflict of interest laws and its obligation to those laws, as well as its practices implementing adherence. This provides credible evidence of its ability to avoid ongoing conflicts of interest in decision making.
- c.7. The applicant provides several ways on page e48 it takes steps to ensure charter schools receive funding including issuing QZABs, making other types of loans available for other uses including technology, and assisting schools with New Market Tax Credit projects.
- c.8. The applicant describes an extensive track record on page e48 issuing 89 tax exempt bonds and QZABs on behalf of charter schools, totaling almost [REDACTED]. Additionally, the applicant outlines the performance of its five past grants on page e48, which reflects significant leverage rates across each grant and no losses paid under any of the credit enhancements through this grant program. Together, this evidence provides affirmation of its performance in prior grant cycles.

**Weaknesses:**

No weaknesses noted.

**Reader's Score: 35**

**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:**

d.1. The applicant details a team of five experienced professionals in charter school finance and lending (page e50), with the involved staff reflecting extensive years of experience in relevant and related industries and functions. The applicant provides demonstrable industry and sector knowledge within the team, specifically around lending to MA charter schools. As an example, the primary investment banking contact currently manages the tax-exempt bond financing for charter schools and previously managed the guarantee program for 17 years.

d.2. All the requisite functions (oversight, credit, underwriting, monitoring) typically found at lending organizations are reflected in the principal staffing organizational chart. Together, these areas and functions represent a comprehensive picture of what is required to implement credit enhancement and broader lending activities with a high degree of fidelity.

**Weaknesses:**

No weaknesses noted.

**Reader's Score: 15**

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**Status:** Submitted

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Status: Submitted

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## Technical Review Coversheet

**Applicant:** Massachusetts Development Finance Agency (S354A210002)

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

	Points Possible	Points Scored
<b>Questions</b>		
<b>Selection Criteria</b>		
<b>Quality of Project Design and Significance</b>		
1. Quality of Project Design	35	32
<b>Quality of Project Services</b>		
1. Project Services	15	13
<b>Capacity</b>		
1. Capacity	35	34
<b>Quality of Project Personnel</b>		
1. Project Personnel	15	12
	<b>Sub Total</b>	91
	<b>Total</b>	91

# Technical Review Form

Panel #2 - FY21 Credit Enhancement - 2: 84.354A

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

Applicant: Massachusetts Development Finance Agency (S354A210002)

## 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 demonstrates that the proposed project will provide adequate financing to charter schools that will give those schools better rates. For example, through the guarantee programs proposed, lenders are able to provide higher loan-to-value of up to 120% of the collateral value. This is considerably higher than the typical 80% advanced by a bank without enhancements. The proposed project will reduce the annual interest expenses for the participating charter schools . For example, one option will be to offer a [REDACTED] rate based on the guarantee program compared to 4.0% at the public market tax-exempt bond. This is an effective decrease in rates for charter school projects. (Pages e15-20)

(2)The goals and objectives for the project are clear and measurable. The program will target 100% of the grant funds for the acquisition, renovation, and construction of facilities for high performing charter schools meeting the targeted student population criteria. The program will serve a minimum of five charter schools in the first three years following the award. (Pages e20-22) The timeline that is presented provides appropriate timeframes for the completion of the activities. The plan includes closing at least two school credit enhancements totaling [REDACTED] leveraging [REDACTED] loan or bond by September, 2022. (Page e23)

(3)The application provides a project implementation plan that will appropriately support the likelihood of the project achieving the goals and objectives of the project. The implementation plan includes marketing, lending/bond and guarantee transactions, and grant administration. These elements of the plan will be completed in a timely manner as defined by a clear timeline that includes the activities and the quarter of the year of the completion of those activities. The applicant has formed appropriate partnerships with financial institutions to assist in accomplishing the goals and objectives of the project. (Page e24 and letters of support, e361-364)

(4)The applicant demonstrates the potential replicability of the proposed project by indicating that the model that will be

used for this project will provide effective guidelines for other states and organizations to also find success. The applicant works with the Massachusetts Department of Elementary and Secondary Education (DESE). That team has extensive knowledge of charter schools and includes experienced staff that can offer technical assistance and a pathway to success in providing financial support for charter schools. The applicant indicates that the proposed [REDACTED] grant is projected to be 7:1 with increases in leverages as the private funds are utilized and the [REDACTED] in grant funds are recycled over time. In this model adding private funds or using recycled funds will effectively assist in replicating the funds used. (Pages e24-28)

(5) The proposed project will target services to schools that are high performing and serve a high percentage of low income students. Other criteria considered include new and early start schools, total school revenues and commitment of other public resources to the project, and the project's ability to be financed. These guidelines will provide appropriate criteria for charter schools that are selected for the proposed grants. (Pages e22 and e26)

(6) The applicant has demonstrated effectively that past experiences provide proof of the ability of the organization to leverage funding. For example, in 2015, the organization issued over [REDACTED] in credit enhancements supporting loans and bonds of more than [REDACTED] resulting in 8.5:1 leverage on the [REDACTED] grant. The leverage ratio for this proposed project is to be 7:1. That is both ambitious and attainable based on past experiences. (Page e28)

(7)The applicant has demonstrated clearly that the state of Massachusetts has been a leader in charter school legislation. This is supported by the work of the National Alliance for Public Charter Schools, which highlighted Massachusetts as a leading state for comprehensive charter school monitoring and data collection processes. In January 2010, the Massachusetts legislation included revisions to the charter school statutes. This legislation has assisted in increasing the number of seats in charter schools and supported high performing charter schools within the state. (Page e28-31)

(8) The costs of the project in relationship to the objectives, design, and potential significance of the project are reasonable. MassDevelopment has had effective leverage and utilization in previous grant awards. This proposed project will, therefore, have the likelihood of similar cost effectiveness. The applicant indicates a small amount for salaries and administrative costs. These costs are clearly reasonable at [REDACTED] (Page e31 and Logic Model, Page e76 and budget narrative e367)

#### **Weaknesses:**

(1)The applicant does not propose an option that would include lower than 2.5% interest. The applicant does not clearly justify why lower rates will not be made available.

(5)The applicant does not include a detailed plan as to how the criteria developed will be used in the marketing plan. Therefore, it is not clear how effective the outreach to the neediest schools will be approached.

(6)The applicant states that MassDevelopment could not seek a Board approval due to the short timing of the application process. This rationale for not having received board approval on the matching guarantee is not sufficient. (Page 28)

(8)The applicant references the logic model as a support for the reasonable costs. (Page e32) However, the logic model does not reflect any rationale that would provide reasonable costs. (Page e76)

**Reader's Score: 32**

#### **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 clearly demonstrates that the services to be provided by the project reflect the identified needs of the charter schools in the state of Massachusetts. The charter schools in the state do not have access to the same funding sources as the other public schools. For example, local property tax levies are not accessible to them. This project, therefore, will enable those schools to raise sufficient equity to qualify for a conventional loan or tax-exempt bonds to finance acquisition and/or renovations. The project will also assist the charter schools in securing interest rates at senior debt levels and provide for long-term support beyond the five-year charter term. (Page e32)

(2) The applicant involved several charter schools and agencies in the planning through the use of an advisory board that was established as part of a 2003 application to the Credit Enhancement for Charter Schools Facilities program. The current advisory board includes representatives from charter schools, the Massachusetts Department of Elementary and Secondary Education's Charter School Office, and the Local Initiatives Support Corporation. (Page e33-35) These efforts are effective in providing for the pathway for involvement of stakeholders in the project planning.

(3)The applicant clearly demonstrates extensive technical assistance and other support services to charter schools. Those include project planning resources, access to financing and the tax exempt bond market, assisting in management of the schools' financing expenses, and real estate department consulting. Low interest site assessment financing and low cost remediation loans will assist in providing reasonable fees and lending terms. (Page e35)

(4)The applicant will work with the Massachusetts Department of Elementary and Secondary Education to ensure that the funds reach the charter schools with the highest need and the most likelihood for success. This will include the use of student achievement data and the Composite Performance Index that represents the extent to which students have attained or are progressing toward proficiency. (Page e35-36)

**Weaknesses:**

(2)The applicant does not indicate the updated involvement of the Charter School Advisory Board in the development of this specific grant. There is no agenda or discussion of details as to how the key stakeholders of the advisory board were or are directly involved in this application and proposed project. The applicant states that the needs assessment is updated periodically and incorporated into the pipeline. However, the applicant does not specifically define how this was implemented into this grant proposal. (Page e33)

### 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.**

**Note: The 35 available points under this selection criterion will be allocated evenly among the factors applicable to a particular applicant. For example, for an applicant for which none of factors (6)-(8) apply, the 35 available points will be allocated among the first five factors. Similarly, for an applicant that is a State governmental entity that is a previous grantee under the charter school facilities programs, the 35 available points will be allocated evenly among factors (1)-(5), (7), and (8)**

#### **Strengths:**

(1)The applicant illustrates that MassDevelopment, which was created in 1998 has demonstrated extensive, high quality experience. This experience will enhance the credit on debt issuances, guarantees leases, and facilitating financing. For example, MassDevelopment has worked with businesses, financial institutions and communities while managing 341 community development projects generating investment of more the \$2.7 billion into the Massachusetts economy during 2020. (Pages e37-40)

(2)MassDevelopment has a strong financial profile that is supported by well documented financial stability. The S&P credit rating for the agency is A+/Stable/NR. According to the June 30 2020 audit, the agency assets exceed liabilities by [REDACTED]. (Page e41 and audit results, Page e146)

(3)To provide the protection against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management, the applicant includes a comprehensive series of loan policies and procedures that are provided to all loan officers along with appropriate training. Those policies and procedures include such risk mitigation as appraisals of collateral conducted by external professionals with expertise in equipment or real estate. To mitigate risk, monitoring will be used with at least annual review and more frequent review if a risk rating is higher. (Page e41-44)

(4)The applicant indicates that MassDevelopment will partner with Massachusetts Charter Public School Association (MCPSA). That association provides support for charter schools by offering professional development opportunities to share best practices with the charter school community. (Page e46)

The applicant demonstrates the appropriate involvement of MCPSA and DESE. These groups have representatives on

the Charter School Advisory Board. That participation would make available answers to questions regarding educational aspects such as performance reviews, charter renewals, and charter school application processes. (Page e46)

(5)The applicant clearly defines the Massachusetts state ethics law, which imposes civil and criminal penalties for misuse of one's official position, self-dealing and nepotism. MassDevelopment provides appropriate training for employees and board members on an annual basis regarding conflicts of interests and ethics issues . (Pages e46-47)

(6)There are no co-applicants in this proposed project.

(7)The applicant provides several clearly developed steps to ensure charter schools receive funding. For example, MassDevelopment will work with schools to issue tax-exempt bonds and will assist charter schools in seeking New Market Tax Credit financing regardless of whether this proposed project receives a grant allocation for 2021. (Page e48)

(8)MassDevelopment, the applicant, has been awarded five grants from the US Department of Education Credit Enhancement. These efforts have demonstrated strong performance. That performance includes high leverage ranging from 28.4 to 1 to 4.2 to 1. The organization has proven risk management in that there have been no losses paid under any credit enhancements. (Page e49)

#### **Weaknesses:**

(4)The applicant does not clearly define the role that MCPSA will play in providing expertise in education that would support the likelihood of success of a charter school. The letters of support do not include any specifics as to the professional development that will be used to support MassDevelopment in their efforts. It is not clear if MCPSA will offer programming for the selected Charter Schools for this proposed project. (Letter of Support, Page e345)

**Reader's Score: 34**

#### **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 qualifications of key project personnel are of high quality. Those include members of the leadership who have demonstrated success in loan administration, investment banking and charter school funding. (Page e50)
- (2) The staffing plan includes an appropriate chain of command for the proposed project. (Page e50)

**Weaknesses:**

(1)The applicant does not include specifics as to the educational expertise that will be utilized during the project. There is an indication that a member of DESE will be part of the advisory panel; however, the individual's experience and training is not included in the application. Therefore, it is difficult to determine the expertise of that person and/or position.

(2)The applicant does not identify the board members or their diversity or expertise.

**Reader's Score:** 12

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