

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

Status: Submitted

Last Updated: 09/02/2021 02:14 PM

## Technical Review Coversheet

Applicant: Equitable Facilities Fund, Inc. (S354A210011)

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	34
<b>Quality of Project Services</b>		
1. Project Services	15	15
<b>Capacity</b>		
1. Capacity	35	34
<b>Quality of Project Personnel</b>		
1. Project Personnel	15	15
<b>Sub Total</b>	100	98
<b>Total</b>	100	98

# Technical Review Form

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

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

Applicant: Equitable Facilities Fund, Inc. (S354A210011)

## 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) Securing funding for targeted charter schools through its innovative approach of leveraging funds with other sources saves money and interest. For example, the applicant will group numerous charter school loans and then uses them for collateral or low-cost tax-exempt bonds. The proceeds from the issuance of these bonds are offered to charter schools at lower rates compared to market rate value. The applicant credits this model of obtaining funding to a proof of concept initiated by the Clean Water State Revolving Fund which allows allow the EPA the ability to finance water projects. The applicant compares the rates it can offer to traditional rates and explains that they offer reduced interest rates for school and can also serve as a direct lender who will charge lower transaction fees saving the charter school program approximately 2.5% of the project costs compared to 4.0% in normal transactions. The applicant also note that it does not charge additional monies to finance a debt service reserve fund which usually is added to the project cost. The applicant provides an example to compare traditional financing to theirs to help substantiate their financial structure. (Pages e17-e18)
- (2) The applicant shares the four goals and the measurable objectives stated, will provide charter school programming to meet the needs of underserved students. The applicant convincingly sets the tone for funding and developing additional charter programs to meet student needs through the logistics included in the proposal. For example, the applicant designates targeting students who do not meet proficiency in Math or English Language Arts and/or, are low-income and minority students. The applicant discusses the need to provide capital for lending to increase the opportunity to support new facilities at better rates and terms than market rates. The applicant shares the pipeline data and hopes to address twenty charters in states with strong charter laws to serve 20,000 students over the five-year plan. (Pages e20-e23)
- (3) Based on the monitoring and review process in place to ensure grant funds are utilized as proposed, it is probable that the applicant will achieve its goals with support from its partners. The applicant shares that prior to the grant award, it is moving forward with two bond offerings and is identifying new schools who need facility financing. The applicant explains their methodology to track performance, provide weekly reviews of projects who may meet their criteria

for programs and work with different groups to encourage partnerships, address stakeholders and stay mission focused. The applicant also shares recent history of their agency and demonstrates their commitment of over [REDACTED] to support schools with over 41,000 students. (Pages e24-e25)

(4) The applicant has developed a plan to obtain funding for charter school development based on a proof of concept used by the Clean Water State Revolving Fund in their quest to obtain low-cost financing. The applicant shares the process of creating a credit enhancement to be replicated through a step-by-step procedure process. The applicant details how to create a loan portfolio to raise capital through the bond market. This proof of concept has already been implemented in multiple projects without enhancement funds and the applicant explains that with enhancement funds it will increase the potential to reduce the debt service reserve funds and reduce fees often paid to financial advisors, bond underwriters and legal counsel. The credit enhancement will help maximize the funding receive to generate additional funds to be used at a lower rate. It is reasonable that this venture could reduce the interest rate on funds and provide working capital for similar projects. (Pages e26-e28)

(6) The applicant presented the methodology based on the Clean Water State Revolving Fund to show how low interest bonds could be used to address the needs of the charter program. This proof of concept was demonstrated in 2019 and 2021 with the issuance of [REDACTED] of tax-exempt bonds. Based on the applicant's projection, the grant will be leveraged at 25:1 to support [REDACTED] in debt. Grouping the bonds theoretically should attract low-yield investors and attract new sources of private funds. The plan to utilize the grant funds as credit enhancement is appropriate as more schools including smaller charter programs will benefit from the reduction in costs. (Pages e16-e18)

(7) The applicant's goal to serve charter schools in states with strong charter laws is based on sound practices as each school would be under the authority of the charter laws. The applicant shares that they will use ratings from both the Center for Education Reform and the National Alliance for Public Charter Schools to determine states with strong charter laws to determine the state sites where there is the most need. The rankings based on multiple criteria, will help endorse the likelihood of success for the school and the payment back of borrowed funds. (Pages e32-e33)

(8) The applicant is requesting the maximum allowed to be able to provide services to more schools and be able to leverage the amount requested for an anticipated [REDACTED]. 100% of the funds will be designated to borrow funds at a much lower basis compared to non-leveraged funds. (Pages e34-e35)

#### **Weaknesses:**

(5) The applicant's information regarding the school selection process needs additional clarity. The applicant shared that 100% of schools who will receive loans must meet specific criteria. It appears contradictory to state that the school must be high performing and at the same time 80% of the selected schools are in a district where 50% of students do not meet the standard for proficiency in either Math or English Language Arts on the state assessment. (Pages e28-e30 e15)

**Reader's Score: 34**

#### **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) Obtaining low interest funding has been identified as a major barrier for charter schools. The Credit Enhancement funds could help the applicant utilize an innovative approach to obtaining capital with lower interest costs to address their needs. By grouping the loan portfolio and adding philanthropic support that serves to overcollateralize the portfolio, the agency will be able to borrow at a significantly lower cost of capital than schools can acquire on their own. The applicant shares that lower borrowing costs on to the charter schools in the form of discounted rates and lower transaction fees will be passed on to the charter programs. (Pages e35-e36)
- (2) The applicant shares charter schools, chartering agencies, and charter support groups helped design the loan program. Charter school borrowers joined an advisory board, and a founding board was created with representatives from national charter organizations to represent charter schools during the implementation phase. The applicant describes the different layers of support so that charter schools and agencies would be consultants for their project. The applicant included additional letters of support verifying the support of different stakeholders. (Pages e37, e110-e120)
- (3) The free technical assistance discussed by the applicant is provided to charter school borrowers up to a year prior to receiving funds to prepare charter schools with both the understanding about the lending process as well as how to plan to maximize funding to obtain the lowest interest rates. The applicant shares the comprehensive plan of technical assistance which serves to indoctrinate beginning charter programs to help define specific areas of needs including financial modeling, growth and business planning, budgeting, and forecasting, cash flow analysis, cost-benefit analysis, and financial performance monitoring and evaluation. The applicant presents a transparent process that supports and guides the decision-making process for future charters. The applicant shares that through their technical service, charters understand how to have significantly improved loan terms and lower term debt by grouping their loan portfolios together. (Pages e38-e39)
- (4) The applicant provides a service to upcoming charter programs through their technical assistance and guidance. This helps charter schools understand that debt is long term and provides a way the charters can secure funds and bonds more effectively and at reduced rates. The applicant emphasizes that the charter schools cannot rely only on their academic success to obtain funding as small institutions need backers to gain capital at lower interest than what traditionally is given. (Pages e45-e47)

**Weaknesses:**

None noted

**Reader's Score:** 15

**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) Since the sole purpose of the applicant's organization is to help obtain and provide low interest loans to charter schools, the applicants have gained experienced and expertise in this area and are able to pass this knowledge to upcoming chart programs. In their three years of operating, they document they have provided the most direct loans to lenders in the past twelve months than any other lender, increased more than 41,000 charter seats for students, closed and committed loans to 34 different charters and had bond issuances for over [REDACTED]. this achievement testifies to their success. (Pages e40-e41)

(2) The applicant's sound financial stability is based on their assets, loan procurement and their partnerships with lenders and foundations, who work together to ensure loss is not an option. The applicant credits their business model and their ability to cover operating costs by the lending revenue it has received. The applicant qualifies their strong financial stability by reporting by their A rating status, [REDACTED] in assets, no loan charge-offs and no non-performing loans (Pages e41-42)

(3) The applicant provides an extensive process to help guarantee against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management through a series of checks and balances. For example, the applicant provides technical assistance to help with portfolio monitoring through its ongoing reporting, scheduled reviews and checking for payment timeliness. (Pages e42 e47)

(4) Since the focus of the applicant and staff is to only work with charter schools and charter organizations, their expertise is solely directed to the success of a charter school. The key personnel have many years of experience with education and more specially charter management. The applicant includes their qualifications and experiences which range from charter directors, financial officers, overseeing investments, and lending processes. The applicant also shares they have a supporting network to support academic needs. (Pages e44-e47)

(5) The applicant demonstrates the controls for conflict of interest as well as to ensure that all staff receive policies through their handbook. Procedures are in place for Board members to recuse themselves if there is any financial connection with a decision. The checks and balance of authority and decision-making is also already in place to help avoid any concerns. (Pages e47-e48)

(8) The applicant shared they have previously been awarded a Credit Enhancement competition but are awaiting a final performance agreement before receipt of funding. This is not keeping the agency from moving forward as they are already planning to leverage this funding source to work with other charter programs. (Page e48)

**Weaknesses:**

(5) Opportunity to ensure Board and staff training includes conflicts of interest to help increase transparency.

**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 and experiences of the key personnel demonstrates their ability to enhance the quality of the program. The applicant details the key personnel and provides a narrative to share information about their expertise in multiple areas. For example, the Chief Executive Officer not only founded this organization but created the model of securing loans. His work in the banking and financing helped him develop a systemic plan to identify the best charter schools and invest in them. The Project Director not only oversees the agency's internal finance and operations team but worked with the first two bond offerings. Based on the goals of the organization to secure low-cost funding, these individuals have the experience necessary to continue to obtain funding for charter schools using their model of merging loans into a shared portfolio. (Pages 49-e50)

(2) The applicant shares the staffing plan which is composed of many of the key project personnel presented earlier in the proposal. The fourteen full time employees plus staff dedicated to loan administration and monitoring, appears to be appropriate for funds being requested. The applicant specifies that six members of the team are designated to underwriting and administrating loans while four others are responsible for loan administration and portfolio fund monitoring. In addition, there is both internal and external legal counsel as well as bank underwriters written into their design plan. The success of this group is based on the effectiveness of the bond issuance and the fact that over thirty-four transactions for over [REDACTED] has occurred in the past three years. (Pages e52-e53)

**Weaknesses:**

None noted

**Reader's Score: 15**

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**Status:** Submitted  
**Last Updated:** 09/02/2021 02:14 PM

Status: Submitted

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## Technical Review Coversheet

**Applicant:** Equitable Facilities Fund, Inc. (S354A210011)

**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	15
<b>Capacity</b>		
1. Capacity	35	35
<b>Quality of Project Personnel</b>		
1. Project Personnel	15	15
	<b>Sub Total</b>	100
	<b>Total</b>	100



# Technical Review Form

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

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

Applicant: Equitable Facilities Fund, Inc. (S354A210011)

## 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. On pages e18-19, the applicant describes thoughtfully how it proposes to use credit enhancement to create alternative long-term financing to bond transaction financing, projecting to reduce interest rates by 30 to 70 basis points below market rate (page e22) and eliminating the need of a debt service reserve. The applicant also proposes to dedicate 20% of financing leveraged with the Credit Enhancement grant to supporting early-phase charter schools, thereby providing an alternative source of capital for schools not able to tap into the bond market. The applicant provides a compelling case how what it plans to offer is considerably better than the currently accessible financing and further supports this by its estimated savings through its lending activities found on page e108.

a.2. Starting on page e20 through e24, the applicant provides several clear, measurable, and quantifiable goals and objectives that are matched to the purpose of the Credit Enhancement program, specifically benchmarks for charter school need profile, the number of charter schools to be assisted, the total financing to be leveraged (25:1) with the credit enhancement, the characteristics of the financing terms to be offered, and target % deployment in states with strong charter law. The applicant's goals and objectives complement each other and are aligned with the applicant's prior lending and credit enhancement activities.

a.3. The prospects of the applicant's project implementation plan and activities described on pages e24-e26, and their likelihood to achieve the objectives and goals proposed by the applicant, are bolstered by the fact that the applicant is essentially replicating and expanding upon existing activities, and the newly requested Credit Enhancement grant would complement the [REDACTED] already committed to more than 34 schools.

a.4. The applicant clearly articulates three ways on pages e26 and e27 in which the proposed project can produce results that are replicable and promote more affordable charter school facility financing. Specifically, the applicant cites its construction of a pooled loan portfolio to raise capital through the bond market as a new capitalization avenue, inspiring

states to create their own credit enhancement programs modeled by the applicant's work, and finally putting competitive pressure on the tax-exempt bond market to align its financing with the applicant by compressing interest rate spreads by 30 basis points, reducing transaction fees, and reducing debt service reserve requirements. The applicant provides a cogent argument for why its credit enhancement could create this impact.

a.5. The applicant identifies on page e29 three criteria that 100% of its borrowers under this proposal will meet at least two of, with the criteria being correctly aligned with the Credit Enhancement program priorities of supporting high quality charter schools in states with strong charter laws with high needs populations.

a.6. The applicant proposes to leverage the Credit Enhancement funds 25x, which would mean [REDACTED] in new debt only through external partners. The applicant's thesis that an over-collateralized loan pool with credit enhancement will open the door to low-yield investors and expand the marketplace for bond buyers is credible.

a.7. The applicant has proposed a goal of deploying 80% of the funds in states with strong charter laws, as identified within the NAPCS rankings on page e32.

a.8. The applicant commits on page e34 to reserve all the requested Credit Enhancement funds for strictly credit enhancement, with overhead costs and transaction-related costs being covered from funds generated by loan repayment of by the applicant's model. This commitment reinforces that the requested amount is reasonable relative to the proposed use and that the 25x leverage can be incredibly significant to charter school facility financing.

**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 outlines a compelling argument on page e36 that its proposed credit enhancement of long-term debt will help to convince rating agencies and the bond market that charter schools face a misadjusted risk premium despite low default rates. This aligns with the applicant's position that the greatest need is for charter schools to be able to access cheaper, longer-term capital that has not otherwise been available to it.

b.2. The applicant describes the involvement of National Alliance for Public Charter Schools (NAPCS), National Association of Charter School Authorizers (NACSA), Walton Family Foundation (WFF), and Charter Schools Growth Fund (CSGF) in the original design of its loan program with individual charter school borrowers helping refine the business

model. Those early input stakeholders now serve on the founding board and advisory board of the applicant. The

applicant offers up nine letters of support reflective of various stakeholders for its proposed project.

b.3. The applicant provides a robust description of its technical assistance activities being provided to prospective and current borrowers on pages e38 and e39, offering up examples of types of assistance and intended outcomes of the assistance. The applicant also offers financing that on a typical deal would be 2/3rds of the expense from another lender (page e39).

b.4. The applicant identifies that most credit enhancement is going to support shorter-term financing, but longer-term financing is the greater need. With no other products focused on expanding longer-term financing to schools, including those considered below investment grade, the applicant's response stands out because of its commitment (page e40) to use 70% of the funds on schools rated below investment grade and otherwise unable to access the traditional bond market.

**Weaknesses:**

No weaknesses noted.

**Reader's Score: 15**

**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. The applicant has significant experience in lending and credit enhancement, described on page e41, with loans closed or committed to 34 different charter schools for over half a billion with 41,000 charter school seats supported and two bond issuances for over [REDACTED] of proceeds.
- c.2. Applicant's total assets are over [REDACTED], with a net asset ratio just below 0.4 or total net assets or equity of under [REDACTED], which bodes well for its financial stability. The applicant has also not had to contend with any non-performing loans or loan charge-offs.
- c.3. The applicant describes three key areas of risk assessment on page e43, which, along with its underwriting and credit rating methodology, are detailed and adequately structured to be responsive to and protect against unwarranted risk. The applicant describes regular portfolio monitoring and, to the extent it makes sense, a re-rating of risk.
- c.4. As a specialized lender for just the charter school sector, the staff of the applicant are knowledgeable about charter schools. Most of the senior staff has worked in charter schools or the charter school industry writ large evaluating charter schools, which bodes well for the applicant's ability to evaluate likelihood of success given the work to date.
- c.5. The applicant provides a standard conflict of interest policy starting on page e109. The applicant also discusses the various checks and balances it has during loan transactions, with the Chief Credit Officer charged with ensuring a fair approval process free of conflicts (page e47).
- c.8. The applicant is a current Credit Enhancement grantee from 2020, and the applicant has been able to leverage to 25:1.

**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's team and the key project staff have cultivated extensive experience both at the applicant organization and in similar roles at other charter school lenders and support organizations outlined on pages e49 through 50, with also very experienced advisors, consultants, advisory board, and credit committee members; as an example, all five of the credit committee members have worked for financial institutions that provide structured finance.
- d.2. Given that the applicant is proposing to serve fewer schools with less financing than what it has done in the past three years and it has been able to do that with the existing level of staff (page e53), the proposed staffing plan and namely no additional adjustments anticipated appears to be adequate.

**Weaknesses:**

No weaknesses noted.

**Reader's Score:** 15

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**Status:** Submitted

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Status: Submitted

Last Updated: 08/26/2021 07:31 AM

## Technical Review Coversheet

**Applicant:** Equitable Facilities Fund, Inc. (S354A210011)

**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	35
<b>Quality of Project Services</b>		
1. Project Services	15	15
<b>Capacity</b>		
1. Capacity	35	34
<b>Quality of Project Personnel</b>		
1. Project Personnel	15	15
<b>Sub Total</b>	100	99
<b>Total</b>	100	99

# Technical Review Form

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

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

Applicant: Equitable Facilities Fund, Inc. (S354A210011)

## 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) Equitable Facilities Fund, Inc. (EFF) will use the leverage approach from its past experiences in increasing the bond rating of the organization to provide a more favorable interest rate for this proposed project. The applicant anticipated that yields for the 30 year maturities in its next bond issuance will be lower than 2.50%. If the charter schools would need to use bond transactions without the interventions of EFF, the rates would be at least 3.5%. EFF will use its status to charge lower transaction fees. For example, EFF will reduce fees to 2.5% of project costs compared to an average of 4.0%. These reductions are very reasonable. (Page e18)

(2) The goals, objectives, and timelines are clearly specified and measurable. For example, Goal 2 is to increase the volume of affordable capital available for lending to charter schools at better rates and terms. To measure meeting the success of the objective that is linked to this goal, the EFF will raise over [REDACTED] in new capital to provide loans for a variety of projects including acquisition, construction, renovation, and refinancing. (Pages e20-23) These goals and objectives are directly related to the purpose of the program.

(3) EFF, with its partners including the Walton Family Foundation (WFF), will work together to create a pipeline for the deployment of funds to charter schools. EFF has already created an outreach to potential charter schools that may be in need of loans. EFF conducts direct outreach to charter authorizing bodies such as state charter school associations, educational philanthropies, and capital providers to increase the number of charter school applicants who are in need of financial support. These steps as part of the implementation plan will provide the support necessary to achieve the measurable objectives that further the purposes of the program. (Page e24-25)

(4) The proposed project results can be effectively replicated or used to promote affordable charter school facilities. The idea of using a pooled loan portfolio to raise capital through the bond market has been used for municipal water and

sewer projects and could be used for additional funding for charter schools as well. This proposed project puts competitive pressure on the tax-exempt bond market in a way that will further benefit schools. This will effectively expand the replicability of the results of the proposed project. (Page e26-28) The applicant defines that CEP funds will be recycled into additional loans and increase the leverage attained by the initial grant award. (Page e177)

(5)The applicant demonstrates the use of extensive processes to select charter schools for assistance and for determining the type and amount of assistance to be given. EFF will evaluate each potential loan based on an intensive credit rating methodology to determine risk level and how the school fits into the goals of the program. That measurement includes academic performance, operator risk, project risk, and political risk, including legal and regulatory issues. The measurement features a comprehensive process that includes the weight of the category in a rubric. For example, Component 4 regarding Teacher Quality's weight is 10%. This rating includes teacher recruitment, hiring quality teachers, maintaining a high teacher retention rate, having an effective training program, terminating ineffective teachers, and defining the strategies to achieve these results. (Page e28 and Pages e614-632)

(6)EFF projects that the grant will be leveraged at 25:1 to support ██████████ in new debt. That is an appropriate leverage for the scope of the project. EFF will leverage sources of private sector funds. EFF will continue to leverage credit-enhanced bond offerings that would not be available to charter schools absent this proposed program. Moving from short term to long-term options using the credit enhanced offerings will also provide lower interest rates and fees than if the charter school would attempt to borrow the funds without the enhancement. (Page e31)

(7)The applicant demonstrates that using the analysis by the Center for Education Reform and the National Alliance for Public Charter Schools to produce rankings of each state on its relative strength based on 20 components the EFF will identify states that have strong charter laws. EFF has the goal of having 80% of the distributed funds in states with strong charter laws. (Pages e32-34)

(8) The applicant clearly demonstrates that the project costs are reasonable in relationship to the objectives, design, and potential significance of the project. With a leveraged ratio of 25:1, EFF will provide a reasonable amount of funds for serving the schools selected. EFF will not use award funds for any administrative or transaction-related costs. This is reasonable as these costs will be covered by funds generated from loan repayments. (Page e34-35)

**Weaknesses:**

No weaknesses found.

**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:**

(1)The applicant identified the needs of the charter schools as not having sufficient bond ratings when applying as individual schools. For example, a bond report by Local Initiatives Support Corporation in 2015 indicated the charter schools that receive BB rating from S&P are often as secure as BBB-rated or A- rated entities in other sectors, yet bond markets are not convinced of the lack of risk of the charter schools. The Credit Enhancement grant will allow EFF to continue to develop a pooled enhanced portfolio of charter school loans with a higher rating and, in turn, allow those schools to borrow funds at a lower cost. (Page e35-36)

(2)The applicant has received appropriate input and support from crucial stakeholders to both plan the proposed project and continue providing support for its success. EFF has received input from the National Association of Charter School Authorizers, WFF, and Charter School Growth Fund. Continued input is being received from charter school borrowers and the charter schools that are recipients of the loans. Current recipients as well as financial institutions have written letters of support indicating the success of the past experiences in loan opportunities and the wiliness for continued support. (Page e37 and Letters of Support, Pages e110-120)

(3)The EFF grant project team will provide individualized support free of charge to the prospective and current portfolio members. This technical assistance includes support in financial modeling, growth and business planning, budgeting and forecasting, cash flow analysis, cost-benefit analysis, financial performance monitoring and evaluation. These are cost effective efforts, because the assistance will ensure that the charter will know of the expectations and be able to plan more efficiently. (Pages e38-39)

(4)The applicant demonstrates clearly that EFF will be serving schools that have demonstrated greatest needs. About one-half of the schools in the current loan portfolio are below investment grade. EFF intends to use the Credit Enhancement award to increase services to schools that have the low investment grades and high quality academic programming. Seventy percent of the 20 schools that will receive loans throughout the project will be rated below investment grade. Therefore, the neediest schools will be served. (Page e40)

**Weaknesses:**

No weaknesses found.

**Reader's Score: 15**

**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 has had an appropriate amount and quality of experience in carrying out activities such as debt issuances. The organization has closed or committed loans for 34 charter schools resulting in over [REDACTED] in total financing over the past three years. There have been no repayment delinquencies or defaults. Over 41,000 charter school seats have been supported by the financing committed. This is an excellent and appropriate amount of success for an organization that has only had three years of operation. (Page e41)

(2)As of December 2020, EFF has reported over [REDACTED] in total assets and a new asset ratio of close to 4. The most recent audit supports the financial stability of the non-profit organization. The continued support of the WFF acts to over-collateralize the loan pool and funds an A rating. These are all indicators of solid financial stability for the organization. (Page e42 and Audit, Page e109-125)

(3)The applicant demonstrates the ability to protect against unwarranted risk in its loan underwriting, portfolio monitoring and financial management. This is clearly defined in the Credit Rating Methodology handbook. This guideline includes a robust evaluation of the school's risk factors. This includes market risk, school operator risk, and project risk. The leadership staff at EFF have extensive experience in financing and will evaluate the risk and provide appropriate guidance for portfolio monitoring and financial management. (Page e43 and Pages e614-632)

(4)The applicant includes a leadership team that has extensive educational experiences. For example, the CEO has worked with the Texas-Austin Public Schools. The Chief of Staff worked to support the expansion of a four-state charter school network. In addition to these educational experts, the applicant relies on a network of supporters to analyze unique academic issues. (Pages e46-47)

(5)The EFF's Board of Directors has adopted a comprehensive conflict of interest policy for board members and employees. The policy includes requirements of board members to disclose potential conflicts of interests and allow other board members to review the potential conflicts of others. The employee policy includes any work conducted by EFF. This conflict of interest policy is supported by a series of check and balances through a thorough underwriting process. (Page e47-48 and e79)

(8)EFF has received an [REDACTED] award in the 2019 Credit Enhancement competition and is currently awaiting a final performance agreement from the department before receiving the award and has not implemented that grant.

**Weaknesses:**

(2)The applicant does not include an S&P or similar rating. That type of rating would solidify the financial stability of the organization.

**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 lead project personnel indicate relevant training and experience, which will provide appropriate support for the success of the proposed project. For example, the Chief Credit Officer who leads the lending team previously worked for an institutional investor that analyzed and purchased charter school tax-exempt bonds. The CEO has more than a decade in senior investment banking and financing more than \$10 billion in public projects. The board of directors include individuals with appropriate experiences in education, foundation leadership, and charter school authorization. (Pages e48-49 and Resumes, Pages e58-76)

(2)The staffing plan for the proposed project is appropriate for the scope of the activities to be completed. The Chief of Staff will oversee the project implementation and day to day activities. There are a total of 14 full time employees that includes six staff members who are responsible for underwriting and administering the loans with support from four employees responsible for loan administration and portfolio monitoring. (Page e52)

**Weaknesses:**

No weaknesses were found.

**Reader's Score: 15**

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