

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

Status: Submitted

Last Updated: 09/03/2021 07:47 AM

Technical Review Coversheet

Applicant: Charter Schools Development Corporation (S354A210001)

Reader #1: *****

	Points Possible	Points Scored
Questions		
Selection Criteria		
Quality of Project Design and Significance		
1. Quality of Project Design	35	30
Quality of Project Services		
1. Project Services	15	12
Capacity		
1. Capacity	35	31
Quality of Project Personnel		
1. Project Personnel	15	15
Sub Total	100	88
Total	100	88

Technical Review Form

Panel #1 - FY21 Credit Enhancement - 1: 84.354A

Reader #1: *****

Applicant: Charter Schools Development Corporation (S354A210001)

Questions

Selection Criteria - Quality of Project Design and Significance

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

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

Strengths:

1. The applicant's use of the CE would allow more flexible financing terms and significantly reduce the cost of the debt (from approximately 7% to 3-4%, p. e20) needed to finance the development of charter schools. The schools would benefit either through reduced lease/purchase costs, when the applicant is the developer, or directly when the schools themselves are obtaining the financing.
2. The applicant provides clear project goals, objectives, and timelines reflecting their aims for number schools assisted and expected leverage and affordability of the financing offered, targeting of needy schools, enabling replication by participation in national networks, and increasing its staff capacity to implement the proposed program. These goals are measurable, are consistent with the applicant's track record, and seem achievable (e26 – e28).
3. The applicant's turnkey development and credit enhancement programs, both of which would be supported by the requested award, address critical charter facility development challenges and further the purposes of the program (p. e19). The turnkey approach is especially effective at addressing key facility development challenges as it enables the assisted schools to focus on their educational mission and play the role of client and end-user in the development process rather than forcing them to assume direct responsibility for financing and developing a facility themselves.
4. The applicant's planned use of the CE is replicable because it is a variation on a common approach to enhancing credit that uses a capital pledge to incentivize lenders to offer lower cost and more flexible financing. The two more unusual features of the applicant's approach might also be replicated. Using pledges not just to aid third party financings, but to support its own development projects could be replicated by other institutions doing turnkey development for charter schools. Providing per-project cash reserves rather than pooled pledges or guarantees, might prove attractive to other institutions providing enhancements for charter school facilities depending on whether their lenders would be willing to provide greater concessions in exchange for cash pledges. (e30 – e33).
5. The general criteria that the applicant describes for selecting charter schools for assistance and determining the type and amount of assistance to be provided seem reasonable and are grounded in the applicant's significant track record of success in developing charter school facilities (p. e33 – e35).

6. The proposed approach is expected to generate more than [REDACTED] in public and private leverage over a ten-year period (a leverage ratio of 8.2 to 1, p. e20) The applicant expects that the requested award would allow it to assist in the financing / development of an additional 33 charter school facilities over ten years (p. e28).
7. The applicant plans to concentrate on states with strong charter school laws and specifically commits to deploying at least 65% of the CE in states that are ranked A or B by CER or are in the top 50% of states as ranked by NAPCS and that is consistent with the level it has achieved with previous CE awards (e36 – e37).
8. The applicant's projected costs seem reasonable relative to the objectives and potential impact of the proposed activities. (p. e38).

Weaknesses:

1. There are no objectives related to the educational performance of borrowers (p. e26 -e28).
2. The criteria described for selecting which schools will receive assistance and of what type are quite general. They do not give much sense of which factors are prioritized or decisive in the applicant's process, nor do they give any indication of how much of the award will be used to support the applicant's turnkey development projects v. enhancing financing that goes directly to schools, or whether the level/type of support provided will be similar for both of those uses (p. e33 – e35).
3. The applicant does not explain why the projected leverage for this award, 8.2 to 1 appears to be lower than the rates achieved with previous awards. The applicant indicates that the proposed award would be leveraged at the rate of previous awards, but the only information that it provides about previous leverage is its report that it has achieved "almost 19:1 cumulative leverage" – less than half the level it projects achieving with the requested award.
4. The applicant's proposed use of the CE for per-project cash reserves makes sense for their model, since they will often be using it, in effect, as developer equity in their own turnkey development projects, However, that approach is not likely to be attractive to replicate in more common financing situations, where pooling or providing guarantees will usually obtain similar concessions with greater ease, and, perhaps, somewhat greater impact.
5. The emphasis in the proposed approach is on lowering costs to the maximum. The applicant plans to provide per project cash reserves of 25%, with the aim of getting the most favorable loan terms (p. e18 – e19). The relatively high level of per project reserves -such reserves are often in the 5% to 20% range rather than the 25% that the applicant proposes, and are often pooled rather than held per project- may contribute to the relatively low leverage rate (compared to the rate achieved with previous awards) that the applicant expects to achieve with this requested award.

Reader's Score: 30

Selection Criteria - Quality of Project Services

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

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

Strengths:

1. The applicant's products are designed to address key challenges that charters face in facility development, especially those related to weak credit profiles that make accessing credit hard and expensive, and insufficient

development expertise. (p. e39). In their turnkey model they provide comprehensive services that allow the assisted schools to step away from the challenge of accessing credit and engage in the development process as a client rather than as a developer. The applicant also provides a range of services to organizations that it assists through its lending and credit enhancement programs.

2. The applicant's approach and services are based on research, its own extensive experience as a charter facility developer, a 2019 market study and other outreach to charter schools, and chartering agencies regarding program design and critical needs and gaps (p. e41 – e43).

3. The applicant provides one-on-one counseling that focuses on helping prospective and client schools address key challenges that they face as schools and organizations and in obtaining the facilities that they need. These technical services are appropriate to the needs of the schools and are provided without charge for its technical assistance.

4. The applicant has a significant track record in developing charter school facilities as a developer and as a lender/credit enhancer, and they have reached needy schools based on their stage of development and the student populations and communities served (p. e44 – e47). The applicant reports that they have had a nominal default rate of less than 2% on the assistance they provided to charter schools.

Weaknesses:

1. The applicant does not explain how much of the activities proposed with the requested award would focus on its turnkey program, under which it provides comprehensive services that allow charters to largely step away from the complexities of facility development, and how much would focus on its lending and credit enhancement programs, that provide a much narrower level of technical services to assisted charters.

2. Though the applicant does not charge directly for its technical assistance, it does charge for its turnkey services through a [REDACTED] mark-up on its debt service on the leased property (p. e22). The applicant reports that this pricing makes it much more affordable than turnkey alternatives, but it does not explain how it arrived at this mark-up, how the mark-up relates to its costs, or how this approach ensures that the benefits of the CE largely flow to the assisted charters. The applicant does not address the fees and pricing of the loans/credit enhancements that it may offer on non-turnkey projects.

3. The applicant indicates that it has had a nominal default rate of under 2%, but it does not fully explain what it counts as a default (given that much of its activity involves leasing rather than lending), what it means by nominal, and does not indicate whether this rate is overall, or on just their turnkey or just their lending/CE activity.

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:

1. The applicant has a substantial track record in supporting the development of charter school facilities through the kind of activities proposed in the application including having successfully deployed a number of previous CE awards.
2. The applicant appears to be solid financially, as reflected in its audits. As of the end of 2020 the applicant's net asset position was solid, and it generated significant operating surpluses and had ample liquidity in both 2019 and 2020 (p. e161 -e164). (p. e42).
3. The applicant's systems for financial management, underwriting, risk management and servicing, and portfolio monitoring as generally described in the application, seem adequate including, as they do, descriptions of careful due diligence, underwriting and portfolio management processes (p.e48 – e50).
4. The applicant has ten years experience in lending to charter schools and a number of senior staff have additional charter school lending experience that has enabled them and should continue to allow them to effectively underwrite charter school borrowers and leaseholders.
5. The applicant has a conflicts of interest policy that applies to officers, directors, and employees, and that should allow them to identify potential conflicts and prevent them from becoming actual conflicts.
8. The applicant has received a number of previous CE awards totaling [REDACTED] and has successfully deployed more than [REDACTED] in CE assistance to charter facility projects schools. The applicant has targeted to needy schools (p. e46).

Weaknesses:

1. Though the applicant has experience as a lender/provider of credit enhancement, it is not clear how much of that activity they have done. They do not report on their total lending/credit enhancement activity to date. Also, based on the FY 2020 audit, the applicant has loans outstanding of less than [REDACTED], which is less than 5% of total assets. The applicant's balance sheet does not include categories that would appear to reflect assets pledged as credit enhancements.
2. The application's description of its financial stability does not provide much useful information about the applicant's financial position apart from reporting its total assets and net assets, and, implicitly, its net asset ratio (24.75%) (p. e48). The description mischaracterizes the nature of the CDFI certification process. The CDFI certification process does not provide a qualitative assessment of financial stability or managerial competencies. The applicant's discussion of its deployment and default rates, relative to CDFI industry standards, is also puzzling because their consolidated balance sheet shows their assets are predominantly deployed in the development and ownership of real estate rather than in lending activities. Deployment and default rates are not useful metrics for assessing the financial stability of such an entity. (p. e48).
3. The applicant's description of their systems for risk are very general and make it hard to assess their strength. No policy manuals are attached. Also, because the applicant is principally a developer and owner of real estate, in order to prevent unwarranted risk they should have risk management systems focused on the particular risks of development (such as those related to site acquisition, approvals, design, and construction) and ownership (property and asset management) and there is no reference to such systems in the narrative or in the attachments.

Reader's Score: 31

Selection Criteria - Quality of Project Personnel

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

- (1) The qualifications of project personnel, including relevant training and experience, of the project manager and other members of the project team, including consultants or subcontractors; and
- (2) The staffing plan for the grant project.

Strengths:

1. The applicant's staff and board are highly qualified and experienced based on their role in building the applicant's significant track record in charter school facility development and by their other training and professional experience.
2. The staffing plan for the project seems sound as it is grounded in the applicant's substantial experience with charter facility development.

Weaknesses:

none identified

Reader's Score: 15

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Technical Review Coversheet

Applicant: Charter Schools Development Corporation (S354A210001)

Reader #2: *****

	Points Possible	Points Scored
Questions		
Selection Criteria		
Quality of Project Design and Significance		
1. Quality of Project Design	35	29
Quality of Project Services		
1. Project Services	15	11
Capacity		
1. Capacity	35	32
Quality of Project Personnel		
1. Project Personnel	15	15
Sub Total	100	87
Total	100	87

Technical Review Form

Panel #1 - FY21 Credit Enhancement - 1: 84.354A

Reader #2: *****

Applicant: Charter Schools Development Corporation (S354A210001)

Questions

Selection Criteria - Quality of Project Design and Significance

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

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

Strengths:

- 1) The applicant's model provides rates and terms that schools would otherwise not receive in three distinct ways: access to lower cost capital, lower lease rates, and 100% financing, i.e., no equity requirements. For example, cited is debt payment to Charter Schools Development Corporation (CSDC), which is lower due to lower interest rates, longer amortizations, or interest-only periods, with the resulting rent to a school being proportionately reduced. (page e16) Additionally, this grant program will provide approximately 3-4% market rates which is well below 7% for senior and sub-debt, resulting in more dollars going directly to classrooms.
- 2) The applicant has developed an advanced Logic Model using realistic assumptions that will result in intended outputs and outcomes, resulting in lower cost facilities to charter schools. The model has obtainable project goals, measurable objectives, and timelines. The applicant will collect and analyze data monthly, quarterly, and annually to mitigate risk. (page e26)
- 3) The applicant is an eight-time federal Credit Enhancement grantee with a nationally recognized track record and demonstrates the ability to work closely with its current relationships to ensure awareness of the program. (page e29) For example, in Indiana, the applicant will leverage its relationship with the Mind Trust to ensure charter operators are aware of its programs. (page e30)
- 4) The applicant has received eight prior federal Credit Enhancement grants. This demonstrates their success in being awarded funds for the program's purpose. (page e15) They have successfully contributed to the charter school movement by providing highly leveraged facility financing and turnkey real estate development solutions with previous grants. The applicant promotes its model and pro-forma modeling process that other nonprofit organizations have attempted to replicate in terms of services provided. (pages e31-32) This is demonstrated through multiple letters of support from banks. (pages e401-410) Furthermore, the application notes that the Mind Trust is exploring replicating the CSDC model with other partners to better leverage private philanthropy. (page e33)
- 5) The applicant has an application that requires analysis of data on student recruitment and enrollment, marketing, local competition, community partnerships, governance and administration, budgeting, and finance. They use the lifecycle

approach when working with schools and target its programs in geographic areas with strong authorizers and support organizations or foundations supportive of growing the number of charter schools in those communities. (page e34)

6) The applicant projects that the grant will be leveraged 8.2:1 times providing ██████████ in financing to 33 charter school projects during the 10-year grant period. Information detailed in their goals and objectives demonstrates that this leverage ratio is obtainable based on their track record. (page e36) The targeted charter school market would not normally have access to these beneficial financing products.

7) The applicant has a significant track record serving states with strong charter school laws with almost 70% of their cumulative credit enhancement facilities projects being in A & B states as ranked by the Center for Education Reform and 80% being deployed in the top 50th percentile of states ranked by the National Alliance for Public Charter Schools. (page e36)

8) The applicant has aggressive goals of closing 4-5 new transactions per year. (page e38)

Weaknesses:

5) The application did not include a clear strategy as to how data would be utilized for selecting charter schools.

8) No detail is provided about the administrative cost that will be covered by the applicant. Also, additional information about the potential costs in relation to the design would have been beneficial in analyzing the project significance. The application included projections which were conservative and reflect the current historically low interest rate environment, however additional information on the cost side is lacking. (page e39)

Reader's Score: 29

Selection Criteria - Quality of Project Services

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

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

Strengths:

1) The applicant designed the proposed grant based on results of a 2019 market study, national research, and expansive testimonials from recognized leaders in the charter school movement. The identified needs of charter schools were incorporated in their model. (page e42)

2) The applicant included charter schools and chartering research agencies who have demonstrated support for the project in the design of the project. The application includes strong letters of support from charter schools, lenders, and authorizers. (pages e441-446) These letters demonstrate their current involvement with the applicant and support for the proposed grant.

3) The applicant's grant team consists of experts in charter school finance and education who provide one-on-one counseling for prospective and current client schools. This assistance includes financial modeling, growth, and business planning, budgeting, and forecasting, cash flow analysis, cost benefit analysis and financial performance monitoring and evaluation. (page e43) This assistance is customized to address each school's specific area of need regarding their own products and connection to other capital.

4) Through this grant, the applicant will remove barriers to access to low-cost capital for charter schools in distressed communities and provide safe and affordable facilities for schools seeking long-term, low-cost debt. The applicant will assess schools using strategies that have proven effective for their target market including monitoring to support the school. The services are focusing on assisting charter schools with a likelihood of success with the greatest need. (page e46)

Weaknesses:

2) A survey was sent to 135 charter schools and a total of 28 surveys were completed. This response rate did not reach the level of statistical significance to demonstrate full engagement on the part of charter schools in the design of the project. (page e39)

4) The application would benefit by providing specific details about their target market and pipeline. Also, the applicant may consider investing in software for a critical function such as tracking performance of charter school clients and overall performance of its loan portfolio.

Reader's Score: 11

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 a track record of serving high impact, high quality charter schools and is the largest recipient of grant funding. Their cumulative experience in administering previous credit enhancement awards demonstrates proven leveraging of private sector funds and its capacity and knowledge to manage the program. (page e47)
- 2) Most recent audits confirm full compliance with reporting requirements, cite no internal control deficiencies, and

no instances of non-compliance with Government Auditing Standards. (pages e222-251) These are indications that the applicant is financially sound. As of 12/31/20, the applicant reported ██████████ in Total Assets and ██████████ in Net Assets with a default rate of <2% below the CDFI industry standard of 7%. (page e48)

3) The applicant has a rigorous internal review and risk management process for schools in their portfolio. During the underwriting process, 17 different aspects of a charter school's business plan are analyzed. Internal control procedures help with the early detection of write-offs. Early detections of financial issues help mitigate delinquencies. (pages e48-49)

4) The applicant's experience in credit underwriting includes specialized expertise in evaluating a school's success and ability to mitigate risk. The Project Director and Project Developer have prior experience teaching and founding charter schools, and both have acquired extensive and specific education industry knowledge. (page e50) Additionally, the Board Chair is recognized as a pioneer in the movement and was appointed to the DC Public Charter School board in 2003 and elected Chairman in 2004, serving in that capacity until 2010. (page e51) The applicant has a depth of knowledge and experience in the education field, giving them the reputation and ability to evaluate the success of a charter school.

5) The application includes a Standards of Conduct policy which applies to both the Board and corporate officers addressing conflicts of interest during governance and a Business Ethics policy handbook which governs potential conflicts of interest at the staff level. (pages e279-281) Both policies prohibit issues or decision transactions in which the project staff, family members, or business associates may be deemed to have a conflict of interest.

8) As of 9/30/20, the applicant has obligated over ██████████ in federal credit enhancements from its original ██████████ in grants, serving as evidence of their ability to protect, revolve, and recycle grants on behalf of 222 school transactions leveraging over ██████████ in total private capital and lease commitments. This has resulted in the applicant enhancing or developing over 88,250 student seats and over 7.7 million square feet of affordable educational facilities across programs in 29 states plus D.C. (pages e52-53)

Weaknesses:

1) The applicant failed to detail projected charter school locations by state and types of anticipated financings by product type. This information would have been helpful in further understanding their overall strategy.

Reader's Score: 32

Selection Criteria - Quality of Project Personnel

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

- (1) The qualifications of project personnel, including relevant training and experience, of the project manager and other members of the project team, including consultants or subcontractors; and**
- (2) The staffing plan for the grant project.**

Strengths:

1) The Project Director has effectively managed seven prior credit enhancement grants and is responsible for the overall program's management and evaluation. Another key staff member includes the Turnkey Development Program Project Manager, who has been with the organization 15 years. (pages e54-56) The overall staff consists of 12 full time employees demonstrating both the depth and knowledge to successfully manage the grant.

2) The grant project is sufficiently staffed with employees averaging 8 years of service to address ongoing project implementation and ensuring accountability with minimal turnover.

Weaknesses:

No weaknesses noted.

Reader's Score: 15

Status: Submitted

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Technical Review Coversheet

Applicant: Charter Schools Development Corporation (S354A210001)

Reader #3: *****

	Points Possible	Points Scored
Questions		
Selection Criteria		
Quality of Project Design and Significance		
1. Quality of Project Design	35	31
Quality of Project Services		
1. Project Services	15	10
Capacity		
1. Capacity	35	33
Quality of Project Personnel		
1. Project Personnel	15	15
Sub Total	100	89
Total	100	89

Technical Review Form

Panel #1 - FY21 Credit Enhancement - 1: 84.354A

Reader #3: *****

Applicant: Charter Schools Development Corporation (S354A210001)

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 will assist charter schools in obtaining up to 100% financing at up to 300 basis points lower than traditional lenders. Additionally, charter schools that are in the beginning phases will have access to lower lease rates due to the structure of the Turnkey Development Program's lease-to-own model. Additionally, the use of a variety of lending institutions allows the Applicant to focus on finding the best rates/terms for their specific charter school clients. (Pgs. e16 and e20)
2. Goals and objectives are clearly outlined with specific benchmarks in which to judge success including the number of grants that will be generated during each year for the first five years of the project. The criteria for selection of communities to provide assistance are clearly outlined as are the number of charter schools that meet the overall purpose of the grant which is to assist new and early-stage charter schools in securing facilities. (Pgs. e26-e29)
3. With eight prior CE grants under the direction of CSDC resulting in 10-year performance objectives and annual goals being met, it is likely that the Applicant will be able to meet the outlined objectives. The implementation plan outlines the marketing of this particular grant process as occurring annually as the applicant attends both national and state conferences to discuss the Turnkey Development Plan and the new Credit Enhancement opportunities. This opportunity will make known to many charter schools the benefits of using credit enhancement and the possibility of owning their own facility through the TurnKey Development Program. (Pg. e28-e29)
5. Currently, CSDC has projects in place that are replications of older, successful programs. With the additional grant funding, the Applicant will continue to provide these programs to charter schools that meet the specific criteria, such as being located in a state with strong charter laws, a strong authorizer and strong support organizations, be it a new or well established charter school. (Pgs. e30-e33)

6. Additional grant funds will allow CSDC to continue their work with existing lenders to provide additional assistance to 33 charter schools, with a pledge that 19 of the 33 new projects will be located in areas of economic distress and where local school districts are not performing well. (Pg. 13) Additionally, through the success of the previous 8 grant programs, CSDC is hoping to expand knowledge of the lending process to encourage new lenders to participate. (Pgs. e35-e36)21-22

7. Using the state rankings from the Center for Education Reform (CER) and the National Alliance for Public Charter Schools, (Alliance), CSDC will maintain current levels of funding to schools receiving high marks from these organizations; 70% of schools in the portfolio receiving an A or B from CER and 80% of school ranked in the top 50% by the Alliance. (Pg. e36)

8. An [REDACTED] grant will be used to support the financing of 33 charter schools within the 10 years of the project. The addition of one staff member to provide underwriting and technical assistance is a small investment for a program of this magnitude. (Pg. e38)

Weaknesses:

3. While the Applicant has established relationships with many organizations, there is no evidence of additional relationships being formed for the benefit of the new grant. In order to reach new and early-stage charter schools, the Applicant must reach out to organizations that support these types of schools, such as charter authorizers, consultants and support organizations. (Pg. e29-e30)

5. Outside of indicating that CSDC will work in states with strong charter laws along with strong charter support organizations, there is little specific information regarding criteria used to select a charter school for inclusion in this program. (Pg. e33-e34)

Reader's Score: 31

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. Through the use of a survey, CSDC was able to ascertain that a large percentage of charter schools that replied have struggles with obtaining affordable facilities, specifically long-term affordable financing for permanent facilities. Through the addition of the Turnkey Development Program, the applicant will meet the needs of new and early-stage charter schools by providing school ready facilities that allow the operators to focus on educating students rather than building a school. (Pg. e39)

2. Testimonials from previously funded charter schools as well as letters of support from said schools and lending institutions point to the need for the types of financing options provided through the grant. (Pg. e41-e43)

3. Technical assistance is provided free of charge. The variety of assistance provided is tailored to the specific needs of each charter school and include short and long term facility options and the assistance with financing for these needs. Lending terms are favorable, up to 300 basis points below commercial lending without credit enhancement, providing many additional opportunities for charter schools to obtain appropriate facilities. (Pg. e43 - e44)

4. The new grant program will assist charter schools in distressed communities, where facilities are hard to find and financing to obtain these facilities is not readily available, in providing their students with safe and affordable facilities. (Pg. e46)

Weaknesses:

1. There is no indication that chartering agencies or charter schools were involved in the design of this particular grant application. Because of the inclusion of new and early-stage charter schools it would have been appropriate and made the application stronger if charter authorizers and charter support agencies would have been involved in the design of this new grant program.

2. The Applicant did not address how they will focus on charter schools with the likelihood of success. Even though a stringent underwriting process is in place, the discussion of characteristics of a charter school that would indicate a high possibility of success would have made this section stronger, (Pgs. e44-e46)

Reader's Score: 10

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 received 8 previous CE grants that have been utilized to support new and early stage charter schools as well as high quality charters. Since 2002 the organization has focused solely on charter schools and assisting them in securing appropriate, affordable facilities. To date, the CSDC has received [REDACTED] in Credit Enhancement grant funding and has assisted charter schools throughout the United States with facility acquisition. (Pg. e47)
2. The past three audits performed were clear, representing the stability of the organization and the financial processes that are in place. Additionally, the re-certification as a CDFI was completed in 2020. The applicant currently has [REDACTED] in net assets and has a default rate of less than 2% within their portfolio. (Pg. e48)
3. A comprehensive underwriting process is in place that not only considers a charter school's financial stability, but requires the charter to provide a succession plan for school leadership, a marketing plan to support enrollment, and a detailed plan to ensure students will achieve academic excellence. This process helps to determine if the charter school is a fit for the applicant's lending programs. Once approved for assistance, charter schools are monitored frequently in all areas to prevent future problems. (Pgs. e48-e50)
4. The applicant is surrounded by individuals with educational experience beginning with the Project Director and the Project Developer, who both have specific experiences within the educational field. Additionally, several board members have significant experiences within the charter sector, including high powered charter pioneers, that will provide assistance in the areas of school operations and governance. These experiences ensure the organization has the ability to identify charter schools that are likely to succeed. (Pgs. e50-e51)
5. A Standard of Conduct policy and a Business Ethics policy are presented as evidence the applicant takes these situations very seriously. The COI policy provides an opportunity for board members to identify a possible conflict and work through the conflict at the discretion of the board. The Bylaws contain a COI section that briefly describes the process of the effected member. (Pgs. e52, e268 and e280-e281)
8. Through eight previous CE grants, the applicant has provided [REDACTED] in credit enhancements from the [REDACTED] [REDACTED] dollars in grants received, leveraging these monies to support 222 school transactions with [REDACTED] of private capital for these schools. Additionally, the applicant was monitored in 2016 the the Department of Education, with the majority of indicators labeled low risk. (Pgs. e52 - e53)

Weaknesses:

1. While the Applicant discussed its previous successes with grant programs, there was little specificity as to the amount of experience or the quality of these experiences as they relate to the new grant program. More specificity concerning the past and current success of the lease-to-own facility program would have made this section stronger.

Reader's Score: 33

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

- (1) The qualifications of project personnel, including relevant training and experience, of the project manager and other members of the project team, including consultants or subcontractors; and
- (2) The staffing plan for the grant project.

Strengths:

1. Members of the grant project team have many years of experience working with CSDC, with a few having over 20 years of experience in underwriting, financing and monitoring loan portfolios. Additionally, each member of the team

currently has specific duties assigned that will correlate to their work within the new grant. Sufficient support staff is in place to provide accounting and back office services for these grants. (Pg.s e54-e55)

2. The current staff will maintain their positions for this new grant, if received. One additional staff member will be hired late in FY 22 to provide underwriting and credit analysis for new applicants for the CE grants. (Pg. e56)

Weaknesses:

No weaknesses noted.

Reader's Score: 15

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