

## Executive Summary

The Massachusetts Development Finance Agency (MassDevelopment) currently runs a highly successful Charter School Credit Enhancement Program (Program) that helps charter schools obtain low cost financing for the acquisition, construction, and/or renovation of school facilities. The Program has a significant pipeline and a high demand for its guarantees; however, we currently have limited availability of funds, making it necessary for MassDevelopment to apply for [REDACTED] of additional grant funds.

These funds will target new, early start, and mature schools, and will give preference to high performing schools serving targeted student populations, as defined below. Under the Program, MassDevelopment will issue loans and guarantees on loans or tax-exempt bonds benefitting charter schools. The guarantees will allow the lenders and/or MassDevelopment to provide a higher level of financing and better interest rates than alternative financing. The [REDACTED] grant will allow MassDevelopment to continue to run its existing Program, affording additional access for a greater number of charter schools.

The Program will target funds and give priority to charter schools that are high performing, and meet the following targeted student population criteria:

- Located or locating in a geographic area in which a large proportion or number of public schools have been identified for comprehensive support and improvement, or targeted support and improvement under the Elementary and Secondary Education Act (ESEA), as amended by the Every Student Succeeds Act (ESSA). Our program partner, the Massachusetts Department of Elementary and Secondary Education (DESE), tracks this.
- Located or locating in a geographic area with a large proportion of students performing below “proficient” on state academic assessments; and/or

- Located or locating in communities with large proportions of students from low-income families (which is defined as a minimum of the 35% school population is Economically Disadvantaged as tracked by DESE).

The Program will target 100% of credit enhancement funds for the acquisition, renovation, and/or facilities construction for high performing charter schools meeting this criteria. We will commit to two of our financings meeting all three criteria, and five projects in the fund will meet at least one criteria. MassDevelopment has nine schools in its two year pipeline. All but one school in our pipeline meet at least one criteria and the majority meet all three criteria. The Program will service a minimum of five charter schools in the three years following the award.

## **Project Selection Criteria and the Application Content Requirement**

### **A. Quality of Project Design and Significance**

MassDevelopment is applying for an [REDACTED] grant from the U.S. Department of Education's Credit Enhancement for Charter School Facilities Program. The funds are critical to the continued success and growth of MassDevelopment's Charter School Credit Enhancement Program that provides necessary funding for Massachusetts' charter schools. Our large and unfunded pipeline of nine school facility projects carries aggregate costs exceeding [REDACTED], with estimated guarantee and loan requests of approximately [REDACTED] and [REDACTED], respectively, in the next two years. All charter schools in the pipeline are high performing schools (as defined in section B (4)) and the majority serve the targeted student populations defined in Target 4.1. The requested [REDACTED] in grant funding will ensure that

MassDevelopment can continue serving its Charter School mission and expand its successful Program to meet current and future unmet needs in this sector.

**(1) Better Rates and Terms**

The Program allows projects to be completed, which might otherwise not be completed and provides better rates and terms that are advantageous and reasonable to charter schools. Specifically, under this grant award, MassDevelopment will offer loans and guarantees on loans and bonds for both owner occupied and leased projects.

The majority of charter school financings in Massachusetts are tax-exempt bonds purchased by local banks (private placements). Through the guarantee program, lenders are able to provide higher loan to value (LTV) financing – up to 120% of collateral value – as compared with the typical 80% LTV advanced by a bank without enhancement. The guarantees are critical for the following reasons:

- Obtaining financing: Charter schools have limited cash to deploy towards a facility project, especially now with the significant increase in construction costs. The guarantees are critical to securing the financing schools need to purchase or construct facilities, while minimizing the cash equity required by lenders. KIPP Academy Boston Charter School, for example, was looking to build a new high school. When project costs and appraisal values did not align, the school lacked the equity it needed to make up the collateral shortfall. MassDevelopment issued a tax-exempt bond purchased by a local bank, coupled with a charter school guarantee. The guarantee allowed the bank to extend a larger loan to offset the collateral deficiency and the tax-exemption lowered their overall borrowing costs. The guarantees are becoming especially important as

construction costs have risen considerably and cash equity from potential Charter School borrowers is limited.

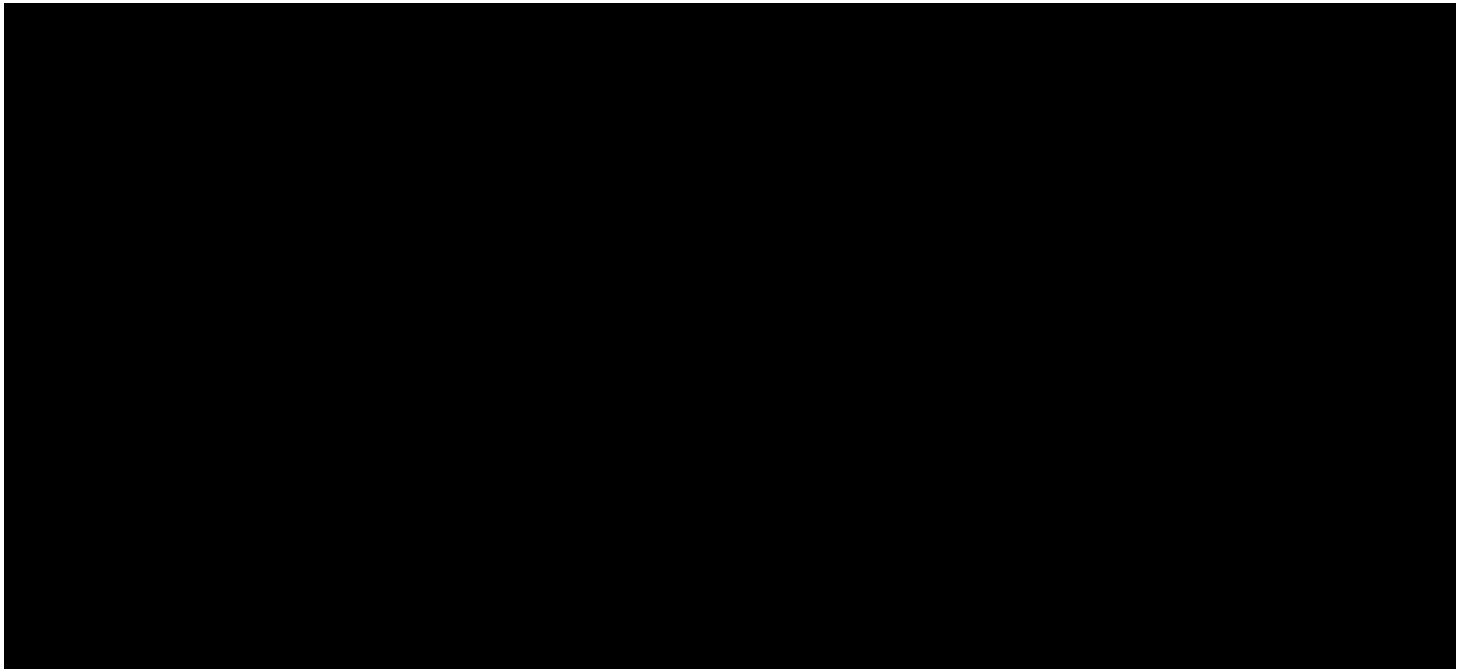
- Obtaining leasehold improvement loans: In cases where a school leases a building, most banks do not consider that leasehold collateral sufficient to back a leasehold improvement loan. By providing a guarantee – and often the loan itself, MassDevelopment facilitates lower-cost financing for charter schools that may not otherwise be available in the market (certainly not at reasonable rates). This was the case with Hampden Charter School of Science West, which located to a former church property that was in disrepair and needed a [REDACTED] to renovate it into classrooms. MassDevelopment’s ability to offer them a low-cost loan backed by the guarantee, enabled the school to secure financing, and to afford the borrowing costs (debt service requirements) to fund the renovation.
- Low interest rates: The guarantee also helps charter schools avoid the higher cost of taxable loan financings, public-market taxable and tax-exempt bonds, and subordinated debt. We can reduce annual interest expense by offering a bank-purchased tax-exempt bond for the entire financing. Before we introduced this product, the traditional financing model for schools included a senior loan combined with subordinated debt financing. A tax-exempt bond coupled with a charter school guarantee provides the school with interest rate savings of approximately 1.0 % on the portion that would have been a traditional loan or taxable bond, and a minimum of 2.0% interest savings on the portion that would have been a subordinated loan, if applicable. Our program helps charter schools obtain higher LTV financing (and lower’s required equity) at better interest rates and terms than is otherwise available in the market. The guarantee is critical, as the availability of subordinated financing is scarce or unavailable and often carries

prohibitively high interest rates (especially compared to the reasonable rates on the combination of a tax- exempt bond and a guarantee). Continuing on our previous example, Hampden Charter School of Science West was presented with an opportunity to buy the building improved with the MassDevelopment leasehold improvement loan. With the guarantee, the bank offered a 100% LTV and a 4.36% interest rate. Without the guarantee, the bank offered an LTV of just 75% and the interest rate increased to 5.52%. Hampden was able to buy the building and finance the additional [REDACTED] at low tax-exempt rates.

The better rates and terms available to charter schools as a result of this grant allow both established and new and early charter schools the ability to expand at a lower cost, thus retaining as much of its capital as possible for sustaining and growing its programming.

The following is an example in today's market of the rates and terms available to charter school on various financing options:

**Example of Financing Options:**



\*\*Chart assumes school is not rated by a credit agency. Option 3 also includes the financing of a debt service reserve fund.

The following is a description of the terms and rates on our two primary products:

Terms and Rates on Guarantees for Facilities Owned by Charter Schools:

- Guarantee amounts may be no more than 50% of the senior debt.
- Maximum LTV of 120%, or as deemed appropriate by MassDevelopment.
- Lender must have first security interest in real estate being financed, or other collateral deemed appropriate by MassDevelopment.
- Guarantee reduces dollar for dollar with loan principal payments.
- Annual guarantee fee of up to 1.75%.

### Terms and Rates on Guarantees for Facilities Leased by Charter Schools:

- Guarantee amounts may be up to the lower of 90% of the project cost or [REDACTED]
- Maximum LTV of 90% (minimum equity contribution of 10%).
- Guarantee reduces dollar for dollar with loan principal payments.
- Annual guarantee fee of up to 1.75%.

MassDevelopment's rates and terms are subject to change and will follow the MassDevelopment Loan & Guarantee Policies, Procedures and Guidelines (Attachment 13).

### **(2) Project Goals, Objectives and Timeline**

The primary project goals and objectives are to provide guarantees on debt for acquisition, construction, and renovation of charter school facilities so that schools may obtain financing, reduce their equity requirements, and secure it at low interest rates. We will continue to work throughout Massachusetts targeting high performing charter schools that meet the targeted student population criteria detailed below in specific performance measures and targets.

#### Program Performance Measures

The Program will target 100% of grant funds for the acquisition, renovation, and construction of facilities for high performing charter schools meeting the targeted student population criteria. We will commit to two of our financings meeting all three criteria and all five projects in the fund will meet at least one criteria. The Program will service a minimum of five charter schools in the first three years following the award.

### Project-Specific Performance Measures and Targets

The program will target new and early start schools as they are the most difficult to finance. We will also work with mature schools, especially those seeking facilities and will seek to achieve the following measures and targets:

Measure 1: Leverage [REDACTED] in loans or bonds in the first three years, maintaining a minimum leverage ratio of 7:1.

- Target 1.1: Leverage [REDACTED] in loans or bonds during award year 1.
- Target 1.2: Leverage [REDACTED] in loans or bonds during award year 2.
- Target 1.3: Leverage [REDACTED] in loans or bonds during award year 3.

Measure 2: Obligate Credit Enhancement funds on behalf of five charter schools in first three years.

- Target 2.1: Obligate funds on behalf of two charter school facility projects or loans during award year 1.
- Target 2.2: Obligate funds on behalf of two charter school facility projects or loans during award year 2.
- Target 2.3: Obligate funds on behalf of one charter school facility projects or loans during award year 3.

Measure 3: Obligate [REDACTED] of Credit Enhancement funds on behalf of charter schools in first three years.



- Target 3.1: Obligate [REDACTED] in funds for guarantees or loans for facility construction, acquisition, or renovation projects during award year 1.
- Target 3.2: Obligate [REDACTED] in funds for guarantees or loans for facility construction, acquisition, or renovation projects during award year 2.
- Target 3.3: Obligate [REDACTED] in funds for guarantees or loans for facility construction, acquisition, or renovation projects during award year 3.

Measure 4: Serve communities/schools in need.

- Target 4.1: Obligate Credit Enhancement funds on behalf of five schools by the end of award year 3. All five projects must meet at least one of the following criteria, and two projects must meet all of the criteria below:
  - In a geographic area in which a large proportion or number of public schools have been identified for comprehensive support and improvement, or targeted support and improvement under the ESEA, as amended by the ESSA; (Federal Designation of Comprehensive Support and Improvement is tracked by DESE.)
  - In a geographic area in which a large proportion of students perform below proficient on State academic assessments; and/or
  - In communities with large proportions of students from low-income families (measured as a minimum of 35% of a school’s students are Economically Disadvantaged).

Data Collection

Utilizing its existing tracking system for lending operations, MassDevelopment will monitor the progress of the grant by tracking calls/outreach; visits; applications taken/received; and applications approved. The tracking will also identify charter schools by type – low-income and/or low performing – and by geographic region. By doing this, MassDevelopment will be able to monitor and compare these numbers with the application attestations and the data collected for these communities by the DESE.

Timeline

MassDevelopment will work to achieve the following timeline:

Activity/Task	Timeframe/Benchmark
Will use best efforts to close at least 2 school credit enhancements totaling [REDACTED] leveraging a [REDACTED] loan or bond.	September 2022
Will use best efforts to close at least 2 school credit enhancements totaling [REDACTED] leveraging a [REDACTED] loan or bond.	September 2023
Will use best efforts to close at least 1 school credit enhancement totaling [REDACTED] leveraging a [REDACTED] loan or bond. All grant funds deployed.	September 2024

All grant funds are expected to be deployed within 3 years of receipt of the award.

**(3) Implementation Plan and Activities**

MassDevelopment will make the [REDACTED] grant funds available immediately upon receipt of the funds. As manager of five very successful Charter School Grants from the U.S. Department of Education, MassDevelopment will utilize the same program design, structure, and systems for this project.

MassDevelopment’s Charter School Credit Enhancement Program is well established:

- Documented and approved policies and procedures, including specific underwriting guidelines for charter school loan guarantees (Attachment 13).
- On-going marketing and communications strategies to promote the Program.

- Business Development, Lending, and Investment Banking transaction officers, in regional offices across Massachusetts, with a thorough understanding of the Program, providing assistance to schools in identifying financing alternatives to banks or to capital markets.
- Strong underwriting, credit review, monitoring, and risk management practices.
- Excellent financial and compliance reporting systems.

MassDevelopment proposes to follow the implementation plan outlined below:

**MASSDEVELOPMENT IMPLEMENTATION PLAN**

	Quarter after Receipt of Grant					
	Completed	1	2	3	4	5+
<b>Marketing</b>						
Marketing Materials	x					
Charter School Contact List	x					
Press Release announcing award		x				
E-mail notification of grant award to our charter school contact database		x				
Charter School Financing Workshop			x			
<b>Program</b>						
Charter School Credit Enhancement Application	x					
Charter School Credit Enhancement Program Policies and Procedures	x					
Credit Underwriting Standards	x					
Credit Review Procedures	x					
<b>Lending/Bond and Guarantee Transactions</b>						
Officers Initiate Financing Transactions		x	x	x	x	x
Approval of Transactions		x	x	x	x	x
Close charter school credit enhancement transactions		x	x	x	x	x
<b>Grant Administration</b>						
Set-up new funding source on existing EnAble system for new grant		x				
Set-up Grant Reserve Account		x				
Compliance Reporting Procedures	x					
Annual Report to Department of Education					x	x
<b>Meetings</b>						
Advisory Committee Meetings and/or Reports			x		x	x
DESE Charter School Annual Meeting					x	x

#### **(4) Replicability**

The working relationship between MassDevelopment, the Massachusetts Charter Public School Association (MCPSA), and the Massachusetts Department of Elementary and Secondary Education (DESE) is an effective model for other states to duplicate. MCPSA and the DESE have an extensive knowledge of charter schools, well-documented best practices for operating a successful school, experienced staff that can provide technical assistance on education, and one of the nation's best accountability plans. The MCPSA has strong lobbying efforts to promote the funding and support of charter schools at state and federal levels.

MassDevelopment adds an in-depth understanding of the credit and real estate challenges faced by charter schools, offering a track record of innovation in responding to financing needs of underserved organizations in the state. By taking a leadership role in creating a Charter School Credit Enhancement Program, and with the support of private foundations and charter school organizations in the state, MassDevelopment has constructed a proven model for supporting charter school facilities financing that can be readily replicated in other states.

The key for MassDevelopment was a forming a plan to get local banks to purchase tax-exempt bonds and accept the guarantee product as collateral. MassDevelopment has legislation incenting banks to buy and hold tax-exempt bonds issued by us. We have spent a lot of time in discussions with bank Chief Financial Officers and lenders, showing the value of combining the charter school guarantee with the purchase of a bond. Additionally, we have been involved with 50+ banks during the last 18 years and continue to expand who we work with. To replicate this model, other grantees would need to collaborate with their state's respective bond issuing authorities if the grantee did not have bonding powers.

## **(5) Charter School Selection Criteria**

The Charter School Credit Enhancement Program will target services, and give priority, to schools that are high performing (as defined in B(4)), meet at least one low income student criteria (with highest priority given to schools meeting all three criteria). We commit to all five schools meeting at least one criteria and at least two will meet all three. Prioritizing criteria developed for the Program also considers the following:

- New and Early Start schools.
- Total school revenues and commitment of other public resources to the project.
- Project's ability to be financed and/or financing terms being offered.

Once projects are assessed, MassDevelopment will determine project viability by determining the school's capacity to carry the proposed debt and meet debt service requirements. Projects determined to be viable will be ranked according to their anticipated closing timeline.

## **(6) Leverage**

MassDevelopment proposes to have a minimum leverage of 7:1 on the requested grant and will continue to seek public and private sector funding to leverage the Program to achieve this ratio. As we did with previous grants, MassDevelopment will seek additional sources of credit enhancement from both private funders and the MassDevelopment Board of Directors on a best efforts basis. MassDevelopment has had great success to date, attracting additional funding for the existing Program as follows:

- Up to [REDACTED] of additional guarantees/credit enhancement contributed by MassDevelopment over five funds.
- [REDACTED] pledged from Local Initiatives Support Corporation (LISC).
- [REDACTED] pledged from the Boston Foundation.

MassDevelopment has achieved high leverage rates for each of its grant awards. With the 2003 grant, as of 6/30/21, MassDevelopment has issued more than [REDACTED] in credit enhancements supporting loans and bonds totaling more than [REDACTED] resulting in 28.4:1 leverage on the original [REDACTED] grant from the Department of Education. The 2003 grant has met all its goals and is in the recycling phase with federal funds available of approximately [REDACTED].

With the 2012 grant, MassDevelopment has issued [REDACTED] credit enhancements supporting loans and bonds totaling more than [REDACTED] resulting in 12.9:1 leverage on the original [REDACTED] grant from the Department of Education. The 2012 grant has met all its goals and is in the recycling phase with federal funds available of [REDACTED].

With the 2015 grant, MassDevelopment has issued over [REDACTED] credit enhancements supporting loans and bonds of more than [REDACTED] in 8.5:1 leverage on the original [REDACTED] grant from the Department of Education. The 2015 grant has met all its goals and is in the recycling phase with federal funds available of approximately [REDACTED].

With the 2017 grant, MassDevelopment has issued over \$ [REDACTED] in credit enhancements supporting bond and loans totaling more than [REDACTED], resulting in 7.2:1 leverage on the original [REDACTED] grant from the DOE. The 2017 grant has met its leverage goal and is entering the recycling phase. The Fund has no federal funds available.

With the 2019 grant, MassDevelopment has issued over [REDACTED] in credit enhancements supporting loans and bonds of more than [REDACTED], resulting in 4.2:1 leverage on the [REDACTED] grant funds from the DOE. The 2019 grant is working to complete its goals and its leverage will increase as the funds begin to recycle and utilize private funding. The Fund has approximately [REDACTED] of federal funds available.

MassDevelopment's has a strong commitment to supporting charter school financing and works to educate the financing community about charter schools, enhancing their comfort level with such transactions and thereby expanding opportunities for charter schools to obtain low cost debt financing and execute on transactions. MassDevelopment has developed relationships with over 15 banks that purchase charter school bonds, providing a substantial base from which to continue to leverage the charter school credit enhancement program. MassDevelopment has issued over [REDACTED] in tax-exempt bonds in 89 charter school transactions since 1995.

The leverage on the proposed [REDACTED] grant is projected to be 7:1, with increases in leverage as the private funds are utilized and the [REDACTED] in grant funds are recycled over time. In our model, individual transactions do not always meet the 7:1 ratio but by adding private funds, the fund as a whole increases in leverage as each transaction occurs and uses private funds and/or recycled funds.

MassDevelopment could not seek a Board approval due the short timing of this application, but will commit to seek private funding and/or a matching guarantee from MassDevelopment's Board of Directors in an amount sufficient to achieve the leverage goals in this application, in an amount of up to [REDACTED] (Attachment 15). In addition, MassDevelopment will continue to use best efforts to identify and attract additional investors, as it has done successfully in past with funds 1 - 5.

#### **(7) State with Strong Charter Laws**

The landscape of charter education in Massachusetts has changed substantially since the Massachusetts charter school law was established in 1993 and the first Massachusetts charter schools opened in 1995. In January 2010, the passage of new legislation marked significant revisions to the charter school statute, Massachusetts General Laws c. 71, § 89.

One of the new provisions in the law is an increase to the charter school cap in the lowest-performing public school districts, doubling the number of seats made available in Massachusetts's lowest-performing districts from 9 to 18 percent over the course of six years. The legislation further mandated that the additional seats made available by this cap increase be awarded only to *proven providers*; i.e., individuals or groups who have a demonstrated record of success in establishing and operating successful schools. The intent of the legislation was to replicate and expand the highest performing charter schools in order to provide additional opportunity and choice for students and their families in the lowest performing districts. As expected, this amended statute resulted in a significant increase of charter school applicant groups, nearly doubling to 113 the number of applicants for new schools since this legislation has passed. There have also been 86 requests from charter schools to increase their enrollment.

#### Recent Research on Massachusetts Charter Schools

Several recent studies and reports on Massachusetts authorizing practices as well as the impact of Massachusetts charter schools on student achievement and college success serve to satisfy Massachusetts' evaluation goals. In January 2021, a report from the National Alliance for Public Charter Schools (Alliance), [Measuring up to the Model: A Ranking of State Charter School Laws](#), highlighted Massachusetts as a leading state for comprehensive charter school monitoring and data collection processes, as well as clear lottery processes. It was also noted that Massachusetts charter school boards are fiscally and legally autonomous and the allowance of multi-school charter contracts and/multi-charter contract boards. Massachusetts remained steady in the Alliance's rankings from 2020 with the same ranking of 12 in 2020 and scored a total of 154 out of a total of 162.



A February 2021 [report](#) in the American Economic Journal: Economic Policy, “Can Successful Schools Replicate? Scaling Up Boston's Charter School Sector” examined the state's 2010 charter school cap expansion, which allowed “proven provider” charter schools in low performing districts to expand to new campuses or receive new charters. The paper demonstrated that replications of “proven provider” charter schools generated large achievement gains on par with those produced by their flagship campuses in both math and English. The report stated that the highly standardized teaching model employed by charter schools may play an important role in consistent results seen at new campuses.

Elizabeth Setren, a Tufts University Economist conducted a study on the academic performance of English language learners and special needs students at Boston Charter Schools. Her study found that compared with traditional public schools, pupils in both categories enrolled at the Boston charter schools saw test score gains in core subjects with postsecondary outcomes like college enrollment also improved.

### High-Quality Authorizer

The National Association Charter School Authorizer (NACSA) chose Massachusetts to be part of the Quality Practice Project Leadership, Commitment, Judgment, which researched and outlined the Elements of Successful Charter School Authorizing. Massachusetts was chosen because it’s Board of Elementary and Secondary Education (BESE) is one of the top charter school authorizers in the country, based on an 11-point evaluation of school portfolio and authorizer performance outcomes. The Massachusetts case study highlights many strong practices surrounding leadership, commitment, judgement, and teamwork that have an extremely positive impact on their charter schools and their students.

As demonstrated above, Massachusetts DESE is consistently lauded and used as a national exemplar for their high-quality authorizing practices. MassDevelopment will continue to work with DESE to ensure we finance high-quality schools with the greatest chance of success. For each charter school applicant, we will ensure that the schools are performing academically, not on probationary conditions, have received a successful renewal or for newer schools successful opening procedures and recent DESE site visit and positive results of their most recent annual Independent Financial Audit, which is required by Massachusetts law for all charter schools.

#### **(8) Reasonable Costs of the Program**

As listed in the Measures and Targets section of the 5-year Program Cash Flow Proforma (Attachment 9), the dollar amount and number of credit enhancement transactions issued under the proposed [REDACTED] grant are used to develop the numbers in the summary cash flow analysis. MassDevelopment's costs to administer the Program are low. MassDevelopment is reimbursed from the grant funds for allowed administrative costs, a small amount for salary and certain other direct costs. All other program costs are paid by MassDevelopment.

#### Strong Theory

Under the 2003, 2012, 2015, 2017 and 2019 grant awards, MassDevelopment has developed a Credit Enhancement Program that has proven successful, and has assisted 36 schools in obtaining facilities financing. The first three grant awards (2003, 2012, and 2015) are now being recycled and have been leveraged by more than 28.4:1, 12.9:1, and 8.5:1, respectively. All three funds have low expenses, and no losses have occurred in these portfolios. Additionally, the 2017 grant award is fully utilized and the 2019 grant award has just [REDACTED] in remaining availability, as of 6/30/21.

The Logic Model (Attachment 5) incorporates the investment banking and lending expertise of MassDevelopment with the charter school administration expertise of DESE and MCPSA. This same model applies to this [REDACTED] request.

## **B. Quality of Project Services**

### **(1) Identified Needs of Charter Schools to be Served**

In Massachusetts, unlike traditional public schools, charter schools do not have access to facilities funding through the state's school building authority and/or local property tax revenue. Charter schools must rely on accessing a bank loan or tax-exempt bond to finance their facilities, making it a challenge to secure a permanent location. Most financing sources require a significant equity down payment, and find it hard to get comfortable with terms longer than the school's five-year charter term.

Charter schools raise equity through capital campaigns, grants, and/or accumulating the annual facility allowance provided in the state's per-pupil tuition rate [REDACTED] student currently, per DESE). Loan guarantees provide charter schools access to bank loans and tax-exempt bonds by reducing the equity it requires to obtain funding.

There are several ways the Program meets the needs of charter schools:

- Many charter schools are not able to raise sufficient equity to allow them to qualify for a conventional loan or tax-exempt bond to finance the acquisition of and/or renovations to a school building. Credit enhancement "covers" the gap between the amount of financing the lending institution is willing to provide absent credit enhancement (Loan to Value requirements), and the financing amount the charter school needs.

- Along with being able to obtain the needed facility financing, the charter school can secure interest rates at senior debt levels, as opposed to the higher weighted average interest rates for financing that would include both senior and subordinate debt.
- Terms of the guarantees can exceed the 5-year charter term, providing more financing flexibility to the schools.
- MassDevelopment has identified banks that truly understand Charter School's (from a credit perspective) and will purchase long-term bonds issued on behalf of charter schools even though school charters renew every five years.
- Though many of the more mature Massachusetts schools can access the public tax-exempt bond market, interest rates and upfront costs are significantly higher than a tax-exempt bond purchased by a bank (private placement). This option is still the lowest cost financing alternative for such schools and usually includes a guarantee.

**(2) Involvement of Charter Schools and Charter Agencies in Design and Demonstrated Support of Project**

The Credit Enhancement Fund proposal originated with the Massachusetts charter schools, as expressed through the MCPSA. Recognized throughout the state as a strong voice on behalf of Massachusetts charter schools, the MCPSA's role in MassDevelopment's initial creation of the Charter School Credit Enhancement Program ensured the program truly meets the needs of the Commonwealth's charter schools.

In 2003, MassDevelopment submitted an application to the Credit Enhancement for Charter Schools Facilities Demonstration Program. The application was crafted in consultation with MCPSA, DESE, and 40 charter schools taking part in the charter school needs assessment conducted in conjunction with our application. This needs assessment is updated periodically and is incorporated into our pipeline.

As part of the implementation of the grant, MassDevelopment established a Charter School Advisory Board whose members provide advice and input from charter school stakeholders. The current Committee is comprised of the following members:

- Beth Anderson, Executive Director, Phoenix Charter Academy
- Joanna Laghetto, Massachusetts Department of Elementary and Secondary Education's Charter School Office
- Tim Nicolette, Executive Director, Massachusetts Charter Public School Association
- Elizabeth Pauley, Vice President, The Boston Foundation
- Sara Sorbello, Vice President, Local Initiatives Support Corporation
- Laura Canter, Executive Vice President Finance Programs, MassDevelopment
- Brian Horgan, Vice President Lending and Charter School Program Manager, MassDevelopment
- Jan Nuzzolo, Vice President Senior Credit Manager and Charter School Fund Manager, MassDevelopment
- Cynthia Tonucci, Senior Vice President Lending, MassDevelopment

The Committee reports semi-annually, and meets annually to review the charter school pipeline and availability of Program funds; discuss opportunities for outreach and any current charter school issues; and review charter school compliance reporting. MassDevelopment's business development, lending, and bond staff, also actively call on charter schools in the state, continuing to gather information on the financing needs of schools.

### **(3) Technical Assistance and Other Services**

In addition to the Program, MassDevelopment offers technical and financing assistance to charter schools. MassDevelopment offers a variety of programs and cost effective strategies to get a project completed and increase access to facilities funding at reasonable interest rates.

These include:

- Access to project planning resources: Investment Banking or Business Development staff are typically the first contact with the school. They assess a school's needs, providing technical expertise and pulling in needed services, depending on the school's plans. We routinely provide real estate services, facilities planning, and assistance with financing plans.
- Access to financing and the tax-exempt bond market, traditionally the lowest cost of financing available, with rates approximately 1.0% below traditional bank loans or loan funds. The majority of the credit enhanced bonds MassDevelopment has issued on behalf of charter schools have been purchased by banks (private placement), thus reducing interest costs.
- Helping to manage the school's financing expense, including keeping upfront costs low.
- Real Estate Department consulting services such as site engineering, architectural design, permitting and approvals, and property management.
- Low interest predevelopment loans to pay for up-front soft costs such as architectural plans and feasibility studies.
- Low interest site assessment financing and low cost remediation loans through the Brownfields Redevelopment Fund, a state fund managed by MassDevelopment.

- Direct lending to charter schools and other parties assisting charter schools such as property owners. Real estate loans of up to [REDACTED] are available.
- MassDevelopment’s TechDollars program provides low cost, 100% financing for technology needs of nonprofits. Four charter school loans were financed under this program.

The design of the Program assures that the needs of charter schools are met, technical assistance is provided, and the necessary funds reach the quality charter schools with the greatest need for assistance.

#### **(4) Assist Charter Schools with Likelihood of Success and Greatest Need**

The [REDACTED] requested will target high performing and high quality charter schools with the highest likelihood of success and those demonstrating the greatest need as measured by the targeted student population criteria.

Measuring Highest Likelihood of Success: Working with the Commonwealth’s DESE to approve schools for financing will help ensure that funds reach charter schools with the highest likelihood for success with a high degree of confidence. The DESE has a reputation for strict quality control, and has a proven national track record of approving high quality schools. There are various methodologies used to measure for a high quality (and high performing) charter school. First, student achievement is assessed by reviewing a school’s next generation Massachusetts Comprehensive Assessment System (MCAS) test scores. Schools are expected to perform at least above their host community’s scores, and preferably above the state average. Newer schools generally do not surpass the state averages and need time to reach state levels. A second measure used by DESE in evaluating schools is the Composite Performance Index (CPI) of 1-100, that represents the extent to which students have attained or are progressing toward

proficiency in a given subject. In addition, MassDevelopment reviews annual evaluations by the DESE, 5-year charters renewals, and any other reports available on the schools, consulting with the DESE as appropriate. Further analysis is completed for all schools to ensure they are on track for success or continued success. Additionally, DESE reviews and approves the financing for each school that will go past its charter renewal date.

Measuring the Greatest Need: The Program will target high performing schools that meet the targeted student population criteria as described in Target 4.1.

### **C. Capacity**

#### **(1) Amount and Quality of Experience**

MassDevelopment was created in 1998 through the merger of the Massachusetts Industrial Financing Agency (MIFA) and the Massachusetts Land Bank (Attachment 10). As the state's finance and development authority, MassDevelopment works with businesses, financial institutions and communities to stimulate economic growth across the Commonwealth. During FY 2020, MassDevelopment financed or managed 341 projects generating investment of more than [REDACTED] the Massachusetts economy.

MassDevelopment is a leading provider of facility financing to charter schools in Massachusetts. Since the charter school movement began in 1995, MassDevelopment has issued 89 tax-exempt bonds and Qualified Zone Academy Bonds (QZABs) totaling [REDACTED]. Most of these financings were for schools in low income communities.

Charter school loan credit enhancements are closed and monitored within MassDevelopment's Lending Department, whose staff has more than 50 cumulative years of credit and lending experience, including working with federal and state programs. The Lending



Department provides loans and guarantees for real estate projects and equipment to fill financing gaps that banks and other private lenders cannot fill. Loan size and complexity vary – loans range from [REDACTED] – and are provided either solely by MassDevelopment or as a loan participation in a larger financing in which MassDevelopment may be the lead or a participating lender. Guarantees that support real estate and equipment financings range in size from [REDACTED].

Funding for loans and guarantees comes from MassDevelopment’s General Fund and restricted funds, capitalized by state and federal government contributions as well as private foundations. In addition to the Charter School Credit Enhancement Program, other restricted funds include, but are not limited to, the Emerging Technology Fund, Brownfields Redevelopment Fund, Export Development Loan Fund, Seafood Revolving Loan Fund, and Gloucester Revolving Loan Fund. As of March 31, 2021, there were 204 loans and guarantees totaling [REDACTED] under management in MassDevelopment’s portfolio, including 21 charter school loan guarantees totaling [REDACTED].

MassDevelopment’s lending, portfolio, and administration staff, as well as senior management, are highly experienced. The four senior lenders as well as the Senior Credit Manager and VP of Special Assets, each have over 20 years of lending and credit experience. Additionally, MassDevelopment’s SVP of Lending and its EVP of Finance Programs have greater than 25 years of commercial credit and finance experience, respectively.

MassDevelopment’s Investment Banking Department is one of the state’s largest issuers of tax-exempt bonds. As a conduit bond issuer, however, MassDevelopment and the state assume no credit risk for the issued bonds unless the deal includes a separate guarantee (through DOE Funds or additional MassDevelopment support). Bonds are purchased by banks or sold in the

public markets with or without credit enhancement. In the last three fiscal years, MassDevelopment issued 190 bonds totaling more than [REDACTED] on behalf of manufacturers, environmental entities, educational institutions, non-profits, and governmental entities.

In addition, MassDevelopment has a New Market Tax Credit (NMTC) Program that has been awarded seven allocations totaling [REDACTED] [REDACTED] allocation, including two charter school projects that were financed with [REDACTED] of New Markets Tax Credits. The most recent transaction included a charter school that received a [REDACTED] NMTC allocation and also used a [REDACTED] school guarantee.

MassDevelopment's Business Development staff work to market MassDevelopment's financing programs throughout the state. Specifically, Community Development staff are responsible for MassDevelopment's early stage financing programs, including the predevelopment loan program and the Brownfield's Redevelopment Fund site assessment program.

MassDevelopment works across the entire Commonwealth. Employees are located in Boston and five regional offices, with business development, lending, bond financing, and community development staff at each location. MassDevelopment also has an experienced real estate staff providing services to businesses and communities throughout the state. Staff has annual calling goals for outreach to prospects. Each regional team also sets annual closing goals for the various financing programs, including the Charter School Credit Enhancement Program.

Staff efforts are supported by our Marketing and Communications Department comprised of five highly experienced individuals. Our integrated marketing strategies include paid advertising, earned media, trade shows and events, marketing materials for each product and

program, and a quarterly e-mail newsletter highlighting MassDevelopment's business activity. The published marketing materials for each of MassDevelopment's products and programs provide eligibility guidelines, basic product terms and conditions, and recent transactions and case studies. Marketing staff is also responsible for constructing prospect lists, conducting direct mailing, and e-mailing campaigns for specific products and programs.

MassDevelopment issues press releases on all closed loans/bonds/grants unless the borrower declines the option. The Charter School Credit Enhancement Program is fully integrated into MassDevelopment's existing Marketing and Communications strategies.

Summary of MassDevelopment's qualifications to manage another [REDACTED] grant include:

- Established loan guarantee, loan, and bond financing programs that support the growth of charter schools.
- More than 50 years of credit and lending experience, including working with federal and state funded programs.
- Highly experienced bond, lending, credit and portfolio management staff.
- Established credit and portfolio management policies, procedures, and governance, as well as a highly experienced work-out staff and an in-house legal team.
- Exceptional business development, investment banking, and lending team as well as a very experienced marketing and communications group to generate appropriate project leads for the Program.
- Documented standards of conduct and a strong financial profile.
- Cooperative working relationship with MCPSA and DESE's Charter Office.

- Established Charter School Advisory Committee that receives semi-annual reports, meets annually, and has representatives from charter school stakeholders.

## **(2) Financial Stability**

MassDevelopment's S&P credit rating (A+/Stable/NR) report and most recent audited financial statements are included in Attachments 7 and 8, respectively. RSM US LLP conducted the financial audit of the Agency. As of June 30, 2020, Agency assets exceed liabilities by [REDACTED]. Current cash and cash equivalents, and short-term investments, total [REDACTED] and, all cash and cash equivalents, short and long-term investments, total [REDACTED], [REDACTED] of which is restricted.

## **(3) Risk Management**

MassDevelopment has experienced personnel and established policies and procedures to help mitigate risk in its loan and guarantee portfolios. Each loan and guarantee program, including the Charter School Credit Enhancement Program, administered by MassDevelopment has established underwriting criteria, which have been approved by senior management and documented in the Loan Policy and Procedures Manual provided to all loan officers along with appropriate training (Charter school section is included in Attachment 13).

- Application - Prospective borrowers meet with regional staff, and, when appropriate, complete a MassDevelopment loan, bond or guarantee application (Attachment 14).
- Due diligence - An in-depth analysis of information provided by the prospective borrower – in its loan or guarantee application, and in meetings (face-to-face, zoom/teams, or conference calls) – is conducted by the lender in the region managing the loan or guarantee transaction. We require the charter school to provide a letter from the state's DESE indicating that the school's charter is valid, and we verify that the school is

in good standing. We also verify that the school is authorized to borrow beyond its 5-year charter by obtaining a letter from DESE to that effect. Senior management meets with the borrowers as needed. Borrower information and the lender's analysis are compiled in a standard Approval Request document, which is reviewed by senior management and by in-house counsel. Appraisals of collateral are conducted by external professionals with expertise in equipment and/or real estate appraisals.

- Approval Process - Loans and guarantees are approved by senior management (SVP of Lending, EVP of Finance Programs and CEO) and/or by the MassDevelopment Board of Directors. MassDevelopment's Origination and Credit Committee, comprised of a subset of the members of the Board, review and approve all loans and guarantees presented to the Board of Directors. The amount of the loan or guarantee and the risk profile determine the required approval level. A summary of all loans and guarantees approved at the senior management level is provided to the Origination and Credit Committee and Board of Directors.
- Documentation - The closing of all loans and loan guarantees is overseen by MassDevelopment's SVP of Lending. Lenders select counsel from an approved list of outside counsel, who documents the transaction based on the loan approval and MassDevelopment's documentation requirements created by the legal department. Loans are approved and signed by the SVP Lending or by the EVP Finance Programs.
- Monitoring - Loans and guarantees are risk rated on a scale of 1-6. The lender assigns the risk rating, which is reviewed by management at the time of loan or guarantee approval and closing, based on factors that include operating trends, collateral coverage, and cash flow analysis. Officers are required to review each loan and guarantee at least

annually, complete a standard written credit comment, and opine to the risk rating. For loans and guarantees with risk ratings of 5 or 6, quarterly credit reviews are required.

- External Credit Review - In addition to an internal review, Cobblestone Management, LLC, a private loan review firm with more than 30 years of loan portfolio review experience for small and regional financial institutions, performs an annual review of most credits in the Agency's lending portfolio and opines to risk rating, loan reserves, and overall management of the portfolio. MassDevelopment's loan and guarantee portfolio has received a satisfactory review from Cobblestone for the last three years (2020, 2019, and 2018).
- Reporting - A monthly portfolio report and analysis is produced by Portfolio Administration in conjunction with the SVP of Lending and the VP of Special Assets and submitted to senior management. MassDevelopment's Credit Committee reviews the report on a quarterly basis. Information includes loan and loan guarantee balances; non-accruing loan balances; current loan loss reserves; past due payments; loan balances for each loan rated 5 or 6; and risk rating upgrades and downgrades during the prior month. As of March 31, 2021, there were 43 loans and guarantees, totaling [REDACTED] rated "5 or 6", representing approximately 12.39% of the total Loan and Guarantee portfolio. Of the total, 39.3% are General Fund Loans, and 42.8% are in our Emerging Technology (ETF) portfolio. ETF loans are made to growth stage technology companies that are often not yet profitable and have a higher risk than the General Loan Fund. The remaining 17.9% are spread across the remainder of the loan and guarantee portfolio. No charter school guarantees are rated a 5 or 6.

- Portfolio Delinquency - As of March 31, 2021, there are 9 loans totaling [REDACTED] that are past due or have matured. All of the matured loans are current on monthly payments.
- Work-out - Non-performing loans and guarantees are primarily managed by MassDevelopment's Vice President of Special Assets. MassDevelopment's goal is to restructure loans and guarantees when possible. Loan and guarantee waivers or restructures are approved by the EVP of Finance Programs and/or CEO depending on the original approval authority, current loan or guarantee balance, and risk rating.
- Portfolio losses - MassDevelopment's loan and guarantee losses have been small over the past 9 fiscal years (FY 2012-2020 – 0.87%, 1.26%, 1.58%, 0.0%, 0.56%, 0.33%, 0.0%, 0.53% and 0.34% respectively). No charter school loan guarantees are currently in default and no payment has been made under any charter school loan guarantee.
- Systems - All tracking systems are supported by our IT Department and with vendor service contracts:
  - EnAble - Customer relationship management and loan and guarantee tracking system for tracking of prospects (customers) information, customer projects and financings, status of financing, pipeline by product or program, billing for loans, bond fees and guarantee premiums; reporting on outstanding loan and guarantee balances, collection of payments, and status of collections.
  - Microsoft Dynamics Great Plains - General Ledger accounting system.

MassDevelopment's accounting practices follow GASB guidelines. RSM LLP, MassDevelopment's external auditors, validate MassDevelopment's accounting standards and financials.

#### **(4) Expertise in Education**

For expertise on education matters, MassDevelopment works with the MCPSA and DESE's Charter School Office. These two organizations offer extensive knowledge of charter school needs, well-documented best practices for operating a successful school, experienced staff that can provide technical assistance on education matters, strict accountability plans, and strong advocacy efforts to promote funding and support of charter schools at the state and federal governments. Both were instrumental in designing the Charter School Credit Enhancement Program.

##### Massachusetts Charter Public School Association:

The MCPSA was founded in 2001 and is governed by a committed board of directors. Averaging a membership rate of over 98% of Massachusetts charter schools, MCPSA is a robust statewide organization that has tremendous support and engagement of charter school leaders, parents, community members, and other proponents of education reform.

The U.S. Department of Education has recognized the Association with National Leadership Grants three times – in 2001, 2006, and again in 2015 – to support its efforts to publish and share innovative educational models with educators across the country.

In order for all children in Massachusetts to have access to high quality public education, MCPSA is committed to building increased capacity to advocate for and support the following timeless advocacy principles:

- Fair and Adequate Resources: Charter public schools will have access to adequate, equitable funding, facilities, and any other necessary resources.
- Empowered Accountability: Charter public schools will have autonomy, policy support, and transparent accountability.



- Access to Quality Schools: Quality charter public schools will have the ability to serve students and grow to meet the demand of the Massachusetts kids and families.

MCPSA played an essential role in building one of the highest quality charter school initiatives in the country. It provides ongoing state advocacy for charters schools with the legislature and DESE and robust technical assistance to member schools, including the provision of professional development opportunities to foster the sharing and dissemination of best practices within and beyond the charter school community.

#### DESE:

Massachusetts has been on the forefront of the charter school initiative since the first charter school opened in the state in 1995. The DESE plays a critical role in overseeing charter school applications, performance review, and charter renewal. MassDevelopment relies on the DESE's evaluations in assessing whether a school is high quality. (Further described in section B (4)).

The state's DESE and MCPSA are represented on the Charter School Advisory Board and are available to answer questions about the educational aspects of charter schools. The Logic Model (Attachment 5) further defines the relationship between MassDevelopment, the DESE and the MCPSA.

#### **(5) Standards of Conduct and Conflict of Interest**

MassDevelopment's enabling legislation (Attachment 10), subjects MassDevelopment employees and board members to Chapter 268A of the Massachusetts General Laws, the State Ethics Law. The State Ethics Law (Attachment 6) imposes civil and criminal penalties for misuse of one's official position, self-dealing and nepotism and requires recusal from, or written disclosure of, situations that might present an appearance of impropriety. The State Ethics Law

has a forever ban with respect to matters that a state employee worked on and forbids participation for two years in any matter over which an employee had official responsibility. All employees and board members receive copies of a summary of the State Ethics Law annually. Employees must complete an on-line ethics training bi-annually. The MassDevelopment General Counsel schedules trainings for employees and board members on ethics issues regularly. The MassDevelopment Employee Handbook includes a code of conduct section incorporating the State Ethics Laws. In addition, our Lending staff is subject to the MassDevelopment Loan Officer's Code of Conduct, which requires that officers uphold the highest professional standards at all times. Violations of standards of conduct are subject to disciplinary action.

It is the policy of MassDevelopment to encourage the reporting by employees of any activity, policy or practice of MassDevelopment or of another employer with whom MassDevelopment has a business relationship that the employee reasonably believes (i) is in violation of a law, rule or regulation promulgated pursuant to law or related to a federal or state grant or contract; (ii) poses a risk to public health, safety or the environment or (iii) is a gross mismanagement of a federal or state contract or grant; a gross waste of federal funds; or an abuse of authority related to a federal or state contract or grant.

MassDevelopment also has a Procurement Policy, which documents the legal process for hiring third party vendors to ensure that vendors are chosen, based on price and quality of service. Staff are regular trained on procurement by the Legal Department.

#### **(6) Co-applicants**

There are no co-applicants to this request.

## **(7) Steps taken to Ensure Charter Schools Receive Funding**

MassDevelopment works with the schools to create cost effective financing plans to ensure charter schools receive facilities funding by:

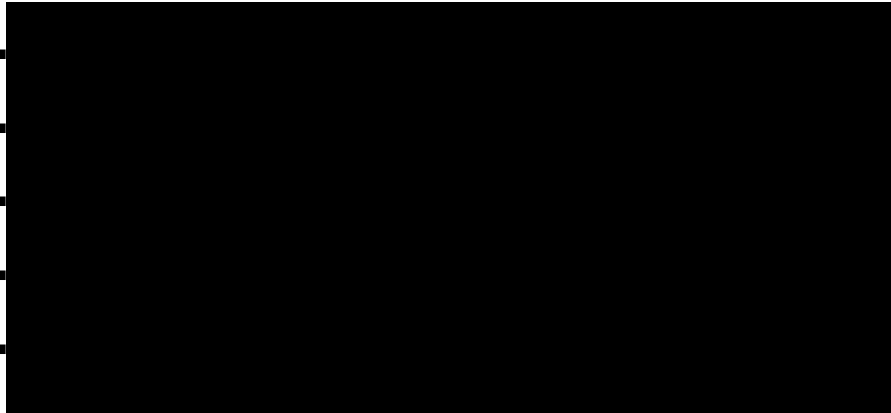
- Issuing tax-exempt bonds and QZABs on behalf of charter schools. Since 1995, 89 tax-exempt bonds and QZABs ( ) have been issued.
- Making direct loans to charter schools, including loans for leasehold improvements for leased charter school facilities, and loans through our TechDollars Program for their technology needs. From 2004-3/31/21, 18 loans totaling have been provided to schools.
- Managing the Credit Enhancement Program. As of 6/30/21, 53 guarantee transactions totaling more than have enabled 36 schools to improve their facilities.
- Working with MCPSA, the DESE's Charter School Office, and charter schools, to keep abreast of financing needs of charter school.
- Initiating outreach efforts, including direct calling on schools, press releases for closed transactions, and marketing materials and events to charter schools, to raise awareness of our financing products and programs.
- Assisting charter schools in seeking New Market Tax Credit financing, if appropriate, regardless of whether MassDevelopment receives an allocation for 2021.

## **(8) Previous Performance**

MassDevelopment was awarded five grants of \$ , from the U.S. Department of Education Credit Enhancement for Charter School Facilities Program in 2003, 2012, 2015, 2017 and 2019, respectively. The FY 2019 and 2020 Annual Performance Reports are in Attachment 11.

Highlights of MassDevelopment’s successes include:

- Through 6/30/2021, 36 schools have been issued credit enhancement, totaling more than [REDACTED] million, which enabled the schools to access the funding they require – at lower borrowing costs.
- High leverage: Through 6/30/2021, high leverage ratios achieved for each grant award received. By year, the credit enhancement supported loan or bond amounts in excess of:



- Proven risk management: There have been no losses paid under any credit enhancements for Funds 1-5.
- Private Funding: Currently, MassDevelopment provides up to an additional [REDACTED] in credit enhancements to the Program and has attracted an additional [REDACTED] from private investors in Funds 1 through 5.
- Bank partners: MassDevelopment has developed relationships with more than 15 banks that are interested in purchasing bonds for charter school facilities.
- Extensive marketing: MassDevelopment’s significant staff markets and conducts outreach to educate all Massachusetts charter schools regarding our Program, and other programs offered by the Agency, applicable to charter schools.

## **D. Quality of Program Personnel**

### **(1) Qualifications of key personnel**

Brian Horgan, Vice President, Lending is the Program Manager and primary contact for the U.S. Department of Education. Mr. Horgan has served in this capacity since 2020 and has worked in the lending/financing industry for greater than 25 years. Mr. Horgan's responsibilities include being the point person to MassDevelopment staff, charter schools, and to the U.S. Department of Education. He chairs the Advisory Committee meetings, oversees grant administration and reporting, and works with Marketing and Communications to promote the Program.

Cynthia Tonucci, Senior Vice President of Lending is responsible for MassDevelopment's lending activities, comprised of loan underwriting, origination and documentation, portfolio and risk management, as well as oversight of loan portfolio operations including accurate and timely servicing of loans, records keeping, and collateral.

Jan Nuzzolo, Vice President Senior Credit Manager and Charter School Fund Manager, oversees the credit analysis staff, fulfills complex credit requests, and provides analytical, operational, and credit support to the lending group. Ms. Nuzzolo provides fund reporting and administration as well as financial, operational, and credit analysis and oversight to the Charter School Program.

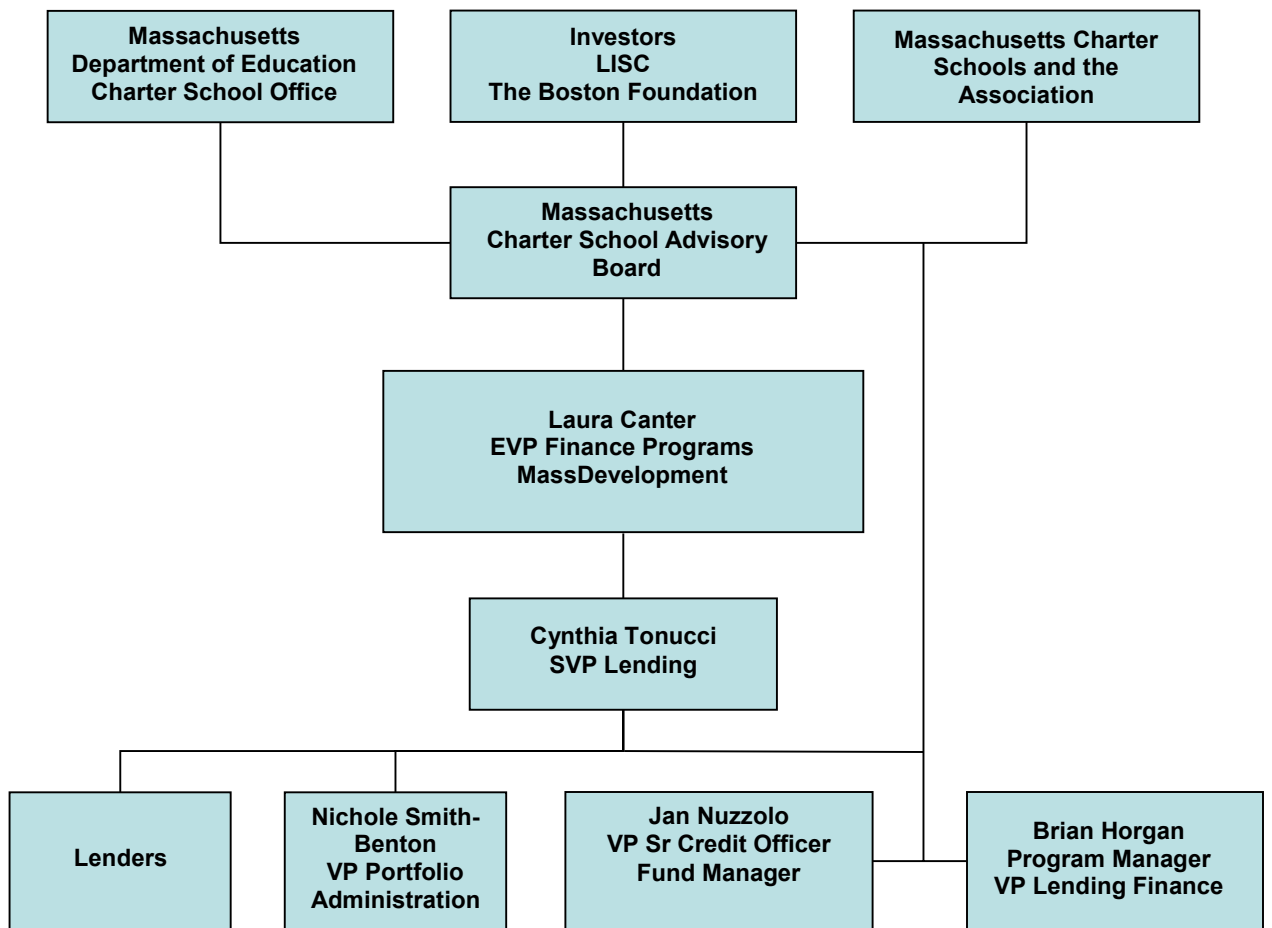
Nichole Smith-Benton, Vice President, oversees and mentors the loan administration staff, managing all administrative functions and documentation of the loan and guarantee portfolios.

Rebecca Sullivan, Senior Vice President for Institutional Finance, is the primary Investment Banking contact and a consultant to the Program. Ms. Sullivan currently manages

MassDevelopment’s tax-exempt bond financings for charter schools, and is a featured speaker at charter school facility financing workshops. Ms. Sullivan previously managed the Guarantee Program for 17 years.

**(2) Staffing Plan**

The organizational chart shows the principal staff for the Program.



The Program has full access to the staff and resources of the MassDevelopment Finance Programs Division, overseen by Laura Canter, EVP. Charter School tax-exempt bonds are issued through our Investment Banking Department, managed by Steve Chilton, SVP, and are staffed with nine highly experienced officers. Charter school loans and credit enhancements are issued through the Lending Department, managed by Cynthia Tonucci, SVP. The lenders are the primary contacts for charter schools seeking loan guarantees, and work with our bond staff when bond issuances are supported with guarantees. The portfolio administration staff also report to Ms. Tonucci, and are responsible for monitoring loan and loan guarantee balances, billing, and payment. Simon Gerlin, CFO, manages the Finance Department, which maintains the Program financial records and oversees financial reporting, audits, and investment management of the grant funds. Ellen Torres has been MassDevelopment's attorney to the Program since 2014.

### **Conclusion**

MassDevelopment runs a highly successful Charter School Credit Enhancement Program that helps charter schools obtain low cost financing for the acquisition, construction, and/or renovation of school facilities. The Program has a high demand but limited current funds. Specifically, MassDevelopment has availability of federal funds of approximately [REDACTED] in its five funds, compared to a current pipeline (for two years) of [REDACTED]. As a result, there is a significant guarantee funding shortfall, which does not include potential new deals that surface during the next two years and are not currently visible in the pipeline. MassDevelopment respectfully requests an additional [REDACTED] of grant funds from the U.S. DOE to sustain and continue to grow this successful program by allowing it to continue to issue new guarantees.