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Grants for Credit Enhancement for Charter School Facilities

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U.S. DEPARTMENT OF EDUCATION
CREDIT ENHANCEMENT FOR CHARTER SCHOOL FACILITY PROGRAM

Low Income Investment Fund
Grant Application Narrative
June 26, 2023

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OVERVIEW

The Low Income Investment Fund (LIIF) is seeking a [redacted] grant from the U.S. Department of Education's *Credit Enhancement for Charter School Facilities Program (Credit Enhancement Grants Program or CEGP)* to establish the [redacted] LIIF Charter School Facilities Project ("*The Project*") in states experiencing growth in the charter school sector but where affordable facilities financing options are limited. LIIF's objective is to support **start-up and early-stage schools (<3 years old), rural schools eligible for USDA Rural Community Development Programs, and underfunded facilities projects by more experienced operators** in "new to LIIF" states with strong charter laws or strong authorizers committed to developing portfolios of quality schools.

The *Project* will support charter schools nationally, with a focus on **Alabama, Idaho, Mississippi, and Missouri** *("The States").* With full funding, LIIF anticipates leveraging total financing of [redacted] over the initial five years. This includes [redacted] of LIIF capital, resulting in a **leverage ratio of 10:1, enabling us to finance 25 schools and create or preserve 9,375 seats.** *The Project* is designed to be scalable based on the size of the awarded grant.

LIIF is one of the nation's most established nonprofit Community Development Financial Institutions (CDFI) and is known for providing innovative financing solutions in markets where conventional lenders have been hesitant or unable to offer support. Since its establishment in 1984, LIIF has raised and delivered over [redacted] in lending capital to community-based organizations for a variety of community development projects, including [redacted] **in facility financing and technical assistance (TA) for charter schools.**

Since our **first charter school loan in 1998, LIIF has played a significant role in creating or preserving 110,868 seats at 220 nonprofit charter schools**, benefiting underserved students in 16 states. Currently, LIIF is servicing 59 charter schools in its portfolio with a combined loan value of [redacted], representing [redacted] **of our total portfolio.** Leveraging our experience in charter school financing and a proven track-record of quality investing and risk analysis, LIIF has achieved a **loss rate of** [redacted] deployed.

LIIF has previously received four CEGP awards totaling [redacted] The most recent [redacted] award in 2017 allowed LIIF to expand lending activities into Tennessee and Georgia, two previously underserved markets. **The cumulative leverage ratio of previous CEGP awards stands at 24:1, well in excess of the average commitment of 9.4:1.** Additional CEGP funds would allow LIIF to expand services into *The States* and to establish a comprehensive, multi-state program tailored for **early-stage, rural, and underfunded schools.**

LIIF is committed to using a new CEGP award to promote equitable outcomes for educationally disadvantaged students and those lacking quality school choice options. This aligns with LIIF's 2021-24 Strategic Plan, which commits to directing [redacted] in capital over the next 10 years to promote racial, socio-economic, and school choice equity, and with our innovative Education Impact Tool (EIT) which evaluates schools based on factors such as academic performance, teacher diversity, social-emotional support, race-inclusive criteria, honors & AP enrollment, and school discipline. **Through this comprehensive framework, LIIF is able to prioritize schools that create an inclusive and fair learning environment that supports the needs of educationally disadvantaged and diverse student populations.**

In summary, with the support of a CEGP grant, LIIF will expand its services to four underserved states by providing enhanced facilities financing to 25 high-quality charter schools. By providing capital at favorable terms, LIIF will address facilities financing needs of high-quality charter schools while contributing to the long-term growth, success, and prosperity of the communities these schools serve.

MARKET OPPORTUNITIES AND CHALLENGES

LIIF has identified four target states with robust charter laws or strong authorizers that are facing significant challenges that limit the availability of high-quality schools. Current market conditions present favorable opportunities for LIIF to enter these regions. Additionally, the 2022 National Assessment for Educational Progress (NAEP) reveals that the four targeted states rank below the national average for Grade 4 or Grade 8 Mathematics or Reading 'at or above Basic' proficiency percentages. NAEP performance results highlight the urgent need for more school choice options to boost educational outcomes for underserved and low-performing students.

Table 1 – 2022 National Assessment for Educational Progress (NAEP) – "% at or above Basic"				
	Mathematics		Reading	
	Grade 4	Grade 8	Grade 4	Grade 8
National Average	74%	60%	61%	68%
Alabama	71%	53%	59%	61%
Idaho	76%	71%	61%	74%
Mississippi	74%	54%	63%	63%
Missouri	72%	61%	60%	67%

Alabama

Opportunities

Alabama's charter school landscape is relatively new, with a charter law approved in 2015. Despite slow initial growth, the past seven years have laid the foundation for the emergence of innovative, high quality charter schools. This includes a robust authorization process, and a strong harbormaster like New Schools for Alabama (NSFA) leading partnerships and providing technical assistance. In addition, several recent legislative actions have occurred in Alabama that will increase the growth of charter schools. In particular, House Bill 363, which was enacted in June 2023, will clarify funding for newly converted charter schools and for start-up charter schools. This will allow LIIF and other CDFIs to support early-stage schools, insofar as traditional lenders and landlords in the state still unfamiliar with underwriting charter schools. Most charter schools in Alabama serve predominantly Black and economically disadvantaged population and are addressing educational inequalities and promoting equitable opportunities.

In the National Alliance for Public Charter Schools' 2022 Ranking of State Public Charter School Laws, Alabama ranked third out of 45 states. This ranking reflects the absence of a cap on the number of charter schools, a robust system for authorizer accountability, and a transparent process for charter application, review, and decision-making. Although improvements are needed in equitable operational funding, capital funding and financing access, and affordable facilities options, charter schools in Alabama are poised for significant growth in the upcoming years.

Challenges

While the charter ecosystem in Alabama is evolving, certain challenges exist. One key challenge is the lack of diverse support organizations across multiple verticals, including back-office providers, development consultants, and philanthropic funders, hindering the success and growth of charter schools in the state. Furthermore, charter schools in Alabama have not consistently demonstrated superior performance compared to traditional public schools in terms of average growth and proficiency measures. LIIF is dedicated to only supporting high-quality schools and we expect that our offering would attract such operators to the state.

<u>Idaho</u>

Opportunities

Idaho is a growing charter school market with strong political support and major philanthropic backing from the John A and Kathryn Albertson Foundation. Bluum, a leading harbormaster and back-office services provider, administers USDOE Charter School Program (CSP) grants in the state and supports charter schools in identifying facilities financing options. LIIF's presence in the market is welcomed by Bluum because financing options for new charter schools in Idaho are limited. The state's credit enhanced Moral Obligation Bond financing program offers an excellent exit strategy for LIIF’s financing.

Idaho is experiencing significant growth in its school-age population, particularly in districts like West Ada, Kuna, Vallivue, and Idaho Falls. These districts face over enrollment and increasing class sizes, making charter schools an invaluable resource. The West Ada School District projects a need for 11,000 new students over the next decade, mostly in elementary schools. Kuna expects enrollment to climb from under 6,000 to nearly 10,000 students in the next 10 years. Rural areas in Idaho are also experiencing rapid growth, with multiple schools operating at or over capacity.

Challenges

Due to state law prohibiting obligated groups, Charter Management Organizations (CMOs) cannot operate in Idaho as they do in many other markets. This prohibition restricts the pooling of funds and cross-collateralization of debt, requiring each new school in the state to function as a separate entity and Local Education Agency (LEA). Consequently, all new schools operate as start-ups in a market where real estate options are already limited and becoming increasingly costly.

Traditionally, new schools in Idaho have not opened in leased spaces, except for a few schools in facilities developed and owned by Building Hope (BH). However, as the demand for more charter school seats continues to rise, schools may have no affordable options other than leasing spaces that require tenant improvements or acquiring and developing new permanent sites.

Mississippi

Opportunities

Currently, Mississippi has only eight operating charter schools. The Mississippi Charter School Authorizer Board (the "State Board") serves as the primary authorizer in the state and is dedicated to expanding the charter school sector while ensuring high-quality schools. Two new charter schools are expected to be approved in Fall 2023, with two additional schools in the pipeline for 2024.

Traditional public schools in Mississippi have shown recent learning gains, which may also have limited charter school growth. However, overall performance remains relatively low compared to other states. Early indicators suggest performance stagnation or declines in the current academic year. In such case, there may be increased interest and support for charter schools, especially if affordable facilities financing solutions, like those proposed by LIIF, are available to new charter schools.

Challenges

Charter school growth in Mississippi has been hindered by a variety of factors, including low per pupil funding, limited facilities financing options for new schools, inadequate support for new school development, and challenges in rural areas with staffing, food service, and transportation. Currently, there is only one active CMO in the state, primarily due to the requirement that each charter school must be a LEA and prepare individual audit reports for each school. This restriction precludes CMOs from using common financial models and cross collateralizing debt, therefore making it difficult to obtain affordable facilities financing. Efforts are underway to change these statutory requirements, potentially making Mississippi more attractive to proven CMOs seeking expansion opportunities.

Insufficient support for new school incubation and development has also hindered charter school growth. The State Board has partnered with TA organizations like Mississippi First and Embark in areas such as facility access, talent pipelines, and quality initiatives. However, these organizations face limitations in terms of resources and capacity.

Missouri

Opportunities

The Missouri Public Charter School Commission (Commission) is the largest and most active charter school authorizer in Missouri, known for strong and diligent oversight. In collaboration with the Missouri Charter Public School Association, the Commission works toward improving the quality and quantity of charter schools in Kansas City and St. Louis, the only markets in which charter schools are legally permitted to operate. The Commission's portfolio of charter schools (including CMO-operated schools) has grown from nine schools in 2020-21 to 21 schools in 2022-23 via new school approvals and schools transferring to the Commission from other authorizers. Growth of new and expansion charter schools is especially vibrant in St. Louis.

Charter schools in Missouri are predominantly based in urban areas where traditional public schools are underperforming. As a result, charter schools predominately serve racially diverse and educationally disadvantaged student populations, aligning with LIIF's *Project*. Currently, there are 39 charter schools operating in the state and the Commission is the only sponsor approving new schools and encouraging expansions. Two organizations, School Smart Kansas City and Opportunity Trust, provide funding and TA, including facilities related support, to new and expanding charter schools.

All growing networks and most charter schools of quality in Missouri are authorized by the Commission. Hence, a partnership with the Commission (see letter of support) and a continued partnership with IFF, a CDFI active in Missouri with which LIIF has collaborated, will provide a potential pipeline for the LIIF *Project*, especially for projects that require financing in amounts above IFF's capacity.

Challenges

Both Kansas City and St. Louis are sprawling cities, the inner cities of which are slowly rebounding from population flight to the suburbs; resulting in traditional public schools that predominantly serve economically disadvantaged students and racial minorities are generally low performing. Charter schools in both cities have faced major challenges finding, acquiring, and affording facilities in communities where school operators would like locate.

Entering the Missouri market as a charter school facilities lender presents one unique challenge. Most charter schools and the state's Department of Education report annual audits on a modified cash basis. This complicates underwriting and financial analysis because it is difficult to evaluate the financial strength of schools and networks when audits are on a cash or modified cash basis (and this also complicates oversight by school boards and sponsors). However, LIIF has lending experience in Missouri and underwriting schools using modified cash accounting. The Commission is working to educate operators about the importance of accrual-based financial planning, and may make this a requirement, particularly because most capital providers require accrual-based audits. In addition to TA provided to schools, LIIF's could also support the Commission's efforts to helping schools understand that accrual-based budgeting, accounting and reporting is in their best financial management, oversight, and performance interest.

SECTION I: QUALITY OF PROJECT DESIGN & SIGNIFICANCE

1 - Better Rates & Terms and Financing Products

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.

LIIF will utilize CEGP funds to provide financing to early-stage and startup charters schools at better rates and terms than they could receive in the market by enabling: (i) **access to capital for quality early-stage and rural charter schools**, many of which are carrying out facilities projects for the first time, often in leased facilities; and (ii) **flexibility and access to capital for seasoning and established charter schools** for which financing has been unattainable or is only available at terms that are not affordable, even at full enrollment.

Rates and Terms

- Rates not to exceed 250 bps over LIIF's cost of capital. Though pricing offered will vary over the lifetime of the award, LIIF is confident that *Project* pricing will be below market.
- Loan to Value (LTV) up to [redacted] and more than [redacted] on a case-by-case basis.
- No equity requirement by providing financing of up to [redacted] of project costs, as needed;
- Other flexible terms include longer amortization (more than 25 years), alternate collateral (leasehold mortgage), longer interest-only periods, and subordinate debt paired with senior debt to pare down interest rates and annual debt service payments.
- Credit enhancements that burn down over time as a school develops a strong balance sheet and reserves and makes debt payments on time, especially for start-up schools in leased

space that require tenant improvements (or in an owned or donated permanent facility). For example: a [redacted] credit enhancement may be applied to a high-risk new school in Year 1, decreasing to [redacted] in Year 2, to [redacted] in year 3, and then to [redacted] in Year 4, and eventually down to [redacted] based upon a consistent history of debt service payments. This strategy will also recycle credit enhancements faster, support more schools, and better leverage the CEGP grant.

Rates and terms that LIIF expects to offer and deliver will be better than what we offer with our revolving loan fund (RLF) capital and are intended to be more affordable than what is available to charter schools through conventional sources.

Financing Products

Financing products will be tailored to accommodate individual school and market needs and the size, cost, and type of facility project a school is seeking to undertake, and will include: (1) acquisition, construction, and mini-permanent financing, (2) leasehold financing, (3) permanent (longer-term) fully amortizing financing, and (4) subordinate debt.

(1) Acquisition, construction and mini-permanent financing (est. [redacted] of award): Schools ready to acquire, construct or expand facilities often find that conventional banks insist on several years of operating track record; a barrier for early-stage schools. LIIF will provide acquisition and construction loans, which, when construction is completed, will convert to mini-perms. This allows schools to open in owned space and positions schools to refinance to longer-term debt when the mini-perm matures.

In the case of rural schools in three of the four targeted markets that are eligible for USDA Rural Community Development long-term loan programs, LIIF will provide initial acquisition and construction financing to allow completion of construction, which is required before USDA Rural CD permanent loans can be approved, closed and funded. In these cases, LIIF will not impose pre-payment penalties, thus allowing schools to access USDA's very affordable capital and reduce debt service costs. One of the biggest challenges for rural schools in securing USDA long-term permanent (re)financing is finding an initial acquisition and/or construction lender. Commercial banks generally are not viable options.

Table 2: Acquisition, Construction and Mini-Perm Financing Term Comparison		
	LIIF's CEGP-enhanced	**LIIF's Standard Terms**
Collateral	First mortgage	First mortgage
Borrower Equity	[redacted]	
Maximum LTV		
Maximum Term		
Maximum Amortization		
Interest Rates		

(2) Leasehold financing (est. [redacted] of award): LIIF will utilize CEGP funds to support leasehold financing, for which there is a demonstrated need in the four-state market. Charter schools often begin in leased space (by necessity or choice) to get into buildings quickly or into premium spaces that owners will not sell. Leasing can allow for phasing-in additional space as enrollment and financial resources grow, controlling costs while stabilizing operations and building cash reserves. However, leased space usually requires significant renovations, especially to be ready to meet the life safety and code requirements for school use and the technology needs of a quality educational program. Leasehold improvement financing is difficult to obtain, since regulated lenders typically view these as unsecured loans.

Table 3: Leasehold Financing Term Comparison		
	LIIF's CEGP-enhanced	**LIIF's Standard Terms**
Collateral	[redacted]	
Borrower Equity		
Maximum LTV		
Maximum Term		
Maximum Amortization		
Interest Rates		

(3) Long term, permanent financing (est. [redacted] of award): LIIF can offer up to 29-year, fully amortizing, fixed-rate loans through its recent [redacted] allocation of CDFI Bond Guarantee Program funds. **This long-term fixed rate financing is often only accessible through the tax-exempt bond market and is typically not an option for earlier stage operators.**

Because our permanent loan product is limited to an LTV of [redacted] LIIF will use the CE to support a separate long term subordinate loan that will offer schools higher loan proceeds up to [redacted] LTV.

Table 4: Long-Term, Permanent Financing Term Comparison		
	LIIF's CEGP-enhanced Terms	**LIIF's Standard Terms**
Collateral	[redacted]	[redacted]
Borrower Equity	[redacted]	[redacted]
Maximum LTV	[redacted]	[redacted]
Maximum Term	[redacted]	[redacted]
Maximum Amortization	[redacted]	[redacted]
Interest Rates	[redacted]	[redacted]

(4) Subordinate debt (est. [redacted] of award): Even when schools secure permanent financing from conventional lenders, a gap between the appraised value of the project and the cost to develop the project may require the school to make a larger equity contribution. Conventional lenders will frequently not lend above an LTV of [redacted] LIIF will use CEGP funds to provide financing in a subordinate position, bringing the total financing up to [redacted] or more of appraised project value and leveraging the senior financing. Subordinate financing is much riskier, but a necessary position for many projects to work. CEGP funds are critical to LIIF's ability to provide sub-debt, without which many charter school facility projects would simply not be financially viable. LIIF has identified LTV gaps as one of the primary challenges to facility development in these nascent markets. If a school is able to afford debt service payments, we want to stretch on LTV so schools can acquire the real estate they need to build and operate in high quality permanent facilities.

Table 5: Subordinate Debt Term Comparison		
	LIIF's CEGP-enhanced	**LIIF's Standard Terms**
Collateral	[redacted]	[redacted]
Borrower Equity	[redacted]	[redacted]
Maximum LTV	[redacted]	[redacted]
Maximum Term	[redacted]	[redacted]
Maximum Amortization	[redacted]	[redacted]
Interest Rates	[redacted]	[redacted]

2 - Project Goals, Objectives, & Timeline

The extent to which the project goals, objectives, and timeline are clearly specified, measurable, and appropriate for the purpose of the program.

Goal 1: Leverage a total of [redacted] in Non-Federal funds on behalf of charter school facility projects in high-need geographies:

Measurable Objective	Year	Cumulative Leverage Goal
1.1	End of Year 2	[redacted]
1.2	End of Year 3	[redacted]
1.3	End of Year 4	[redacted]
1.4	End of Year 5	[redacted]

Goal 2: Commit credit enhancement on behalf of 25 schools during project years 1–5:

Measurable Objective	Year	Cumulative Schools Supported
2.1	End of Year 2	10 schools
2.2	End of Year 3	15 schools
2.3	End of Year 4	20 schools
2.4	End of Year 5	25 schools

Goal 3: Commit [redacted] in credit enhancement funds on behalf of charter schools in years 1–5:

Measurable Objective	Year	Cumulative Funds Committed
3.1	End of Year 2	[redacted]
3.2	End of Year 3	[redacted]
3.3	End of Year 4	[redacted]
3.4	End of Year 5	[redacted]

Goal 4: During project years 1–5, the grant will serve at least 25 charter schools [redacted] of schools supported) that offer public school choice in **communities with the greatest need** ("high-need areas") by meeting **one or more** of the following four criteria:

1. For early-stage schools (< 3 years of operating history) located in districts with [redacted] or more of the student population eligible for Free or Reduced-price Lunch (FRL), or, for established schools with [redacted] or more of current enrollment eligible for free or reduced-priced lunch, or;
2. For schools located in districts that are performing below state averages overall or where sub-groups (FRL eligible, Students with Disabilities (SWDs), English Language Learners (ELLs) are performing below state averages, or;
3. Located in districts where there are no charter schools, the school-age population is rapidly growing and district schools are overcrowded (or do not have enough available seats to

accommodate projected school-age population growth), or where new schools are opening in response to families seeking quality school options, or;

4. Schools that are identified by the state as rural schools and meet the USDA definition of rural schools eligible for USDA Rural Community Development Program long-term financing, but must initially obtain acquisition and/or construction financing to qualify.

Measurable Objective	Year	Cumulative Schools Supported
4.1	End of Year 2	10 schools in communities with the greatest need
4.2	End of Year 3	15 schools in communities with the greatest need
4.3	End of Year 4	20 schools in communities with the greatest need
4.4	End of Year 5	25 schools in communities with the greatest need

<u>Goal 5</u>: Commit [redacted] of Credit Enhancement funds to secure access to capital for charter schools with less than three years of documented operating history at the time the transaction closes, and/or rural schools that are eligible for the USDA rural CD.

(a) Measurable Objective 5.1: By the end of Year 5, commit at least [redacted] of Credit Enhancement funds to support charter schools with less than three years of documented operating history at the time the transaction closes and/or rural schools that are eligible for the USDA rural CD.

3 - Project Implementation Plan & Activities
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.

LIIF's *Project* is built upon a proven partner-centric implementation plan that has yielded successful results in previous CEGP-funded expansions. **For instance, our 2017 expansion to Tennessee and Georgia focused on supporting early-stage schools through partnerships with the Tennessee Charter School Association and the Georgia Charter Schools Association, resulting in the creation or preservation of 7,053 new seats.**

Further, our track record of providing innovative financing solutions and results-oriented TA to 220 charter schools over the past 25 years has enabled us to develop partnerships with exceptional authorizers, dedicated state support and advocacy organizations, high quality operators, and other entities, including those we will partner with in *The States*.

Alabama

Our implementation plan for Alabama intends to take advantage of the robust authorizer environment and advancements in legislative clarity regarding charter school funding. This approach is designed to aid new schools, which often require a lender capable of providing flexible and tailored financing solutions.

Our implementation plan and activities include providing unsecured tenant improvement loans, acquisition, construction, and mini-perm financing for new schools and/or schools ready to acquire or develop a permanent site. LIIF will also provide senior or subordinate debt by partnering with capital providers now active in the state (Blue Hub Capital and Charter School Growth Fund).

We will accomplish our Alabama implementation plan through established partnerships with:

- New Schools for Alabama (see support letter) will assist LIIF by providing TA for charter school leaders and board members and by helping us identify areas with the most pressing need for high-quality charter school seats.
- Blue Hub Capital (BHC) (see support letter), the most proactive CDFI lender in Alabama, welcomes our involvement in the state. LIIF has collaborated with BHC in other states and plans to become a partner in Alabama by participating in or co-financing loans.
- Charter School Growth Fund (CSGF) (see support letter) oversees a portfolio of eight charter schools in Alabama and is excited about LIIF's intended participation in the state. CSGF not only provides grants but also operates as a subordinate lender, benefiting from partnerships with senior lenders such as LIIF. Our organization has successfully collaborated with CSGF across multiple states, and we aim to continue this partnership in Alabama by providing support to schools in their portfolio.

- Level Field Partners (LFP) (see support letter) provides development and project management services across the country and is active in Alabama.

Idaho

Our implementation plan and activities in Idaho include concentrating on new school start-ups by providing unsecured tenant improvement loans, acquisition, construction, and mini-perm financing for new schools and/or schools ready to acquire or develop a permanent site (including rural schools that qualify for USDA Rural Community Development long-term financing but need interim construction financing).

LIIF will also provide: senior or subordinate debt to financing obtained from capital providers now active in the state (Vectra Bank of Colorado, Building Hope, the Charter School Growth Fund), and/or to be provided by the state's newly created State Revolving Loan Fund and other entities; and senior long-term permanent financing to schools that have few or no other viable options, or need capital in amounts of approximately [redacted] or less, and for which bond financing is not the most affordable solution.

We will execute our Idaho plan and develop a pipeline through established partnerships with Bluum and the Charter School Growth Fund (CSGF) to include new start-up schools supported or recommended by Bluum, expansion schools created by existing or potential quasi-networks in the state recommended by CSGF, such as: Gem Prep, Elevate, Sage International, Future Public Charter School, American Classical Schools of Idaho, and new schools with student populations similar to Heritage Community Charter School (which serves a high FRL, Latino, and ELL student population), and Treasure Valley Classical Academy (a high performing rural school with an FRL population of 38%).

Mississippi

Our implementation plan and activities in Mississippi include working in partnership with the Mississippi Charter School Authorizer Board (see support letter). Our partnership with the State

Authorizer Board will: (1) serve as a steppingstone, allowing LIIF to engage with existing and prospective schools, partner with Mississippi First, a charter school support organization dedicated to creating conditions for high-quality seat growth, and (2) engage with a fledging incubator, Embark, to help identify and develop a pipeline and offer technical support to charter schools through various means, such as webinars, individual consultation sessions, and panel discussions at conferences.

We will leverage our past experiences in Georgia and Tennessee to help bolster the Mississippi charter school sector, by sharing our knowledge and established connections with the Authorizer Board, and state-based charter school advocacy and support organizations to aid in the incubation and development of charter schools in Mississippi.

If desired, we will also connect Mississippi First, Embark, and other appropriate entities with counterparts and charter school support organizations in other states that have developed the financial resources and capacity to effectively support new school growth. In short, LIIF will help catalyze the Mississippi charter school sector to the extent we can.

LIIF will also provide acquisition, construction, project management and financing TA to operators identified by the Authorizer Board, Mississippi First, Embark, or other entities.

Missouri

Our implementation plan and activities in Missouri include:

- Concentrating on new school start-ups in Kansas City and St. Louis by providing unsecured tenant improvement loans, acquisition, construction, and mini-perm financing for new schools, and/or on schools ready to acquire or develop a permanent site. Having previously provided support for a high school expansion in Kansas City (KIPP KC – see support letter attached), LIIF is well-versed in dealing with audits conducted on a modified cash basis. We are keen to leverage this experience to help school operators understand the significance of accrual-based financial planning, which can provide a more accurate picture of a school's financial health.

- LIIF intends to partner with the Missouri Public Charter School Commission (see support letter), in Kansas City with School Smart Kansas City, and Opportunity Trust in St, Louis, both of which are charter school support organizations with funding and grant making capacity and resources, and provide facilities acquisition, development, and financing TA, to identify a pipeline of new schools and other operators who can benefit from the LIIF *Project* as articulated in this application.
- CSGF is also investing in schools emerging as CMOs in the two markets and is looking for senior lenders to partner with to support new schools' facilities financing needs until they are operationally and financially seasoned enough to take advantage of permanent financing options.
- As previously noted, IFF, a close CDFI partner of LIIF's, is active in St, Louis and Kansas City as a lender, landlord, financial and facilities development advisor. We plan to provide products, such as sub-debt, that complement IFF's offerings. Other target partners in Missouri include back-office providers such as EdOps (see support letter) and the Missouri Charter Schools Association.

Project Structure

LIIF plans to allocate the [redacted] grant towards providing specific credit enhancement values for select charter school loans that it will originate. This method enables LIIF to support schools at different developmental stages and risk levels. In contrast to using a "pooled fund" approach, this strategy allows LIIF to tailor credit enhancement according to each school's unique needs. Additionally, a credit enhancement reduction plan will be established for every loan, which will be determined by the school's progress and achievement of set milestones.

4 - Replicable Results

The extent to which the project is likely to produce results that are replicable.

LIIF believes that *The Project's* results can be readily replicated, as it is an adaptation of a well-tested strategy that LIIF has successfully implemented since 2017. Per this strategy, LIIF utilizes CEGP awards to support early-stage or standalone schools in underserved markets that are new to LIIF's programs. For instance, utilizing its 2017 award, LIIF effectively expanded into Tennessee and Georgia—two growing charter school markets that lacked support from CDFIs and other lenders. **Out of the 11 charter schools we supported with our 2017 award, 8 were new (Year 0) or early-stage (<3 years) schools.**

For example, in April 2023, LIIF provided a [redacted] loan in partnership with Reinvestment Fund to support PEACE Academy (PEACE), a new, Black-led K–8 charter school in Decatur, GA where the population is 80% Black and 13% white. LIIF's funds were used to finance leasehold improvements of an 18,000 square foot shopping center parcel to serve 465 students. Upon receiving approval from the Georgia State Charter School Commission, PEACE faced challenges in securing an appropriate and cost-effective facility. The current loan will finance Phase I construction to cover the school's first two years of operations. Upon completion of this period, PEACE is expected to refinance and obtain additional construction financing for Phase II expansion. Given its status as a start-up school without an operating history, the school's ability to attract sufficient enrollment and generate adequate operational cash flow was a lending risk. To mitigate this risk, LIIF applied its 2007 CEGP grant award, without which LIIF would not have been in a position to finance this crucial educational initiative.

Another example of an early-stage school LIIF supported is Watsonville Preparatory School (WPS) in Watsonville, CA. In January 2021, LIIF applied [redacted] in CEGP grant funds to support a [redacted] New Markets Tax Credit leveraged loan to finance renovations to WPS's third network school, a new K–8 charter school site. The credit enhancement helped mitigate risks associated with providing a loan to an early-stage school in a rural area. WPS opened in 2019 and, at the time of financing, was in its second year of operations with 228 students in grades K – 3, with plans to grow to 523 students in grades K – 8. The school serves families that are 98% Hispanic, 84% socioeconomically disadvantaged, and 61% English language learners.

To establish and maintain a strong presence in Georgia and Tennessee, LIIF developed a highly effective outreach strategy. This involved proactively engaging with schools in need of financing, local authorizers, funders, and charter support organizations, and fostering relationships through regular site visits to schools. As a result, **LIIF has deployed [redacted] to 11 charter schools in Tennessee and Georgia, despite not having a presence in those states prior to the 2017 CEGP award.**

LIIF has already initiated the replication of this successful strategy in the *States* identified for this *Project,* each of which exhibit similar characteristics to those of Tennessee and Georgia, which make them ideal targets for expansion. These characteristics include high-quality authorizers, capital constraints, and low appraised real estate values.

5 - Selection Criteria

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.

LIIF brings a proven track record of lending more than [redacted] to support high quality, nonprofit charter schools. Over the past 25 years, we have developed specialized knowledge, established robust underwriting processes, and developed strong relationships with authorizers, state associations, charter school support organizations, harbormasters, philanthropic organizations and other charter school funders, back-office services providers, and facilities development entities to effectively source and evaluate charter school projects.

With this award, LIIF will prioritize start-up or early-stage schools with less than three years of operating history that would benefit from the flexibility provided by *The Project*. To identify a pipeline of potential schools, LIIF will leverage the relationships with groups noted above that are on the ground in our four-state service area, and national entities such as CSGF, Level Field Partners, and EdOps (as summarized above in the response to "**Project Implementation Plan and Activities**").

Once potential schools are identified, we will subject them to a rigorous evaluation process that includes: (i) historic and forward-looking financial analysis; (ii) repayment and refinance risk assessment; (iii) evaluation of school leadership's experience and track record; (iv) analysis of the academic model and performance to date; (v) examination of the charter school funding environment and local political risk, including the quality of the authorizer; (vi) assessment of student demand and enrollment trends; and (vii) evaluation of collateral, if applicable.

To determine the type and amount of assistance given, we will prioritize projects that meet the following criteria:

1. **Financial stability**: The charter school must demonstrate an ability to support the proposed project debt, typically evidenced by achieving a 1.2:1 debt service coverage ratio once the school reaches stabilized enrollment. Early-stage schools will be given additional flexibility with a reduced coverage ratio of 1.1:1 during enrollment ramp-up period.
2. **High-need areas**: We will focus on charter schools operating in areas with the greatest need for educational choice, as indicated by a high percentage of students eligible for free or reduced-price lunch (FRL) and/or schools designated as Title I, poorly performing traditional public schools, and support for school choice. Each of the four targeted states has unique characteristics that define their specific educational needs. To understand these nuances, LIIF will collaborate closely with local partners.
3. **Academic quality and potential**: The charter school should either demonstrate strong academic performance and results or, in the case of early-stage schools, show potential for quality based on the school model or the previous performance of a founding CMO.
4. **Equitable outcomes for students of all racial backgrounds** - We will employ our Education Impact Tool (EIT) to assess parent engagement, social-emotional support, race-

inclusive criteria, honors & AP enrollment, as well as school discipline, among other factors. By employing this framework, LIIF is empowered to evaluate and support schools in creating inclusive and fair learning environments for underserved racial minorities and diverse student populations.

6 - Leverage & Schools Served
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.

A CEGP grant of [redacted] will serve as a catalyst, leveraged 10x, to attract a total of [redacted] in private, non-federal capital, prior to recycling, for the benefit of more than 25 charter schools. These leverage projections are specifically targeted to the first five years of *The Project's* operation. As loans mature and repayment occurs, credit enhancement proceeds will be reinvested to support financing for additional schools, further amplifying the impact of the original Grant award.

To achieve an average leverage ratio of 10:1, capital will be sourced from two primary channels: (i) an immediate capital pool provided by LIIF and (ii) third-party sources of capital, including new participants in the market. Recycling of funds is expected in Years 6-10, generating an estimated [redacted] in additional capital.

LIIF expects to deploy [redacted] of its own capital in the first five years. As an S&P-rated CDFI (see attached "A" rating), LIIF can attract well-priced capital from a wide array of lenders. LIIF's current funding is derived from a diverse pool of 38 lenders, primarily consisting of financial institutions, individual impact investors, and the capital markets. Prominent institutions such as Chase, Goldman Sachs, HSBC, and Charles Schwab have expressed their support for LIIF's application through letters of support.

Borrowers will secure third-party capital from various sources, including conventional bank debt, foundation grants / Program Related Investments (PRIs), and local and state grants and loans.

LIIF has a proven track record of effectively leveraging other private non-federal capital by collaborating with partner CDFIs through co-lending agreements, offering subordinate debt and guarantee products that enhance senior loans from banks and other conventional financing sources, and providing early-stage predevelopment or acquisition / construction financing that attracts senior capital after the riskiest stage of projects has been completed. For example, LIIF's 2017 Award has been leveraged 10.2x in the first five years.

Reserve Account Investments

The Grant funds will be prudently maintained by investing them in a separate, liquid money market investment vehicle, which offers a secure and stable financial instrument. This investment strategy ensures the preservation of the Grant while generating a reasonable return, which can be reinvested in *The Project*. The budgeted interest rate for this investment vehicle is [redacted] per annum, which is priced conservatively below current market conditions and current return on investment for LIIF's existing CEGP funds [redacted] as of June 2023).

7 - Serving States with Strong Charter Laws

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.

Consistent with Section 4303(g)(2) of the ESEA, all four states targeted by LIIF's *Project* have robust charter school laws and/or high-quality authorizers. Specifically, these states (1) are accountable for meeting clear and measurable objectives for the educational progress of the students attending the school; (2) have authorizers that LIIF has determined to be strong based on the academic performance of schools they have authorized and as a result of evaluations conducted by the National Association of Charter School Authorizers (NACSA); and (3) ensure charter schools have a high degree of fiscal flexibility.

Furthermore, 3 of LIIF's 4 targeted states rank within the top half of the 45 states ranked by the National Alliance for Public Charter Schools (NAPCS) 2022 rankings for states with strong charter laws - Alabama #3, Idaho #21, and Mississippi #7. LIIF believes that Missouri, which ranks as #27, is a good location for expansion because the state's public authorizer, the Missouri Public Charter School Commission (see attached support letter), is committed to building a high-quality, financially viable portfolio of charter schools that outperform district counterparts.

8 - Reasonableness of Project Costs
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.

We believe our CEGP request and associated project costs are reasonable. The deployment of the grant over the 5-year program period is achievable. The project cost estimates are based on LIIF's experience as a lender on the actual cost of underwriting loans and deploying / managing capital. LIIF has the necessary staffing and systems in place, and we can start deploying the CEGP immediately and efficiently, at no additional cost.

In sum, LIIF will absorb all administrative costs associated with CEGP, allowing the entire grant to benefit schools. Our conservative projections show the financial viability of the project design over the 5-year program period. Key assumptions of the cash flow *pro forma* (A-13) are summarized below:

- **Transaction Volume:** Assuming a [redacted] CEGP award, we will fully deploy the funds over the 5-year program period to finance an estimated 25 transactions. LIIF's financial model assumes a range of loan types and sizes based on historical trends, input from charter operators on financing needs, and the goals set forth in the project design of *The Project*. The actual number of transactions may vary depending on the average size of the loans. LIIF anticipates additional schools served through recycled funds after Year 5.
- **Leverage:** We will achieve a 10:1 leverage over the five-year program period. The [redacted] grant is anticipated to facilitate at least [redacted] in lending over the five years. LIIF anticipates further leveraging of the award with recycled funds after Year 5.
- **Loan Losses:** The financial model assumes a loan loss reserve of [redacted] of outstanding loans. Should no loan occur, the funds will be retained in the reserve account.

- **Revenue:** Projected revenues through *The Project* include origination fees, earned interest income on outstanding loans, and interest earnings on reserve account funds.
- **Expenses:** Expenses include underwriting, servicing, and out-of-pocket expenses such as legal fees and audits. We assume that expenses will be covered by origination fees and net interest income generated by the loan.

SECTION II: QUALITY OF PROJECT SERVICES

1 - Services Reflect Charter School Needs
The extent to which the services to be provided by the project reflect the identified needs of the charter schools to be served.

LIIF diligently monitors the ever-evolving needs of the charter school market by actively engaging in daily interactions with charter schools, as evidenced by the ***Market Opportunities and Challenges*** discussion above. Recognizing that the foundation of successful and impactful loans lies in addressing genuine market demand, LIIF maintains consistent communication with crucial stakeholders such as authorizers and state Departments of Education.

To formulate *The Project*, LIIF valued input provided by various stakeholders, including charter schools and authorizers mentioned above. Their perspectives and insights have played a crucial role in shaping our approach and ensuring its alignment with the needs of the charter school community. By incorporating their feedback into *Project* design, LIIF has crafted a comprehensive proposal that reflects a deep understanding of the current dynamics and requirements of the charter school sector.

For example, *The States* were chosen because they have seen explosive growth in new charter schools or are on the verge of such growth. With this growth has, or will soon, come an influx of early-stage, start-up or stand-alone schools that need facilities financing solutions that can support their expansion. These schools have mounting demand but are not able to operate at full enrollment due to facilities constraints. While these schools operate high quality academic programs, their knowledge of real estate development and facilities financing is very limited – even for the basics such as how to hire and work with an architect or how to secure a site, identify developable properties or navigate entitlements and zoning, etc.

LIIF has designed *The Project* to meet these needs, delivering a custom suite of financial products and TA that will make facility development accessible to far more schools, enabling them to own or secure a financeable long-term lease that allow them to operate at capacity, thereby increasing school choice.

2 – Support for Project

The extent to which charter schools and chartering agencies were involved in the design of, and demonstrate support for, the project.

LIIF received twenty-four support letters for our *Project* from charter schools, charter associations, authorizing agencies and capital providers demonstrating LIIF's strong reputation in the market. Five of these support letters are from organizations located in *The States*. **See A-6 for all of the letters.** Specifically:

- **National Relationships** – We received support letters from Charter School Growth Fund (CSGF), Blue Hub Capital, Level Field Partners, Civic Builders, and Facility Resource Center. These are national organizations with deep presence in *The States* and a unanimous desire to see LIIF expand its support in those states. For example, all of Alabama's eight charter schools are in CSGF's portfolio, and Blue Hub Capital is a key lender in the state. LIIF will partner with both organizations and help build a deeper ecosystem of lending institutions that are active in the state.
- **Alabama** – We received a support letter from New Schools for Alabama (NSFA) in addition to other national partners described above. NSFA is a key partner in the state and works to incubate high-quality public charter schools. They play a crucial role in fostering the success of charter schools in Alabama by providing end-to-end support, from the initial idea phase to the running of a fully-fledged charter school.

- **Idaho –** We received a support letter from Bluum, a leading harbormaster and back-office services provider that administers USDOE grants in the state and supports charter schools with financing options. LIIF's presence in the market is welcomed by Bluum, as there are currently limited financing options for new charter schools in Idaho.
- **Mississippi** – We received a letter from the Mississippi Charter School Authorizer Board (MCSAB), which welcomes LIIF’s presence in the state. MACSAB shared with us that finding affordable facilities and financing remains a challenge, especially for new schools opening in leased facilities, a type of financing LIIF’s *Project* specializes in.
- **Missouri** – We received support letters from the Missouri Charter Public School Commission (MCPSC), KIPP Kansas City and EdOps. MCPSC is an active authorizer dedicated to authorizing high quality schools in St. Louis and Kansas City. MCPSC expressed their gratitude for LIIF’s awareness of the issues facing charter schools in Missouri. KIPP Kansas City is an already operational charter school within the state, for which LIIF has previously provided support. They too have extended their endorsement of our project. Additionally, we have received a letter of support from EdOps, a national back-office service provider to charter schools. They deliver specialized assistance in finance, student data management, and operational support to charter institutions across the country.

3 - Cost-Effective Access to Financing

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.

LIIF has chosen to forego the [redacted] administration fee allowed under the Fund in order to maximize the benefit that is passed directly to charter schools. All expenses will be borne directly by LIIF and therefore are not included in the program budget.

Fees and lending terms are cost effective and reasonable. The grant will be utilized to credit enhance loans. Schools receiving credit enhancement will pay the following fees:

- **Interest rates** – Interest rates will be fixed, providing schools with predictable debt service requirements. Pricing will be at or below the market rate for similar, unenhanced financing at the time of origination.
- **Origination fees** – LIIF charges a standard [redacted] origination fee that is typically capitalized into the loan amount so that a school does not have to pay up front.
- **Third-party fees** – Schools will incur a reasonable portion of third-party fees incurred by LIIF such as legal fees. However, LIIF will utilize our standard loan and guarantee documents to reduce legal costs and increase efficiency for all parties.

LIIF will provide its comprehensive facility capacity building program at no cost to charter schools. LIIF's pro-bono real estate financing TA is administered throughout loan underwriting and servicing and typically includes:

- TA to the schools in the form of affordability analysis and project planning. For example, LIIF's work with Miles Ahead Charter School (MACS) in Georgia began in Fall of 2020. LIIF helped the school understand the financing process, affordability concepts, and provided webinars and trainings to the board members. Over a two-year period, we worked closely with MACS in a concerted and intensive manner, which ultimately led to the successful conclusion of the loan deal in May 2023.
- LIIF also provides TA by partnering with local charter support organizations like NSFA and NCAPCS. For example, with our 2017 award we partnered with the Tennessee Charter School Center (TCSC) to deliver this capacity building TA, which included one-on-one TA for charter schools, including delivery of a series of group workshops on facilities financing and a soup to nuts tool-kit on facilities financing for Tennessee charter schools who were readying for expansion.

4 - Assisting Schools with Likelihood of Success and Greatest Demonstrated Need

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.

LIIF's extensive experience in underwriting and monitoring charter school financing demonstrates its expertise in working with schools that have a high likelihood of success. Through a comprehensive analysis of academic, financial, and operational quality and capacity, LIIF possesses a deep understanding of the key factors that contribute to a successful school. This expertise is evident in LIIF's exceptional track record, with a collective write-off rate of only [redacted] on charter school lending. This consistent success includes our experience funding **start-up institutions and schools with less than three years of operating history, which represent approximately** [redacted] **LIIF's charter school loans closed in the past two years**, showcasing LIIF's ability to adapt well-established credit standards to serve new markets.

Furthermore, LIIF's *Project* is specifically designed to support early-stage and start-up schools, particularly those that have yet to undergo their first charter renewal but show great potential for success. These schools often face challenges in securing financing from traditional financial institutions due to their limited equity or lack of an established track record. As a result, they struggle to access the necessary funding for quality facilities, including leasehold improvements. LIIF recognizes the untapped potential in such schools and actively bridges the funding gap by providing essential resources and support for their growth and achievement.

For instance, LIIF offers specialized financial products such as leasehold improvement, subordinate loans with no equity requirement, and high loan-to-value (LTV) options to address the challenge of insufficient collateral and equity. These products specifically cater to the needs of start-up and early-stage schools that are often overlooked by lenders and landlords. Additionally, LIIF's credit-enhanced loan products are designed to meet schools' financing needs by offering advantageous terms, such as longer interest-only periods to accommodate enrollment ramp-up.

Moreover, LIIF provides TA and support through local partners at no additional cost. This comprehensive approach ensures that schools not only receive financial assistance but also benefit from the expertise and guidance needed to navigate the challenges of running a successful charter school. By offering a range of supportive resources, LIIF empowers early-stage and start-up schools to thrive and achieve their goals.

<u>SECTION III: CAPACITY</u>

1 - Proposed Activity & Experience

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.

Over the years, LIIF has provided [redacted] in financing to support projects that traditional investors often overlook, while achieving a comprehensive default rate of [redacted]. **Notably, LIIF has allocated [redacted] towards charter school financing, supporting 110,868 seats at 220 schools. LIIF is actively servicing 59 charter schools in our portfolio with a combined loan value of [redacted], accounting for [redacted] of our portfolio.**

In recognition of our commitment to educational initiatives, LIIF has been awarded [redacted] through the four separate Charter School Expansion Program (CEGP) awards, with three of them as a singular applicant and one as a consortium of four CDFI lenders. Additionally, LIIF is proud to be one of six members of the Charter School Financing Partnership, which received a generous [redacted] award.

With a national portfolio spanning 26 states, LIIF is headquartered in San Francisco with regional offices in New York, Los Angeles, the District of Columbia, and Atlanta, strategically positioning us to have on-the-ground presence and facilitate the implementation of *The Project*. *The Project's* core offerings will be an expansion of LIIF's full range of loan products to support facilities development – predevelopment, acquisition, construction, mini-perm, fully amortizing permanent loans, and leasehold financing.

Thought Leader and Innovator: LIIF is widely recognized as a thought leader and innovator in the charter school sector. We participate in the Charter School Lenders Coalition (CLSC), a national alliance of community development practitioners actively advocating for increased funding to support charter school development. LIIF is also a member of the Charter School Racial Equity Collaborative, an alliance of eight CDFIs committed to promoting equity in charter school financing. In our role within the collaborative, we played a key role in the development of LIIF's Education Impact Tool (EIT). This resource provides a comprehensive framework for evaluating and promoting racial equity within the charter school sector.

LIIF's reputation as an industry thought leader is further demonstrated by the opportunities we are given to share our insights on facility financing at various forums. We have had the privilege of speaking at the Department of Education Project Director's Convening in 2023 as well as at charter school conferences hosted by other notable charter support organizations, including the Georgia Charter Schools Association (GCSA) and the Tennessee Charter School Center (TCSC). These engagements provide valuable opportunities for LIIF to contribute to the ongoing discourse surrounding charter school development and financing.

Raising Capital & Leverage: LIIF's strong track record in utilizing CEGP funds to support high-risk charter school projects is exemplified in Table 5 below. LIIF consistently delivers impactful results, fostering the growth and success of charter schools nationwide.

Table 10: LIIF's Charter School Financing Track Record

First Charter School Loan	Schools Financed	Total Seats Supported	Schools Financed Using CEGP Funds	Cumulative CEGP Leverage
[redacted]				

This track record is enabled by LIIF's deep experience raising private capital to leverage CEGP awards. For example, LIIF utilized its [redacted] 2002 CEGP award to enhance loans made from its revolving loan fund (RLF) to leverage [redacted] in capital, surpassing an ambitious goal of [redacted] in private capital—a 32:1 leverage ratio. We raised capital from investors, two of them new to charter school lending, such as Prudential, Wells Fargo Bank, and Merrill Lynch, all of whom still support LIIF. With the 2007 award, LIIF created two lines of credit for a west coast CMO [redacted] respectively) with United Methodist Church General Board of Pensions, and many others, demonstrating our ability to raise private capital and significantly leverage award dollars.

LIIF has also worked to collect and disseminate data about charter schools lending in order to creatively stimulate private investment into the charter school sector. **For example, LIIF and two other CDFI partners spearheaded an industry-wide survey to examine charter school loan performance on a national basis over the last 10 years—reflecting [redacted] in charter school loans.** This report was widely distributed, with an emphasis on prospective capital providers. The low rate of delinquencies and defaults provided solid underwriting data, which potential lenders could rely on when entering the sector.

2 - Financial Stability

The applicant's financial stability.

LIIF is among the most financially strong CDFIs in the country. With [redacted] in assets under management and [redacted] in balance sheet assets, LIIF is a financially stable, high performing CDFI (FYE2022). After 39 years of investing [redacted] in highly distressed communities, our superior underwriting and ongoing loan management has resulted in loan losses equal to a mere [redacted] of total disbursed capital. This track record compares favorably with industry averages for LIIF's peer group CDFIs and the banking industry.

LIIF remains one of a small cadre of CDFIs that has consistently received an investment grade credit rating from Standard & Poors (S&P) and the highest possible rating for financial strength from Aeris™, a comprehensive, third-party ratings system for CDFIs widely recognized by the investor community. These ratings are based on a rigorous, independent assessment of LIIF's financial condition and performance, as well as the quality of lending assets, controls, and caliber of Board leadership.

Table 11. Snapshot – LIIF Financial Health FYE 2022					
Total Assets Under Management	Net Assets/Total Assets (Net Assets Ratio)	Loan-loss reserves/ Total Loans Outstanding	Current Assets/Current Liabilities (Current Ratio)	Historic Net Loss Ratio (all loans)	Delinquency >90 days & Non-Accruals/ Loans Outstanding
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

LIIF maintains strong internal controls driven by its operating policies. We have extensive documentation supporting lending policies, credit review, accounting and financial procedures, compliance review, human resources, information technology, risk management, and others. These policies are reviewed and updated on an ongoing basis, and key policies are approved by our Board. We undertake regular reviews of our internal controls through independent audits and reviews, and progress is monitored quarterly by the Board Audit Committee. We maintain accounts and records consistent with GAAP and produce internal unaudited financial statements monthly. Independent public accountants audit LIIF's annual financial statements, which are published generally within 120 days from the close of the June 30 fiscal year.

Financial Statements and IRS Form 990: See A-9 for Audited Financial Statements for the past 3 years. See A-10 for a copy of LIIF's most recent 990 Form.

3 - Risk Mitigation

The ability of the applicant to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management.

The strongest testament to LIIF's ability to manage against unwarranted risk is its loss record and portfolio quality. LIIF has suffered capital losses of [redacted] of disbursed capital, with only [redacted] in the education sector. Our disciplined approach to lending and portfolio management keeps the portfolio's delinquency rate consistently low—currently there are no late payment and non-accrual loans 90 days past due within our on and off balance sheet portfolio at FYE 2022.

LIIF has strong policies and procedures, protecting it from unwarranted risks in loans to all borrowers and governing its loan underwriting, servicing, and monitoring activities. Lending policies and procedures are approved by the Board and regularly reviewed to ensure LIIF's continued responsiveness to the ever-changing needs of its borrowers and markets.

Underwriting Standards for Charter Schools: LIIF has developed a unique expertise in understanding and responding to the needs of charter schools, which often present unusual or unconventional characteristics such as limited borrowing history, uneven revenue streams, and heavy dependence on public revenues or subsidies. This expertise utilizes the same technical skills, rigor, and discipline as conventional lending institutions; however, LIIF's underwriting is distinguished by an ability to understand and appropriately manage risk, flexibility to structure loans to meet individual borrower needs, and additional time and TA given to each borrower. For example, LIIF will lend against revenue streams, such as future fundraising, that would not be acceptable to private sector financial institutions. We underwrite loans outside of conventional standards, including higher LTVs and more flexible repayment structures.

Moreover, we invest considerable time with borrowers, providing TA on basic elements of finance, appraisals, budgets, *pro formas*, feasibility analysis, and financial structuring. While this time-intensive work increases each loan's transaction costs, it enables critical projects to go forward and improves the likelihood of loan repayment, resulting in the historically strong performance of LIIF's portfolio. LIIF will apply similar standards to future CEGP awards and loans to charter school projects.

Lending Limits and Reserve Policies: Consistent with LIIF's overall financial management strategy, we follow a number of risk mitigation strategies. From a lending perspective, we have Board-approved limitations on both individual loan size modified as our portfolio changes (capped at [redacted]) and borrower concentration (capped at [redacted]). We also have a conservative loan loss reserve policy, reviewed and updated annually, which stipulates general and specific reserve levels depending on the type of loan, borrower profile, etc.

Risk Rating Methodology and Review: At the time of origination, all loans must meet LIIF's standards for a "Pass" risk rating, which requires a loan loss reserve range of [redacted] (for our Equity with a Twist transactions), depending on the loan type and credit strength, as underwritten. Loans and risk ratings are reviewed on a quarterly, semi-annually, or annual basis. Review frequency and level depends on such factors as phase of development being financed or risks specific to the transaction. After each review, LIIF's Chief Credit Officer approves risk rating classifications and loan loss reserve percentages. LIIF's internal policies classify delinquent loans as those for which any payment of principal and/or interest is 30 days or more past due. Any loan 90 days or more past due is classified as Non-Accrual. LIIF may also classify current loans as Non-Accrual if it believes there is a reasonable likelihood of principal loss on the loan.

Portfolio Monitoring: LIIF's loan monitoring efforts include regular communication with charter schools about their project and financial conditions, site visits, and monitoring of industry developments (e.g., changes in authorizer standards or state or federal funding). Staff also regularly assesses risks related to repayment to ensure that any repayment difficulties or operational weaknesses are detected early and remedied before a loan becomes delinquent or in default. Loan monitoring activities also include managing and approving loan disbursements according to detailed requirements and funding conditions.

Debt Restructuring, Collections and Write-Offs: LIIF's policies for debt restructuring, collections and write-offs have been vetted by leading financial institutions. We balance the objectives of full repayment recovery and avoidance of losses with support for borrowers. As a primary goal is to assist charter operators in providing quality educational opportunities for underserved children, we will work with a school's efforts to cure defaults in a reasonable and timely manner before moving to call a loan or proceed to foreclosure. LIIF places a loan in default when the borrower fails to make required payments or adhere to loan covenants. Working with legal counsel, if necessary, we have procedures for performing loan work-out functions and pursuing remedies to collect on the loan or collateral. When a portion or all of a loan is deemed uncollectible, that portion will be written off.

4 - Education Expertise

The applicant's expertise in education to evaluate the likelihood of success of a charter school.

LIIF's track record in financing charter schools with a high likelihood of success is truly impressive, having provided [redacted] in the sector with a loss rate of only [redacted].

When underwriting charter schools, LIIF goes beyond financial considerations and delves into the educational quality of the institution, including its likelihood to drive equitable outcomes for students of all racial backgrounds. Our standard underwriting thoroughly assesses crucial factors such as curriculum effectiveness, organizational structure, the strength of the Board, and other pertinent evaluative markers. We use our Education Impact Tool (EIT) to assess parent engagement, social-emotional support, race-inclusive criteria, honors & AP enrollment, as well as school discipline, and other factors that influence a school's likelihood of creating inclusive and fair learning environments for students of color. LIIF's comprehensive approach to underwriting charter schools, with a focus on educational quality and partnerships with industry experts, solidifies our commitment to supporting successful and impactful charter school projects.

5 – Preventing Conflicts of Interest

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.

LIIF maintains rigorous standards for code of conduct and conflicts of interest and a Conflict of Interest Policy along with guidance on the scenarios that qualify as conflicts (See A-7).

These policies require the disclosure of direct and indirect financial or other interests, mandate disinterested decision-making and indicate corrective actions to be taken in the event of violation.

6 – Resources Contributed by Grant Participants

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.

To ensure the successful execution of *The Project*, LIIF will leverage the expertise and collaboration of various key stakeholders, including consultants, strong authorizers, and charter support organizations. A notable example of this collaboration can be seen in our work in Alabama, where we will closely partner with New Schools for Alabama, a reputable harbormaster, to identify potential opportunities and provide invaluable on-the-ground TA. We are proud to have received a support letter from New Schools, further highlighting the strength of our partnership.

Through these strategic collaborations, LIIF strengthens its assessment process and enhances its ability to make informed investment decisions across our national portfolio. By tapping into the specialized knowledge and resources of these stakeholders, we can effectively identify and support projects that align with our mission of empowering underserved communities and promoting successful charter school development.

8 - Performance Under Prior Grants

For previous grantees under the charter school facilities programs, their performance in implementing these grants.

See A-14 for all four of LIIF's 2022 annual performance reports on its 2002 [redacted] grant, 2007 [redacted] grant, 2016 [redacted] grant (consortium of four CDFIs with LIIF as lead grantee), and 2017 [redacted] grant. As reflected in the attached report, as of the end of the 2022 reporting period, LIIF had deployed the grant funds to directly enhance 80 loans supporting 75 charter schools and 24,819 seats; 49 of the loans have successfully repaid, with only one loss experienced to date. As envisioned, credit protection provided by the grant enabled LIIF to bring in and expand private sector investment in the charter school field. While we originally projected that the grants would enable us to leverage approximately [redacted] in total capital by the end of 2022, we more than doubled this target, with nearly [redacted] leveraged. As of the most recent reporting period LIIF has fully utilized the grants funds for the 2002 and 2007 awards and is actively deploying the 2016 and 2017 awards.

SECTION IV: QUALITY OF PROJECT PERSONNEL

1 – Staffing Plan and Team Qualifications

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. The staffing plan for the grant project.

The Project will be led and executed by a select group of highly qualified LIIF staff, each of whom will bring unique expertise in the charter school sector, The LIIF team will be supported by Jim Ford at Ford Research and Solutions, Inc., who has more than 20 years of charter school sector direct lending, underwriting, and facilities financing advisory experience. All members of the team that will implement *The Project* are already managing LIIF's 2002, 2007, 2016 and 2017 CEGP grants. A full organizational chart is included in A-16 and resumes are included in A-5.

Project Strategy and Capital Raising: LIIF's President, Kimberly Latimer-Nelligan will provide senior direction for the design, implementation and management of *The Project* and direct capital raising to achieve the projected 10:1 leverage. Latimer-Nelligan brings in depth experience and expertise. She has overseen the deployment of [redacted] to charter schools; led capital raising efforts that have resulted in more than [redacted] raised in her 15 year tenure at LIIF; led the creation of "The Charter School Loan Study," an industry-wide survey on sector loan performance; is on the Board of the Charter School Financing Partnership; and previously chaired the Charter School Lenders Coalition. Before joining LIIF, she was with Citibank for over 20 years, where she oversaw a [redacted] community development business, within Citi Community Capital. She led the launch of its Charter School Lending Program.

Outreach, Underwriting, Deployment & Portfolio Management: Amir Ali, Director, National Community Facilities Lending, will be the **project manager for *The Project* and will oversee all outreach, origination and deployment activities.** Having overseen the deployment of [redacted] in capital to high performing schools over the past 7 years, Ali holds relationships with all the organizations that have provided letters of support for *The Project*. Ali brings over a decade of experience in real estate lending, with a specific focus on charter schools. He is a Chartered Financial Analyst (CFA) and holds a Bachelor of Commerce degree from McGill University.

Ali will work closely with Stephanie McFadden, Chief Lending Officer and regional leads Kirsten Shaw, VP, Northeast and Mid-Atlantic Regions and LaToya Kyle, VP Southern Region for day-to-day project management for CEGP funds, including outreach and underwriting of CEGP-funded projects. McFadden operates out of LIIF's San Francisco headquarters and has 30 years of facility financing experience, including 7 years as the Managing Director of CBRE FHA Lending Group and President, CBRE HMF, Inc. Shaw operates out of LIIF's New York office and has 25 years of experience in community development finance, including 13 years at LIIF and 5 years as the VP, Real Estate Development for NYC Economic Development Corporation. Kyle manages LIIF's presence in the Southeast, operating out of LIIF's Atlanta office, and has 20 years of experience in community development finance, including 7 years as a Senior Commercial Real Estate Loan Officer for Community Housing Capital.

Susan Hyman, Chief Credit Officer, will be responsible for all credit risk and asset management functions with regard to contemplated charter school lending and will review and approve all charter school loans. Hyman brings >35 years of experience in community development real estate and charter school risk assessment, most recently with JP Morgan Chase.

Compliance: Denise Noel, LIIF's General Counsel, will have oversight for compliance with CEGP covenants and will ensure LIIF's Finance team invests CEGP Funds in accordance with allowable investments, as it has done with LIIF's existing CEGP awards. Noel previously served as General Counsel for the CDFI Fund where she was responsible for all legal matters related to the CDFI Fund's policies, programs and administration, supervising over [redacted] annually in grants, loans, bonds, guarantees, equity investments, and tax credits. She received her BS from Florida State University and a JD from the George Washington University.

Board of Directors: LIIF is led by a 14-member Board who lead some of the largest financial and nonprofit organizations. LIIF Board members are directly engaged in LIIF's programs, policies, and lending activities within each of LIIF's focus areas, including our charter school program. The following board members bring unique charter school financing expertise:

- Carol Naughton is the Chief Executive Officer of Purpose Built Communities (PBC) and joined LIIF's board in 2016. PBC is a network of 28 neighborhood-level quarterback organizations that work on revitalizing local communities through access to quality education, housing, healthcare, and childcare. Previously, Carol served as the Executive Director of the East Lake Foundation. In this role she led the development of Drew Charter School, the first public charter school in Atlanta.
- Reymundo Ocañas, LIIF's Board Chair, is the Director of Community Development Banking at PNC Bank, a key player in the charter school financing space. PNC launched its National Charter School Group in 2017, which is comprised of a team of experts that provide one-stop solutions for all types of charter school borrowers and create efficient financing solutions to assist the growth of high-performing charter schools.

Reporting: Ali will be responsible for reporting under the terms of the CEGP Agreement. He currently leads LIIF's annual performance reporting to the U.S. Department of Education reporting on [redacted] of CEGP grants.