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**Standards and Loan Eligibility Criteria  
Charter School Loan Program**

Charter schools or Charter School Management Organizations that meet more than one of the following criteria are eligible for the Raza Development Fund's Charter School Facilities Financing Program:

- A charter school or network of schools is operating in neighborhoods or communities where traditional public schools are identified as under-performing by the school district or state, or are subject to improvement, corrective action, or restructuring under No Child Left Behind.
- A charter school or CMO is serving low or low-to-medium income communities.
- A charter school or CMO is serving ethnic minority families, Latino families and/or students who are English Language Learners.
- A charter school or CMO is serving student populations a significant percentage of which are eligible for free and reduced lunch programs.

*All Applicants*

- Each charter school and its founding organization must be committed to educational excellence and accountability.
- Each charter school must have clearly stated educational and non-academic outcomes for its students and a plan to assess individual student and school progress.
- Each charter school must have a board of trustees or directors (i.e., fiduciaries) whose first and primary responsibility is the charter school.
- The legal, governance, and operational relationship between a charter school and a related organization must be transparent.
- Regardless of the legal relationship between a charter school and another organization – including the parent organization, each year's independent audit must contain statements of revenues and expenses and a balance sheet for the charter school per se.
- If there is a service, legal, operating, or governance interdependency between a charter school and a related organization, there must be an operating agreement that includes Conflict of Interest and Dispute Resolution policies that protect the public and other interests of the charter school.
- If a related organization provides management, support, social, or other services to a charter school, the types of services, the fees for the services, and the bases upon which the fees are derived must be set forth in an executed management contract or other legal document.
- If a charter school is leasing a facility from a related organization, the terms, amounts, and basis for payments must be set forth in an executed lease agreement.
- The school must have a business plan that contains growth or expansion expectations, short- and long-term financial projections, and fundraising and other strategies intended to insure organizational solvency and debt repayment.

- Loan-to-Value: Each charter school should be willing to undergo financial scrutiny, analysis and requirements consistent with accepted commercial lending practices, to include obtaining property appraisals, creating debt reserves, and providing other guarantees within a Loan-to-Value expectation of 90% or less that can be modified depending on circumstances.
- Equity Criteria: As a rule of thumb, each charter school should expect a lender requirement of up to 10% equity from non-debt resources.

### *Schools with Approved Charter In Pre Opening Status*

- Each charter school must have a market analysis and/or determination of need for the school, accompanied by a viable marketing and student recruitment plan.
- The school must have a comprehensive school implementation plan containing specific implementation tasks, deadlines and designation of responsibilities for completion of each task, and a clearly defined strategy or process specifying how progress toward fully achieving the school implementation plan will be monitored and by whom.
- The educational program, curriculum must be clearly and comprehensively articulated, to include school calendar, sample teacher and student schedules, instructional methodology, curriculum selection or development, and alignment with state or other applicable standards.
- The governance structure must be clearly defined, to include expectations of board members, skills sets sought on the part of directors and trustees, and delineation of roles and responsibilities of the board and school leadership and decisions or policies requiring board approval. Once a school has opened, voting board members should not simultaneously be employees of, or contractors to, the charter school.
- The school must identify its student information system (SIS) or software and demonstrate how data will be used for assessment purposes, to inform curriculum and the instructional program, and for overall decision making.
- By the end of its first year, each charter school must have a fully developed accountability plan.

### *Operating Charter Schools*

- The schools must be in good standing with its authorizer and in full compliance with the terms of its charter and all applicable statutes and regulations, federal, state, and local.
- The school must, to the best of its knowledge, be meeting all requirements necessary for charter renewal if the term of its charter is ten years or less.
- The school must either be: (1) meeting or exceeding academic and non-academic outcomes set forth in its charter and/or be meeting No Child Left Behind Annual Year Performance targets and/or state performance targets; or (2) implementing a School Improvement Plan and able to show demonstrable progress toward meeting AYP and/or state performance targets. The school must also be in compliance with NCLB teacher quality requirements.
- The school must undergo an external evaluation at least once every two years and make such evaluations available to RDF upon request.
- Minutes of Board meetings must be up-to-date and available for the prior two years.
- Independent audit reports with unqualified auditors opinions for the preceding fiscal year and unaudited year-to-date financial statements must be available; the organization must be financially solvent and show evidence that it will remain so.



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**RDF GENERAL UNDERWRITING GUIDELINES  
CHARTER SCHOOL LOAN PROGRAM**

1. A description / analysis of why the proposed charter school is needed. If already operating, what (particular, special or unique) needs is the school meeting, if any?
2. A history of the school's genesis, to include:
  - Why did this particular school form – community support or requests, to offer parents additional choice, to create an innovative program (such as a school with an arts and technology focus, a bilingual program, etc.)?
  - A description of the school (its overall size, class sizes, grades served, growth and expansion plans, special foci or emphasis, etc.) and a description of the school's mission, vision, and concept.
  - What was the quality of the charter application (and is the charter application and contract a blueprint for rolling out the school)?
  - Was the charter application approved on first submission or were revisions to the original application (and/or appeals) necessary? When and under what conditions?
  - The length of school charter, when was it approved and indicate and evaluate any conditions attached to approval? When and how is the school / the charter reviewed or come up for renewal? Obtain and analyze reports from reviews; report cards, annual reports, perspective of state and/or chartering authority officials, etc.
  - The school's history with CSDI & C2E2 (CD, and/or RDF).
  - The school's affiliation status with NCLR (and/or that of its founding organization).
3. Likely success of the school's Educational Program
  - What is the academic program and is it sound and likely to achieve appropriate results – in the short- and long-term?
  - Is the academic program relatively stable and/or has it been frequently revised? If the curriculum has undergone revisions or has evolved, have the changes improved the quality of the school? How many principals or CAO's has the school had? What have been faculty turnover rates?
  - Is the curriculum / educational program aligned with state standards and/or otherwise standards driven (and do assessments – those required or otherwise used by the school – evaluate and report student progress toward achieving standards)?

- If the school has (or is likely to have) a significant number of English Language Learners (ELL's), has the school identified or is it using sound educational strategies, including use of language in instruction and curriculum, to effectively serve these students?
- Is the school likely to achieve state standards (and/or the academic and non-academic goals set forth in its charter / contract) during the life of the charter?
- How is the school doing on state required standardized (or performance) tests and assessment? Have test scores been improving, staying about the same, or declining since the school opened?
- If the school is operating, does it have a plan (or is it planning) to ensure that it will be in compliance with all aspects of No Child Left Behind – the annual yearly progress (AYP) provisions, teacher qualifications, disaggregation and reporting of student performance and demographic data, etc. If the school is in development, is the planning team cognizant of NCLB requirements and incorporating those requirements into the school design / charter application / implementation plan?
- Is the school currently subject to potential state or federal intervention – i.e., state assessments with intervention mechanisms (for example, AIMS in AZ), and/or NCLB/AYP that are part of reauthorization of ESEA?
- From an educational standpoint, is the school likely to fare well in annual or other reviews and is its charter likely to be renewed? In short, is the school of sufficient academic quality or rigor to reasonably expect that it will succeed educationally and thus be in operation throughout and beyond the financing period?

#### 4. Analysis of the school's Business Plan

- Is it complete and realistic?
- The likely success of the marketing plan: is there a market for the school and is the location suited for the target market? Does the school have any competitive advantages or disadvantages that should be factored into a financing arrangement?
- What are the revenue sources – timing, amounts, predictability (hard and soft funds specifically – these will also be reflective in the cash flow)? How likely is the school to obtain each type of revenue – by source and amount?
- Have expenses to operate the school been projected realistically – and do the projected expenses quantify staff, materials, supports, etc. that are described in the charter application and critical for success? If the school is operating, have revenues and expenses been accounted for accurately and thoroughly? (If the school is tied to a related organization, are separate independently audited financial statements prepared to the school and/or are there separate statements for the school in a consolidated audit?)
- Is useful and reliable financial information routinely available to management and the governing board?
- Are fiscal management and reporting systems thought out and reasonable?
- Are growth and expansion plans, criteria, and activities clearly delineated?

## 5. Governance/Strength of Management team

- Who comprises the management team and are they prepared / qualified to take on their roles? Why?
- Identify strengths and weaknesses of the management team, including experience.
- Is there transparency or a clear division of roles and responsibilities between the governing board and daily leadership?
- Is there transparency or a clear division of roles and responsibilities between the school and a related organization? Are services or supports to be provided by a related organization spelled out clearly, to include the fee basis and timing / method of payments / transfer of funds from the charter school to a related entity? Is such an arrangement committed to a contract, MOU, or other legal document?
- Are there potential conflicts of interest in any aspects of governance, daily management or overall operations?
- Does the board know its role and responsibilities? Are board members sufficiently qualified and experienced? Does the board include parents, community representatives? Has it undergone board training? Is the board functioning well (meeting sunshine law and other requirements, documenting its actions, giving proper notice, etc.)
- Does the organization chart make sense (and is there transparency legal, financial, and operating transparency between the charter school and any other related organizations, including the school's sponsor)?

## 6. Local/State Environment Charter School Environment

- What is the political environment charter schools face – locally and at the state level? Who/what is the likely charter authorizer – and is the authorizer charter friendly?
- Description and qualitative evaluation of charter legislation – i.e., does the law promote creation of charter schools? Is funding adequate? Is accountability built into the law, etc.?
- How does the Charter School fit into the local community's or school district's determination of unmet or efforts to address educational needs?
- How is the school being implemented? Specifically, is there a project manager? Are responsibilities, activities, time-frames (deadlines) clearly defined and understood by all members of the implementing team? Is there strong community support for the school?
- What are the reporting requirements and potential pitfalls the school may face in meeting reporting and compliance requirements?
- What is the operating experience of schools currently chartered in the locality and in the state, and what conclusions can be drawn from such experience to date? Is there positive history of success of other schools and information on how they have fared in meeting legislative or bureaucratic requirements? Any experience for other operating schools successfully serving the targeted

community (or communities with similar needs or socio-economic characteristics) should be included in the analysis.



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**EDUCATION SERVICES PROVIDERS (ESP)<sup>1</sup>**  
**PERFORMANCE STANDARDS**

1. An ESP must be able to demonstrate a record of strong and consistent performance as evidenced by:
  - a. High academic achievement (i.e., consistent attainment of AYP targets and performance goals set forth in individual school and/or organizational accountability plans, disaggregated data showing that annual longitudinal *progress of all categories of* students meets or exceeds prescribed benchmarks, ESP operated schools are outperforming other public schools serving similar student populations, etc.). Academic performance data for all ESP operated schools must be readily available and comprehensive.
  - b. Organizational stability and legal, operational, and financial transparency for the entirety of the ESP (i.e., all affiliated, subsidiary, or related entities)
  - c. Organizational balance sheet / financial strength and clean *and timely* individual school and consolidated audits for the last three years of operations
  - d. A history of smooth and well planned new school start-ups generally characterized by leadership stability in first and early years of new school operations.
2. Schools that the ESP directly operates or manages via a management contract must be free of any significant legal or charter compliance issues.
3. The governing board of an ESP must be diverse, experienced, and capable of fully exercising its fiduciary responsibilities; there must be evidence (via board minutes or other records) that the governing board of an ESP monitors academic performance of schools run by the ESP and the status of partnerships established by the ESP
4. Resumes for the leadership, top management, and regional officers of the ESP must be available for examination. The organizational management team must be comprised of individuals who have the qualifications, background or training (including education), and industry knowledge necessary to steward the ESP financially, operationally, and educationally.
5. ESPs managing schools in accordance with management contracts must demonstrate a history of effective and respective relationships with partners and with authorizers and be forthcoming and transparent about the reasons why contracts (i.e., partnerships) were discontinued and/or the charters for ESP operated schools were not renewed or revoked. The management contract between an ESP and partners (i.e., independent boards) must clearly delineate the roles, responsibilities, and authority of the independent board and the ESP and

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<sup>1</sup> These standards are geared primarily to Education Management Organizations (EMOs) and Charter Management Organizations (CMOs) and are intended to differentiate between circumstances in which the EMO/CMO is a direct charter holder and those in which the EMO/CMO is providing services via a contractual relationship with an independent governing entity.

the amount or percentage of fees and/or other payments from the school(s) to the ESP. The management contract must also contain measurable performance goals for the ESP and set forth a process to evaluate ESP achievement of such goals. In the case of schools contracting with an ESP where the board is largely a creation of the ESP, boards of individual schools must evince the capability to manage the contract with the ESP, hold the ESP accountable, and serve as true fiduciaries for the school (corporation).

6. The ESP's business plan must be comprehensive and reflect a realistic and achievable growth strategy and the organizational capacity (or the plans to develop necessary capacity) to implement a growth strategy without compromising pre-existing quality. The business plan must spell out a clear and attainable strategy for developing or attracting capable school leadership, creating organizational infrastructure and back office capacity, recruiting teachers and other personnel, and providing sufficient professional development – before and after schools open. The business plan must also specify plans to raise or attract capital and other financial resources, articulate a cogent facilities acquisition strategy, and contain, at minimum, detailed five year financial projections for the *entirety* of the ESP.
7. ESP's must have an overall accountability plan; individual schools operated and/or managed by ESP's must have clearly articulated and measurable performance goals and benchmarks and individual school accountability plans.
8. Schools operated and/or managed by ESP's must be characterized by strong, well trained or experienced leadership from the inception of each school, leadership stability, high faculty, staff, and student retention rates, and schools run by the ESP must be able to show evidence of demand (i.e., in the form of waiting lists or admissions applications growing annually)

### **Key Probes / Risk Identification and Mitigation Factors**

1. Does the ESP have a regional or national focus?
2. Who are the ESP's partners and funders? What are their requirements or expectations? Which, if any, funders or partners have seats on the ESP's boards?
3. What is the ESP's growth strategy? Is the ESP under any pressure to pursue a growth strategy that may be so aggressive as to *increase* rather than mitigate debt payment and school quality assurance risks?
4. Is the ESP's organizational structure adequate to support planned growth, particularly in new markets the ESP may be entering?
5. Where does final decision-making authority rest for the ESP and for individual schools?
6. How many organizations (and types of organizations) does the ESP consist of? Are the legal and financial relationships among all entities that comprise the ESP clear, transparent, and lacking potential or likely conflict? Where potential conflict may exist, how is it negated?
7. Does the ESP have the capacity and willingness to adjust a basic school model to meet the special or unique needs of the student population that may not have been originally anticipated *and* the financial resources to incur start-up or early operating costs higher than planned to immediately address critical student needs or unforeseen start-up costs?
8. How does the ESP gather and use data? Does the ESP publicly report performance results for its schools? Is performance data comprehensive and verifiable?