



**To:** Secretary Betsy DeVos  
U.S. Department of Education

**Attn:** Allison Holte

**Re:** Secretary's Proposed Priority for Discretionary Grant Programs  
34 CFR Chapter II [Docket ID ED–2019–OPEPD–0019]

**Submitted by:** Local Initiatives Support Corporation (LISC)  
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## OVERVIEW

Local Initiatives Support Corporation (LISC) is pleased to offer comments in response to the request for information relating to the Secretary's proposed priority for discretionary grant programs in the U.S. Department of Education (ED) [Docket ID ED–2019–OPEPD–0019]. We believe that the Opportunity Zones (OZ) tax incentive has the potential to unleash tremendous amounts of patient, private capital into the underserved urban and rural communities that are the core of LISC's markets. Specifically, in the case of supporting access to high quality public education through charter school financing, we are eager to explore whether OZs will facilitate innovative school infrastructure funding in a manner that is consistent with what families, schools, and communities actually need. Until more is known about the potential of OZs to channel resources to areas facing significant economic challenges, we urge ED and other federal agencies to exercise caution in devoting disproportionate or exclusive resources to designated OZs, particularly at the expense of the approximately 75% of eligible low income communities that did not receive designation. We encourage ED to use this early phase of OZ development to incentivize the collection of data and work with other federal agencies collecting OZ data to understand the best role for charter school financing and expansion. The Department should revisit priorities for discretionary grant programs after garnering a better understanding of how the OZ sector may influence charter school development and sustainability.

## ABOUT LISC

LISC is a community development non-profit and certified community development financial institution (CDFI) with offices in 35 cities throughout the country, and a rural network encompassing 90 partner organizations serving 44 different states. In addition to promoting educational opportunity in neighborhoods across the country, our work supports a wide range of activities, including affordable housing, economic development, family income and wealth building, community safety, and community health. In 2018 alone, LISC raised and deployed approximately \$1.5 billion of capital into low-income urban and rural communities – including over \$1 billion in private equity capital through federal Low Income Housing Tax Credits and New Markets Tax Credits.

LISC has supported educational facilities improvements, construction and development through our local offices since 1997, and in 2003 created a national program to finance charter school development across the country. We also conduct research that helps inform policy changes around facilities



financing. LISC Charter School Financing (CSF) has invested \$368 million in 195 charter schools, improving educational options for over 84,000 students. CSF has received five grants totaling \$53.4 million through ED's Credit Enhancement for Charter Schools Program (CEP) to support financing for charter school facilities. This program has enabled LISC to leverage more than \$920.3 million in private sector investments, and close \$4.0 million in predevelopment recoverable grants and companion grants for charter schools.

### **CHARTER SCHOOLS AND DYNAMIC LOCAL COMMUNITIES**

Access to high quality public education sets the foundation for a healthy neighborhood and ensures that people, and not just places, prosper. In many communities, charter schools are the only high-quality education option available. Today, more than 7,000 public schools operate under charters in the United States, educating 3.2 million children. Over 1 million students are on their waiting lists nationwide because these schools are achieving positive results. Despite this growth, however, building and renovating facilities remains a major hurdle for new and existing public charter schools. At LISC, we believe that all children deserve access to a successful public school in their community. That is why we fund school construction for high-quality public charter schools that serve predominantly low-income students.

ED's Office of Innovation and Improvement Charter Schools Program (CSP) is essential to developing and maintaining high quality charter schools. CSP grant programs seek to expand the supply of quality educational settings that meet the needs of parents, students, schools and communities by taking a careful, data-driven approach to resource allocation. The grant programs not only support replication, but also disseminate information about innovations in the sector, creative financing and best practices within charter schools. For example, the Credit Enhancement for Charter Schools program provides grant funds on a competitive basis to public and nonprofit entities to develop innovative credit enhancement models that assist charter schools in leveraging capital from the private sector. To date, approximately 566 charter schools have been served through 62 grants totaling \$394 million. Grant program recipients have used those resources to enable \$4 billion in total financing. LISC has successfully used ED CEP resources to structure financing tools that meet the needs of schools and communities across a diverse set of economically challenged geographies.

Notwithstanding our success, we are still learning about what works best for schools and families in our neighborhoods. Our local communities and the economic conditions that influence them are dynamic, and a tailored approach to each project – even those that exist within the same city or county – is required.

### **RECOMMENDATIONS: PROPOSED PRIORITY TO SPURRING INVESTMENT IN QUALIFIED OPPORTUNITY ZONES**

We offer the following recommendations, rooted in two decades of practical experience, with the hope that the Department will carefully weigh the implications of using OZs to designate application priorities and preferences for its competitive programs.

1. *ED Designation - Absolute priority: Under an absolute priority, we consider only applications that meet the priority (34 CFR 75.105(c)(3)).*

LISC Recommendation: While OZs hold much promise for targeting mission driven investments to charter schools in high need areas, we urge ED not to apply an absolute priority designation for grant applications. OZs only serve 25% of low-income communities across the country. The need for high quality educational options supported by CSP grant resources exists beyond OZ boundaries, and limiting resources to OZs will further challenge schools seeking to create better educational opportunities in low-income neighborhoods outside of zones. Additionally, while OZs are comprised of contiguous census tracts, in the case of charter schools, “place” is not the only factor that must be considered when making a decision about where schools should be located. A range of issues – including but not limited to transit accessibility, proximity to residential neighborhoods and employment hubs, green space, state and local caps on the number of schools in a particular geography – must also be taken into account. This type of designation might have the unintended consequence of artificially incentivizing schools to choose a building location in an OZ based solely on the possibility of receiving additional resources. In addition to location, the needs of families and other community factors related to successful school operation should be equally weighted.

2. *ED Designation - Competitive preference priority: Under a competitive preference priority, we give competitive preference to an application by (1) awarding additional points, depending on the extent to which the application meets the priority (34 CFR 75.105(c)(2)(i)); or (2) selecting an application that meets the priority over an application of comparable merit that does not meet the priority (34 CFR 75.105(c)(2)(ii)).*

LISC Recommendation: As the OZ sector develops, we encourage the Department to revisit competitive preference priority (1) to assess whether competitive preference for charter school facility financing investments in OZs is advantageous. We also encourage ED to collect data and work with other federal agencies collecting OZ data to better understand OZ charter school financing before making any programmatic policy changes, including providing preference points. While awarding additional points to an application located in a qualified zone may be advisable in the near future, we have concerns about incentivizing school development in markets that do not have high enough per pupil funding to support the market rate returns demanded by most investors in OZs. ED will need to distinguish between schools that have received OZ capital investments vs. schools located in zones with no guarantee of OZ capital investments. OZs are in their infancy, and we have much to learn. Given the number of unknown factors, we caution against overly incentivizing development in locations where, over time, schools may not be able to financially support. LISC is working with partners in the philanthropic sector to help schools create feasibility plans for projects in OZs. We hope to be able to work across sectors to collect information about how OZ s can better align with discretionary grant programs that support charter schools.

Unlike CSP grants that directly support financing, the National Dissemination Grant program – which makes awards to support the charter school sector and disseminate best practices regarding charter schools – could be used to expand what we know about charter schools and OZs if competitive preference (1) is used to prioritize applications. Applicants seeking to study the impact of OZ / charter school models and help replicate successful findings would develop thought leadership in the evolving OZ sector. If the Department opts to apply competitive preference (1) to any CSP programs, the National Dissemination Grant Program would be a logical choice. A competitive priority providing preference for applicants studying this work could be used to study and raise awareness on OZ and charter school financing best practices.

Citing the need for investment in low-income census tracts not included in current state OZ designations and limitations of place-based consideration mentioned in our comments on absolute priority designation, we urge ED to collect additional information about the impact of OZs on charter schools before considering the application of competitive preference priority (2) to any CSP facilities financing program.

3. *ED Designation- Invitational priority: Under an invitational priority, we are particularly interested in applications that meet the priority. However, we do not give an application that meets the priority a preference over other applications (34 CFR 75.105(c)(1)).*

LISC Recommendation: LISC strongly encourages ED to issue an invitational priority for all competitive applications related to the charter school sector. While it may be premature to determine absolute or competitive designations given the evolving structure of the OZ program, now is a perfect time to incentivize data collection. An invitational priority coupled with standard oversight of charter school grant programs will yield useful information about how the charter school sector is interfacing with designated OZs and qualified OZ funds across the country. At a later date, this information could help ED to determine whether competitive priorities are warranted. We believe that schools should be encouraged to explore how to work with OZ funds, and that an invitational priority represents the safest way to effectively encourage schools and funders to seek out opportunities available to entities in Qualified OZs. This strategy also ensures that limited federal charter school resources are effectively utilized while avoiding concentrating resources in a still developing federal tax credit program.

## CONCLUSION

Thank you for the opportunity to offer our perspective on final priorities, requirements, definitions, and selection criteria for the proposed priority – Spurring Investment in Qualified Opportunity Zones. We would like to be a resource as you continue to develop ED’s OZ priorities. Please do not hesitate to contact Sara Sorbello, Vice President, LISC Education at [ssorbello@lisc.org](mailto:ssorbello@lisc.org) or Nicole Barcliff, LISC Policy Director at [nbarcliff@lisc.org](mailto:nbarcliff@lisc.org) with any questions.