TEXAS CREDIT ENHANCEMENT PROGRAM FOR CHARTER SCHOOLS

The Texas Credit Enhancement Program (TCEP) received a $10 million grant from the US Department of Education (USDOE) to establish a credit enhancement program for charter schools facilities funding. TCEP is a consortium formed with the Texas Charter Schools Association (TCSA)--the successor to the Resource Center for Charter Schools--the Texas Public Finance Authority Charter School Finance Corporation (TPFA CSFC), and the Texas Education Agency (TEA). The TPFA CSFC is a non-profit corporation created by the Board of Directors of the Texas Public Finance Authority (TPFA), pursuant to Section 53.351 of the Texas Education Code. TPFA provides administrative and staff support for the CSFC. The CSFC is the entity responsible for awarding the TCEP grants.

The TCEP will use the $10 million in Credit Enhancement for Charter School Facilities grant funds, combined with a $100,000 TEA contribution, to establish reserve funds for open enrollment charter schools that are issuing municipal bonds to finance the acquisition, construction, repair, or renovation of Texas charter school facilities. Refinancing of facilities debt may be included if it falls within federal program guidelines. The debt service reserve funds will be held in the State treasury solely to provide security for repayment of the bonds. The funds will not be provided directly to the approved charter schools for construction.

Eligibility Criteria

- Academic rating of "Academically Acceptable" or higher for two consecutive years.
- Fiscally sound as determined by a satisfactory rating under the Financial Integrity Rating System of Texas (FIRST) as adapted for charter schools.
- Other criteria set out in the application.

Timeline and Process

- Applications for the first round of grants were due September 15, 2006.
- The CSFC made first round awards, of approximately $8 million, to 14 charter schools in March 2007.
- Applications for a second round of awards were due October 15, 2007, and the CSFC made the second round awards, of $2 million, to 2 charter schools on January 4, 2008.
- A third round of applications was accepted in fall 2008 and 2 grants were awarded in an aggregate amount of $1.926 million on January 5, 2009.
- Fourth round applications were accepted in late 2009 and an award of $600,000 was made on February 19, 2010.
- Remaining and any additional accumulated interest will be awarded after another round of applications to be received in the fall of 2010.

For additional information contact: Dwight Burns, TPFA Executive Director at dwight.burns@tpfa.state.tx.us; Susan K. Durso, TPFA General Counsel at susan.durso@tpfa.state.tx.us; Mary Perry, Director, TEA Division of Charter Schools at mary.perry@tea.state.tx.us; or Teresa Elliot, Chief Operating Office at Texas Charter School Association at telliot@charterschools.org.

Texas Public Finance Authority
Charter School Credit Enhancement Fund
USAS Fund 0834
As of 02/28/10

Charter School	Issued by TPFA CSFC	Series	Par	CSFC Guarantee[1]	Date of Guaranty Close (Allocation of Reserve Amount)
Amigos Por Vida, Houston	No	2008AB	10,350,000	791,394.00	02/21/08
Arlington Classics Academy	No	2004AB	3,460,000	295,000.00	12/01/07
Burnham-Woods	Yes	2006A	8,525,000	650,613.00	07/01/07
Cedars International Academy, Austin	NA	Forfeited allocation	4,560,000	385,000.00	NA
Cosmos Foundation (Harmony Science)	Yes	2007AB	29,995,000	1,000,000.00	06/01/07
Cosmos Foundation (Harmony Science)	No	2008AB	31,055,000	1,000,000.00	05/01/08
Gateway Charter Academy, Dallas	No	2006AB	10,385,000	770,900.00	08/01/07
Island Foundation	No	2006AB	3,640,000	280,637.50	08/01/07
KIPP, Inc.	Yes	2006AB	35,415,000	1,000,000.00	09/20/06
KIPP, Inc.	No	2009AB	48,100,000	1,000,000.00	11/19/09
KIPP, Inc.	NA	Forfeited allocation	35,810,000	1,000,000.00	NA
Mainland Prepatory Academy, La Marque	NA	Forfeited allocation	5,455,000	505,500.00	NA
New Frontiers	No	Not Yet Issued	7,435,000	600,000.00	awarded 02/19/10
NYOS, Austin	No	2006AB	5,080,000	346,651.00	08/01/07
Shekinah	No	2009	9,620,000	750,000.00	01/05/10
Southwest Preparatory School, San Antonio	No	2006AB	9,470,000	681,125.00	07/01/07
St Mary's Academy, Beeville	NA	Forfeited allocation	3,905,000	264,500.00	NA
Uplift (North Hills School)	No	2005AB	15,945,000	1,000,000.00	11/01/07
Uplift (Peak Academy)	Yes	2007AB	10,380,000	719,500.00	09/06/07
Total Grant Funds Committed			288,585,000	13,040,820.50	
Forfieted allocation			(49,730,000)	(2,155,000.00)	
Adjusted Total Grant Funds Committed			238,855,000	10,885,820.50	

10,000,000.00	Federal Grant
100,000.00	TEA Transfer
1,173,817.79	Interest Earnings *
11,273,817.79	Available Fund Balance
(13,040,820.50)	CSFC Guarantees Committed
(1,767,002.71)	Unallocated Fund Balance
2,155,000.00	Forfieted allocation***
387,997.29	Adjusted Fund Balance

[1] the lesser of $1,000,000 or the Debt Service Reserve Fund Requirements for the Obligations.

*Interest posted through February 2010

**Bonds not yet issued, par and Debt Service Reserve Requirement are estimated, but the TCEP award is reserved for that entity

10/20/2006

Credit Enhancement of Charter School Facilities Program

PERFORMANCE AGREEMENT

PREAMBLE

THIS CHARTER SCHOOL CREDIT ENHANCEMENT PROGRAM PERFORMANCE AGREEMENT (the "Agreement") is entered into by The Texas Public Finance Authority, acting on behalf of the consortium of the Texas Public Finance Authority Charter School Finance Corporation, the Texas Education Agency, and the Resource Center for Charter Schools ("Grantee") in consideration of the conditional grant award of $10,000,000 from the United States Department of Education ("ED") in letters to the Grantee dated August 18, 2005, September 30, 2005 and June 12, 2006.

WHEREAS, pursuant to its submission of a grant application the Grantee has been selected by ED to receive a federal education assistance grant pursuant to the Charter School Credit Enhancement Program, Title V, Part B, Subpart 2 of the Elementary and Secondary Education Act, as amended by the No Child Left Behind Act of 2001, as such may be amended from time to time, (the "Act"); and

WHEREAS, the Grantee has proposed to use the Grant funds to pursue an application proposal originally submitted by the Grantee for the financing of Charter Schools pursuant to the Act; and

WHEREAS, the Grantee, by execution of this Agreement, hereby accepts the Grant funds for eligible uses under the terms and conditions herein;

NOW, THEREFORE, as a condition of receiving the Grant funds, the Grantee hereby agrees to the following statement of goals and conditions:

SECTION 1. SCOPE OF THE AGREEMENT AND PROJECT MODIFICATIONS

This Agreement defines the obligations of the Grantee under the Program. In particular, it sets forth the major commitments and requirements of the Grantee with respect to its Grant Project, including: (i) Performance Goals; (ii) a Grant Project Description and Budget, indicating the structure of the Grantee's program and the Grantee's expected use of Grant funds; and (iii) a Grant Project Timeline for performance achievement. This Agreement incorporates by reference other applicable laws and regulations. The Grantee's' Application is hereby incorporated in its entirety by reference. The Performance Goals, Budget and Timeline set forth herein are based upon the Grantee's Grant Project as contained in its Application. Except as subsequently modified and incorporated herein, or otherwise waived in writing by ED, all commitments contained in the Grantee's Application, including the structure of the Grant Project and the expected use of Grant funds, are and will remain fully binding on the Grantee.

Nothing in this Agreement is intended or should be construed to prevent the Grantee from revising its Grant Project as may be necessary and appropriate to serve the best interests of the Charter Schools being financed, provided that:

(a) ED is notified in writing of such revisions beforehand;
(b) Such revisions do not result in the Grantee's failure to comply with the terms and conditions of this Agreement and the Program's statutory and regulatory provisions; and
(c) ED and the Grantee mutually agree in writing to such revisions.

Project Modifications and Clarifications

(a) The Performance Goals will be as stated in Section 2
(b) The Budget will be as stated in Exhibit 1
(c) The Timeline will be as stated in Exhibit 1
(d) The Application is hereby incorporated in its entirety by reference with the following key substantive modifications:

Regardless of the criteria that Charter Schools must meet to submit an application for the program on page 5 of the Application, eligible Charter Schools must meet the "acceptable" criteria for both the state student performance accountability system and the state financial integrity system as modified for Charter Schools regardless of changes that may be made with the terminologies for the two systems. According to the newly revised language, an open-enrollment charter must have (1) earned a rating of Academically Acceptable or AEA: Academically Acceptable, Recognized or Exemplary in the state accountability system at the district level for two consecutive years, including the 2006 rating, or the most recent preceding year for which the rating is available, and (2) earned a satisfactory rating in the 2006, or the most recent preceding year for which the rating is available, School Financial Integrity Rating System of Texas (FIRST), as modified for Charter Schools. In the original grant Application on page 5, the Grantee discussed ratings of A, B, and C., however this is no longer applicable.

SECTION 2. PERFORMANCE GOALS

The Grantee agrees to achieve the Project Performance Goals, objectives and/or expected outcomes set forth below, including performance of associated activities. The Grantee hereby acknowledges and agrees that (i) its Grant Project and progress in achieving these Performance Goals will be monitored by ED and/or its agents, and (ii) failure to achieve any Performance Goal, or an associated activity, objective, or expected outcome, may result in ED exercising one of the remedies set forth in Section 3 of this Agreement, or any other remedy available to ED under law. The Grantee also acknowledges that ED may exercise forbearance to permit corrective action by the Grantee, and any such forbearance does not constitute a waiver by ED of any of its rights and remedies under law and this Agreement.

Goal # 1. Serve Communities/Schools in Need

The Grantee will focus largely on assisting Charter Schools located in geographic areas which have (1) a large proportion or number of public schools that have been identified for improvement, corrective action, or restructuring under Title I of the Elementary and Secondary Education Act of 1965, as amended by NCLB; (2) a large proportion of students perform below proficient on the Texas Assessment of Knowledge and Skills; and (3) a large proportion of the students are from low-income families.

All of the Charter Schools the Grantee serves will be rated as at least Academically Acceptable according to Texas Education Agency 2005 data or the most recent preceding year for which data are available. About 70% of the Charter Schools served will be in geographic areas where a majority of students are economically disadvantaged.

Economically disadvantaged students are:

- students eligible for free meals under the National School Lunch and Child Nutrition Program;
- students eligible for reduced price meals under the National School Lunch and Child Nutrition Program; and
- "Other Economically Disadvantaged" students, which includes: (A) students from a family with an annual income at or below the official poverty line; (B) students eligible for Temporary Assistance to Needy Families (TANF) or other public assistance; (C) students that received a Pell Grant or comparable state program of need-based financial assistance; (D) students eligible for programs assisted under Title II of the Job Training Partnership Act (JTPA); or (E) students eligible for benefits under the Food Stamp Act of 1977.

Goal # 2. Implement Grant Project in Timely Fashion

The Grant will serve 13 Charter Schools with $119 million in financing over two and one-half to three years.

The Grantee will recycle Grant funds for other Charter Schools once the Bonds have matured and the Charter Schools that were initially awarded the debt service guarantee funds pay off their debt.

The Grantee will adhere to the Timeline contained in Exhibit 1 to the Agreement.

Goal # 3. Provide Financing on More Favorable Terms

The Grantee will use its Grant to establish a fund to guarantee revenue Bonds issued to provide financing for the acquisition, construction, repair, or renovation of Texas Charter School facilities. The revenue Bonds will be issued as individual transactions, for each eligible Charter School. Each school's Bonds will be structured with financing terms, maturities, and interest rates based on the individual school's financing needs and circumstances, including the school's credit quality. The term of the Bonds could be as long as 30-35 years, and the interest rates on the Bonds would be determined by market rates, the school's credit quality, and the support of the credit enhancement at the time the Bonds are sold. Based on tax-exempt market rates as of July 2006, the interest rates for a 30-year term, would be expected to be around 5.5%-6%. The Grantee will serve as a true "conduit" issuer. That is, it will not negotiate the terms of the Bonds for the Charter Schools; the Charter Schools will be required to select its underwriters and financial advisors and negotiate the terms of the Bonds with and through those professionals.

The Grantee will contribute $100,000 from its own funds to help establish the guarantee fund for issuing revenue Bonds, which will typically be tax-exempt.

The Grantee may charge a conduit issuer fee of as much as $5,000 per financing.

The State will offer Bond financing to Charter Schools that are otherwise unable to access funds. Additionally, Charter Schools that might have access to Bonds will benefit, through the use of this grant, because the guarantee will serve as the debt service reserve fund. Charter Schools that already have financing will be able to lower their cost of borrowing by using this program to refinance debt with the benefit of Bonds and a reserve fund provided by the grant.

The Grantee will charge no administrative costs to the Grant, consistent with the Budget.

The Grantee will provide technical assistance to Charter Schools regarding issuance of the Bonds, including rates and terms.

The Grantee will charge no other fees associated with credit enhancement or Bonds provided through the Grant.

Goal # 4. Expand Supply of Lendable Funds

The Grantee will leverage funds at a rate of 11.8:1 through the initial financing guaranteed.

The Grantee will leverage $119 million in financing.

Goal # 5. Marketing and Replicability

The Grantee will publicize its activities in conferences, through the press, and the Internet so that other governmental Bond issuers in other States might replicate its model.

SECTION 3. DEFAULTS AND REMEDIES

Under this Agreement, the Grantee acknowledges that it is committing itself to achieve the Performance Goals and other commitments contained herein. A material failure to meet these commitments, or a failure to demonstrate Substantial Progress, in each instance as determined by ED in its sole discretion, constitutes a Default by the Grantee. Unless the Default is cured within 90 days of notification by ED or waived in writing by ED, ED may exercise any rights and remedies available under law and this Agreement. These include, but are not limited to exercise of the authority of the Secretary, in accordance with Chapter 37 of title 31, United States Code and other applicable law, including Sections 451, 452 and 458 of the General Education Provisions Act (20 U.S.C. 1234 et seq.), to collect all of the funds in the Grant Reserve Account (including any earnings thereon) if the Secretary determines that the Grantee has permanently ceased to use all or a portion of the Grant Reserve Account funds to accomplish the Program purposes set forth in the Act and in this Agreement, or if the Secretary determines that the Grantee has failed to make Substantial Progress; provided, however, the Secretary shall not exercise its power to collect funds in the Grant Reserve Account that are being properly used in accordance with the Act. It is understood, however, that any grant funds that have already been allocated to guarantee Bonds at the time a Default is declared must be retained in the Grantee's reserve fund, as such funds will have been specifically pledged for the benefit of the Bondholders for the entire term of the Bonded indebtedness.

No right or remedy provided in this Agreement or otherwise available to ED under this Agreement will be exclusive of any other remedy available under law.

SECTION 4. ASSURANCES

A. The Grantee hereby certifies and represents that it has all requisite power and authority to execute this Agreement.

B. The Grantee also certifies and represents that it will:

(a) Comply with the terms of the Grant and all applicable federal and state laws and regulations, including laws and regulations applicable to the Program, 20 U.S.C. 7223-7223j, the applicable provisions of EDGAR (34 CFR Parts 74, 75, 77, 79, 80, 82, 84, 85, 86, 97, 98 and 99).

(b) Comply with all of the assurances and certifications that it submitted with its Application, including OMB Standard Form 424B (Assurances for Non-Construction Programs), the certifications in ED Forms 80-0013 and 80-0014 regarding lobbying, debarment/suspension/responsibility status, and a drug-free workplace; and the Certification Regarding Lobbying, Form LLL.

(c) Exercise the level of care required of a fiduciary charged with the duty of investing the money of others when it invests moneys in the Grant Reserve Account. It may invest these funds only in Permitted Investments. The Grantee will invest in ways designed to protect the principal from undue market and credit risk.

(d) Not commingle Grant Reserve Account funds with other funds under control of the Grantee, even if such other funds are used for similar purposes.

(e) Ensure that all costs incurred using Grant Reserve Account funds (as well as anticipated earnings on those funds) are reasonable. The burden of proof is upon the

Grantee, as a fiduciary under its agreements with the Secretary, to establish that costs are reasonable.

(f) Not use Grant Reserve Account funds or earnings thereon for contributions, loans, grants or donations to others, regardless of the recipient or purpose, unless pursuant to other provisions of this Agreement or written authorization of the Secretary.

(g) Clearly indicate with each financial obligation it undertakes pursuant to this Program that neither the full faith and credit nor any implied guarantee of the United States apply to any transactions of the Grantee, or of any other party, with respect to the Grant Project.

(h) Maintain and enforce written standards of conduct governing the performance of its employees, officers, directors, trustees, and agents engaged in the selection, award, and administration of contracts or agreements related to the Grant. The standards of conduct must, at a minimum, require disclosure of financial or other interests and must mandate disinterested decision-making. The standards must provide for appropriate disciplinary actions to be applied for violations of the standards by employees, officers, directors, trustees, or agents of the Grantee. The Grantee will provide written copies of any standards or amendments that differ from those provided with the Application.

(i) Set prudent underwriting standards and apply them in its Grant Project.

(j) Immediately notify ED of any Default, debarment or suspension of participation in government contracts, litigation relating to the Grant Project or this Agreement, or any other adverse event (such as those described in paragraphs K or L) materially affecting the Grant Project or this Agreement.

(k) Ensure that the Charter Schools served have or will have title or other interest in the facilities provided through this program, including right of access, before the grant reserve is allocated. If a Charter School ceases to operate at a site or fails to operate in accordance with the criteria in paragraph L, then the Grantee will have up to 12 months from the date when the Charter School ceases operation or does not comply with paragraph L to be able to make a claim against the reserve account. After that date, it must cease credit enhancing the facility.

(l) Serve only those facilities that are predominantly used for Charter School purposes when taking into account the combination of (1) the portion of the space that is used for other purposes and (2) the amount of time it is used for other purposes. In the event that the entire Charter School facility is rented for another purpose, it may not be rented for this other purpose for more time than it is used as a Charter School. In the event that part of the Charter School facility is rented for another purpose all of the time, the space that is rented must be less than one-half of the value of the space receiving services under the grant.

(m) Ensure that it only refinances or reinsures debt in those instances when doing so is in compliance with Sections 5224 and 5225 of the Act. The Grantee will only refinance or reinsure debt if (1) doing so helps acquire real property or construct a facility for the purposes of a Charter School; (2) the Grantee has previously served the Charter School, the refinancing helps provide the Charter School with better rates or terms on its financing, and the amount of reserve account funds used to credit enhance the refinancing is not greater than the amount used to guarantee the earlier refinancing; or (3) a Bond is being issued.

(n) Deposit any earnings from the reserve account back in that account and ensure that the deposited earnings are used for the reserve account costs, and not administrative costs.

(o) Ensure reserve account funds will not be used to guarantee and insure leases of personal property, except for when reserve account funds are used in an effort to help a Charter School acquire or build a school facility (as described under section 5224 of the Act) and a lease of personal property, such as computers, is included as a minor part of the facility package.

(p) The grant period will run from the start date indicated on the grant award document until the Federal funds and earnings on those funds have been expended for the grant purposes or until financing facilitated by the grant has been retired, whichever is later. A Grantee may only extend its use of funds in a way that would exceed the goals and objectives addressed in this agreement, if it enters into a new or modified mutually acceptable performance agreement with the Department.

SECTION 5. REPORTING AND AUDIT PROCEDURES

The Grantee agrees to submit to ED performance reports in such form, with such information, and at such time as the Secretary may require, and audited financial statements for each fiscal year that the Grantee's obligation to ED remains in effect. The Grantee will promptly return to ED any Grant Reserve Account funds and earnings thereon that the Grantee permanently ceases to use for approved Grant Project purposes. The Grantee agrees to cooperate with and assist ED in performing any financial, performance or compliance audits of the Grant Project, as ED may determine to be necessary.

SECTION 6. PROJECT TIMELINE AND BUDGET

The Grantee agrees to adhere to the Timeline and the Budget contained in Exhibit 1 of this Agreement. The Grantee acknowledges and agrees that it is responsible for:

(a) Achieving its Performance Goals within the dates set forth in the Timeline;

(b) Adhering to the Budget; and

(c) Providing written notice to ED if it cannot adhere to the Timeline or Budget and requesting a modification to this Agreement to revise the Timeline and/or Budget as may be necessary or appropriate. The Grantee acknowledges that ED has sole discretion to determine whether or not to agree to such modification.

SECTION 7: NO THIRD PARTY RIGHTS; INDEMNIFICATION

The Grantee agrees that this Agreement creates no third party rights against the United States or ED, and the Grantee agrees to indemnify and hold ED harmless from any claims, including any lawsuit arising in law or equity, solely by reason of this Agreement or the Grant, and that no third party creditor or creditors of the Grantee will have any rights under this Agreement with respect to ED or any other department, agency or instrumentality of the United States.

SECTION 8. EFFECTIVENESS; AMENDMENTS AND WAIVERS; GOVERNING LAW; SEVERABILITY

This Agreement will be effective and binding on the Grantee as of the date it is executed by the Grantee.

The Grantee acknowledges that no amendment, modification, termination or waiver of any provision of this Agreement will be effective without the written consent of ED and the Grantee, and no delay or omission by ED to exercise any right or remedy provided hereunder upon a Default will impair or constitute a waiver by ED of any such right or remedy with respect to any such Default.

This Agreement will be governed by and construed under Federal law and, to the extent applicable and not inconsistent therewith, the laws of the state in which the Grantee resides and in which the grantee provides support for Charter School funding under the terms of this Agreement.

In the event that any provision in or obligation under this Agreement will be deemed to be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, will not in any way be affected or impaired thereby.

Printed Name and Title of authorized representative of the Grantee:	
Kimberly K. Edwards, Executive Director, Texas Public Finance Authority	
Signature: Kimberly K Edwards	Date: 10/25/06

EXHIBIT 1:

GRANT PROJECT DESCRIPTION, BUDGET, TIMELINE and PRO-FORMA CASH FLOW PROJECTION

The Texas Public Finance Authority Charter School Finance Corporation (TPFA CSFC), acting by and through the Texas Public Finance Authority (TPFA), has entered into a consortium agreement with the Texas Education Agency (TEA) and the Resource Center for Charter Schools to operate the Texas Credit Enhancement Program (TCEP). The TCEP will establish a debt service reserve fund for Bond issuance on behalf of eligible Texas Charter Schools.

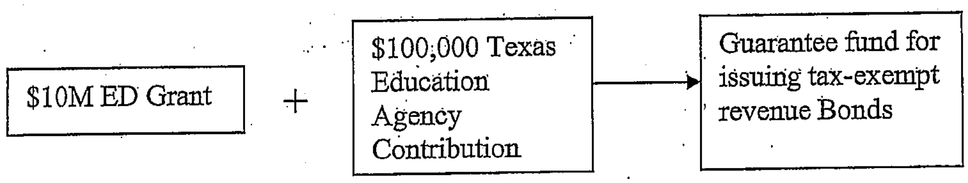
TPFA will use its $10,000,000 Credit Enhancement for Charter School Facilities Grant funds combined with a $100,000 Texas Education Agency contribution to establish a guarantee fund for issuing tax-exempt revenue Bonds to provide financing for the acquisition, construction, repair, or renovation of Texas Charter School facilities, including refinancing of facilities debt within federal program guidelines. The $10,000,000 in Grant funds will leverage a ratio of 11.8:1.

TPFA's projection for the next five years includes Bond transactions for thirteen schools. These Bond transactions will assist a current population of about 9,000 Charter School students and produce approximately 1,350 additional charter seats, based on a conservative assumption of at least 15% growth in the population of the beneficiary Charter Schools, and additional seats in later years as funds revolve. The ED credit enhancement reserve account will leverage 11.8 dollars of private debt for every one dollar of public enhancement.

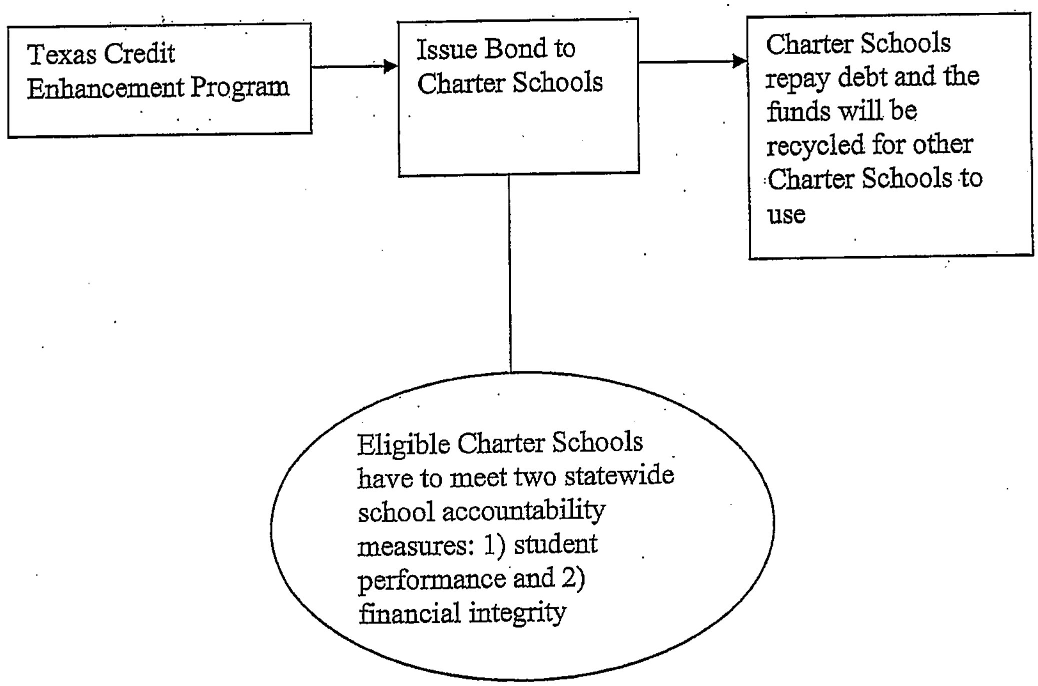
The proposed TCEP will help many Texas state-approved Charter Schools access facilities funding at lower cost than they would otherwise be able to secure. It will also help Charter Schools that may not be able to secure facilities financing from private sources on their own.

A schematic flow chart of the Grant Project, along with the Budget, the Timeline and a Cash Flow Projection for the Project are shown below.

Texas Public Finance Authority



How the Texas Credit Enhancement Program Works:



I. Budget Form: Grant Funds Expenditures

Budget categories	Project year 1	Project year 2	Project year 3	Project year 4	Project year 5	Remaining years (years 6 to 20)	Total
A. Administrative funds	$0	$0	$0	$0	$0	$0	$0
A.1. Indirect costs	$0	$0	$0	$0	$0	$0	$0
A.2. Administrative costs other than indirect costs	$0	$0	$0	$0	$0	$0	$0
A. Total administrative costs	$0	$0	$0	$0	$0	$0	$0
B. Reserve account earnings (1)	**$176,750**	**$359,686**	**$425,457**	**$402,475**	**$378,575**	**$4,971,214**	**$6,714,158**
C. Reserve account (99.75%)							
C.1. Grant funds spent on guaranteeing and insuring debt and leases [1]							
C.1.a. Personnel and fringe benefits	$0	$0	$0	$0	$0	$0	$0
C.1.b. Payments to third parties to guarantee or insure debt	$0	$0	$0	$0	$0	$0	$0
C.1.c. Other payments associated with guaranteeing and insuring debt and leases *(2)	$0	$0	$1,000,000	$1,000,000	$500,000	$7,500,000	$10,000,000
C.1. Total Guaranteeing and insuring debt and leases payments	$0	$0	$1,000,000	$1,000,000	$500,000	$500,000	$10,000,000
C.2. Grant funds spent on facilitating financing (including facilitating lending and the issuance of bonds) [2]							
C.2.a. Personnel and fringe benefits	$0	$0	$0	$0	$0	$0	$0
C.2.b. Contractual	$0	$0	$0	$0	$0	$0	$0
C.2.c. Other payments associated with facilitating financing	$0	$0	$0	$0	$0	$0	$0
C.2. Total grant funds spent on facilitating financing (including facilitating lending and the issuance of bonds)	$0	$0	$0	$0	$0	$0	$0
C.3. Total reserve account costs (lines C.1. and C.2.)	$0	$0	$1,000,000	$1,000,000	$500,000	$7,500,000	$10,000,000

(1) Interest estimated at 3.5% for six months in Year 1, 3.5% for Year 2, and 4% thereafter.)
(2) Assumes no defaults in years 1 and 2; one Bond default covered by a maximum allocation of $1million in each year 3 and 4; and one or more than one Bond default covered by half the maximum allocation ($500,000) in each year thereafter.
* Expenditures represent estimated default costs.

Planned Performance Milestones under 2005 Credit Enhancement Grant for Charter School Facilities

The following table presents a Timeline of performance milestones and their anticipated completion dates. The Performance Agreement provides that the Grantee is responsible for adhering to its Timeline and for achieving its proposed objectives and outcomes within a reasonable duration of time proposed in its Timeline.

TIMELINE

Task Timeline	Deadline
Applicant Conference Held	February - May 2006
Applications Submitted	September 15, 2006
Awards made	February - April 2007
Provide $6,150,000 in credit enhancement funds on about $98.5 million in closed financing for eight Charter Schools.	September - December 2007
Provide $2,800,000 in credit enhancement funds on about $20 million in closed financing for five Charter Schools.	September 2008
Provide $1,500,000 in credit enhancement funds on about $15 million in closed financing for three to five Charter Schools.	September 2009
Provide $2,500,000 in credit enhancement funds on about $25 million in closed financing for three to five Charter Schools.	September 2011
Provide $1,000,000 in credit enhancement funds on about $10 million in closed financing for two to three Charter Schools.	September 2013
Provide $1,000,000 in credit enhancement on $10 million in closed financing for two Charter Schools.	September 2015

Pro-Forma Cash Flow Projection

	Project Year 1	Project Year 2	Project Year 3	Project Year 4	Project Year 5	Remaining Years	Total
Beginning Cash Balance in Fund		$10,276,750	$10,636,436	$10,061,893	$9,464,368	ongoing	ongoing
Receipts							
Grant Fund	10,000,000	-	-	-	-	-	-
State Allocation	100,000	-	-	-	-	-	-
Interest Earned on Grant Funds and State Allocation (1)	176,750	359,686	425,457	402,475	378,575	ongoing	ongoing
Total Revenue	10,276,750	10,636,436	11,061,893	10.464,368	9,842,943	ongoing	ongoing
Disbursements							
Administration	-	-	-	-	-	-	-
Guaranteeing and Insuring Debt and Leases	-	-	1,000,000	1,000,000	500,000	-	-
Facilitating Financing	-	-	-	-	-	-	-
Total Disbursements	-	-	-	-	-	-	-
Ending Cash Balance in Fund	$10,276,750	$10,636,436	$10,061,893	$9,464,368	$9,342,943	ongoing	ongoing

(1) Interest estimated at 3.5% for six months in Year 1, 3.5% for Year 2, and 4% thereafter.)

EXHIBIT 2

SECTION 1. DEFINITIONS

For purposes of this Agreement, the following terms will have the following meanings:

"Act" means the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the No Child Left Behind Act of 2001, which authorizes the Program.

"Agreement" means this Performance Agreement, which includes the exhibits and which incorporates by reference all terms and conditions of the Grant to which this Agreement is appended.

"Application" means the written application seeking grant funds through the Program as initially submitted by the Grantee to ED and as it may have been subsequently revised by the Grantee and approved by ED.

"Bond" means a security that obligates an issuer to pay a specified sum of money to a Bondholder and to repay the principal amount of the debt at maturity. This debt is incurred by a Charter School, the proceeds of which fund an Eligible School Project that is eligible for credit enhancement by the Grantee under the Program.

"Budget" means the schedule and accompanying narrative setting forth estimated expenditures of grant funds by the Grantee for the Grant Project. The Budget is included in Exhibit 1 of this Agreement.

"Charter School" means a public school that meets the definition of a charter school contained in section 5210(1) of the Act (the Public Charter Schools Program authorizing statute).

"Default" means a material breach of the terms of this Agreement that is not (1) waived by ED in writing or (2) cured by the Grantee within 90 days of being notified of such breach by ED.

"ED" means the United States Department of Education.

"EDGAR" means the Education Department General Administrative Regulations (EDGAR), codified at 34 CFR parts 74, 75, 77, 79, 80, 82, 84, 85, 86, 97, 98 and 99.

"Eligible School Project" means a capital project to be undertaken by a Charter School with financing supported by the Program for:

(1) The acquisition (by purchase, lease, donation or otherwise) of an interest (including an interest held by a third party for the benefit of a Charter School) in improved or unimproved real property (including ancillary personal property) that is necessary to commence or continue the operation of the Charter School; or

(2) The construction of new facilities, or the renovation, repair or alteration of existing facilities, plus ancillary personal property that may be necessary to commence or continue the operation of the Charter School.

"Grant" means the $10,000,000 of grant funds awarded by ED to the Grantee under the Program, subject to this Agreement and the conditions contained in a letter dated August 18, 2005, and relevant provisions of EDGAR and OMB Circular A-122.

"Grant Project" means the activities committed to be undertaken by the Grantee, including use of the grant funds, as described in the Application and pursuant to the Grant. The Grant Project is generally described in summary form in Exhibit 1 to this Agreement.

"Grant Reserve Account" means a separate account held by the Grantee into which ED transfers the Grant, which will be used by the Grantee to provide credit enhancement to the lenders who provide loans to the Grantee's Charter School Loan Fund.

"Grantee" means the consortium of the Texas Public Finance Authority Charter School Finance Corporation, acting by and through the Texas Public Finance Authority, the Texas Education Agency, and the Resource Center for Charter Schools.

"Loan Fund" means the Texas Credit Enhancement Program established by the Grantee and secured in part by the Grant Reserve Account.

"Performance Goals" means the goals, objectives, outcomes and activities set forth in Section 2 of this Agreement, which the Grantee commits to achieving pursuant to this Agreement.

"Permitted Investments" means investments that are designed to protect principal. Obligations must be short enough in duration to protect principal from undue market risk, while allowing the funds to be liquidated and applied toward the four statutory purposes. Permitted investments include:

(1) Obligations issued or guaranteed by the United States Government;
(2) Obligations of agencies or instrumentalities of the United States, including government-sponsored enterprises;
(3) Obligations issued by or guaranteed by any state, provided such obligations are rated in the two highest rating categories of Moody's Investor Service, Standard and Poor's Corporation or Fitch Ratings;
(4) Commercial paper, repurchase agreements, guaranteed investment contracts or other similar instruments issued by corporations that are organized and operating within the United States having assets in excess of $500 million and having a short-term rating in the highest rating category of Moody's Investor Service, Standard and Poor's Corporation or Fitch Ratings, and a long-term rating in one of the two highest rating categories;
(5) Money market funds that invest solely in United States Government securities or obligations of agencies or instrumentalities of the United States;

(6) Money market fund deposits or certificates of deposit made in federally insured, regulated credit unions or banks, to the extent fully insured or collateralized with investments under categories (1) through (5); and

(7) Such other investment securities as the Secretary may determine are prudent investments that comply with applicable law and regulations.

"Program" means the Credit Enhancement for Charter School Facilities Program, as authorized under Title V, Part B, Subpart 2 of the Act, and any applicable regulations and guidance, as may be issued from time to time.

"Project Period" means the period beginning with the date of signing of this Agreement and ending with the date on which all of the grant funds and earnings thereon have been expended for eligible Grant Project purposes or when financing supported by the Grant Project has been retired, whichever is later.

"Secretary" means the Secretary of the United States Department of Education or an official of the Department who is authorized to act on behalf of the Secretary.

"Substantial Progress" means a determination by the Secretary that the Grantee is successfully implementing, or taking reasonable steps in a good faith effort to implement, the Grant Project. The Secretary has sole discretion to determine whether a Grantee has made or is making Substantial Progress under the Act.

"Texas Credit Enhancement Program" means the Grantee's loan program that is secured in part by the Grant Reserve Account.

"Timeline" means the schedule of anticipated accomplishments or milestones, to be achieved by the Grantee in implementing the Grant Project, as set forth in Section 4 hereof.

"Year" refers to Federal Fiscal Year. Year 1, or 2007, runs from the date the agreement is signed until September 30, 2007.