

September 8, 2020

Request for Statement of Interest:

Texas Outcomes-Based Finance Challenge



Table of Contents

SECTION 1 Executive Summary	3
SECTION 2 Background and Opportunity	3
SECTION 3 Goals, Eligibility, and Scope of Services	6
SECTION 4 Process and Timeline	7
SECTION 5 Submission Expectations and Evaluation Criteria	8
SECTION 6 Terms and Conditions	9

1. Executive Summary

Quantified Ventures, in partnership with Land/Water Associates, is launching the Texas Outcomes-Based Finance Challenge, with support from the Cynthia and George Mitchell Foundation, the Harte Charitable Foundation, and Lyda Hill Philanthropies.

Through this Challenge, we will competitively select multiple organizations in Texas to collaborate with in structuring an Environmental Impact Bond (EIB) or other outcomes-based financial vehicle to deliver nature-based and resilience-focused solutions to environmental and community challenges. If you are a representative of a city agency, county, utility, water authority, sewer authority, special district, or other local government entity, we want to work with you, and encourage you to consider submitting a proposal.

2. Background and Opportunity

Through grant funding from the Cynthia and George Mitchell Foundation, Harte Charitable Foundation, and Lyda Hill Philanthropies, and in partnership with Land/Water Associates, Quantified Ventures will select and work with multiple organizations in Texas to structure EIBs, or another form of outcomes-based financing, to deliver nature-based and resilience-focused solutions to environmental and community challenges.

Eligible projects and solutions could address objectives such as:

- Flood risk mitigation
- Water quality improvements
- Optimization of water flows to achieve ecological outcomes
- Distributed energy generation
- Energy efficiency
- Green infrastructure
- Air quality improvements
- Forest retention
- Land and habitat conservation

Quantified Ventures and Land/Water Associates will collaborate with applicants throughout the proposal development phase. We will then select the final entities to begin the financial structuring process.

Quantified Ventures is an outcomes-based capital firm that drives transformative health, social, and environmental impact. We specialize in creating outcomes-based financing for government, private, and nonprofit entities to solve some of the most intractable natural resource problems facing communities today. We pioneered Environmental Impact Bonds in 2016 in Washington, DC, introducing this outcomes-based vehicle to address [DC Water's stormwater challenges](#).

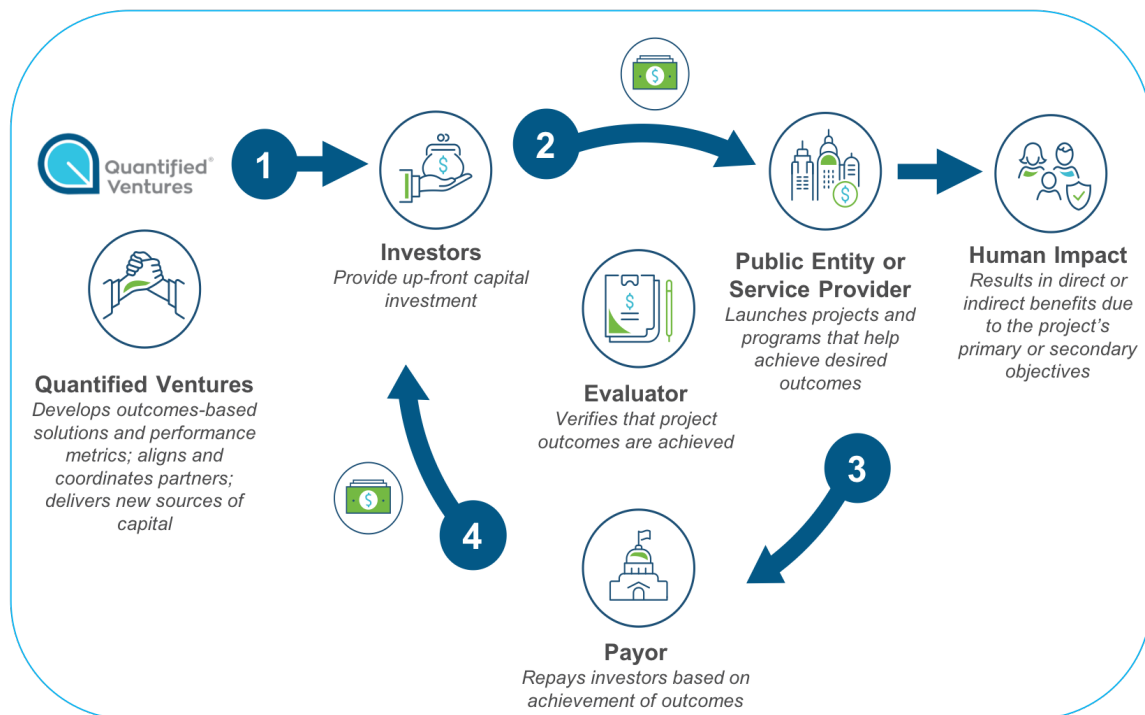
For this initiative, we are partnering with Land/Water Associates to bring additional experience and perspective related to the conservation finance opportunities and stakeholder needs in Texas.

What is Outcomes-Based Finance? What is an Environmental Impact Bond?

Outcomes-based financing links returns on investments to the achievement of measurable and independently verifiable social or environmental impacts. Private investors provide the upfront investment to deploy the solution. Following deployment and program evaluation, the institution(s) that benefits from the outcomes (i.e., payors), repay investors based on the volume and quality of outcomes produced (e.g., avoided stormwater runoff).

An EIB is one type of outcomes-based financing tool, issued as a municipal bond to provide up-front capital for innovative environmental programs – either to pilot a new approach whose performance is viewed as uncertain or to scale up solutions that have been tested on a smaller level. In an EIB, the outcomes-based payment mechanism typically comes in the form of one-time additional payments or clawbacks, or step-ups/step-downs in the coupon rate, based on validated outcomes, thus linking effective cost of borrowing to the successful achievement of desired benefits from projects.

We illustrate the general outcomes-based financing model as follows:



First Environmental Impact Bond: DC Water

In September 2016, Quantified Ventures structured the very first EIB with the Washington, DC, Water and Sewer Authority (DC Water), which financed green infrastructure in support of its stormwater management goals and EPA consent decree obligations to stem combined sewer overflows. Recognizing the potential cost-effectiveness and the environmental, economic, and health benefits of green infrastructure compared to traditional grey infrastructure, DC Water had a number of green infrastructure projects planned and ready to go. However, they lacked capital to deploy those projects and were concerned about taking on debt, given that the performance of green infrastructure in capturing stormwater in DC had not been tested.

Through the EIB, DC Water is piloting green infrastructure such as permeable pavement, green roofs, and landscaped retention facilities on 20 acres and pays interest near its rate for traditional municipal bonds. If the project underperforms – that is, the reduction in stormwater runoff is significantly less than anticipated, estimated to be a 2.5% probability – then DC Water can clawback some of the interest payments from investors. If the project significantly exceeds expectations – also estimated to be a 2.5% probability – investors will be compensated through a performance payment from DC Water equal to the amount of the potential clawback in the below performance case. Essentially, DC Water gets downside risk protection in exchange for offering the potential for higher returns.

Multi-Payor Outcomes-Based Financing: Soil and Water Outcomes Fund

Quantified Ventures, in partnership with the Iowa Soybean Association and with support from Cargill and the Walton Family Foundation, developed the **Soil and Water Outcomes Fund**, an innovative, market-based sustainable agriculture program that incentivizes farmers to implement in-field and edge-of-field best management practices (BMPs) such as cover crops, reduced tillage practices, and wetland construction.

These BMPs generate positive environmental outcomes like water quality improvement, carbon sequestration, and biodiversity, which are monetized through purchase agreements with corporations, municipalities, and states. Outcomes are independently verified by a third-party partner using the NTT and COMET-Farm models.

The Soil & Water Outcomes Fund is currently operating in Iowa and will be expanding within Iowa and into a handful of new states in 2021. The Fund aligns farmers implementing conservation practices and the corporate and governmental entities that directly benefit from these practices.

First Public Offering of Environmental Impact Bonds: Atlanta Department of Watershed Management

Building on the success of the first EIB in Washington, DC, municipal leaders in Atlanta collaborated with Quantified Ventures, with support from the Rockefeller Foundation, to structure and close the first publicly-offered EIB in January 2019. The Atlanta EIB financed six green infrastructure projects to manage stormwater, reduce local flooding, alleviate water quality impacts, increase access to green space, and create local green jobs in economically and environmentally distressed neighborhoods, and will tie effective rate to achievement of these impacts.

In the wake of the DC Water and Atlanta EIBs, interest in this innovative and effective municipal finance tool for high-impact projects has grown throughout the country. Quantified Ventures is currently working with leaders in Buffalo, NY, Baltimore, MD, Hampton, VA, Memphis, TN, and New Orleans, LA, to structure similar outcomes-based financing transactions. With each of these engagements, we continue to innovate, streamline, and mature the transaction model.

Case studies related to the DC and Atlanta EIBs, and other outcomes-based financing initiatives, are available on the [Quantified Ventures website](#).

3. Goals, Eligibility, and Scope of Services

Goals

This Challenge aims to bring new outcome-based financing approaches to Texas to address key economic, resilience, and environmental objectives. Proposals can be designed to fund one project or a bundle of projects.

Quantified Ventures and Land/Water Associates will evaluate RSI proposals and select chosen applicants. The chosen applicants will begin work with Quantified Ventures in January 2021 to structure the transactions, which are expected to close between December 2021 and March 2022. Selected organizations will work with Quantified Ventures to structure the outcomes-based financing from start to finish. Benefits include:

- **Minimized Transaction Fees:** Grant funding will cover the majority of Quantified Ventures' costs. All other typical deal-related expenses may apply, including rating agency, legal counsel, and municipal advisor fees.
- **Stakeholder Engagement Support:** EIBs and other outcomes-based financing solutions require stakeholder engagement across entities and present opportunities to engage new partners. Quantified Ventures will identify, coordinate, and align relevant stakeholders during the structuring process.
- **Deployment of Innovative Resilience Solutions:** The EIB and outcomes-based financing models allow cities to **scale nature-based and/or decentralized infrastructure and showcase innovative solutions to building the resilience of vulnerable communities.**
- **Broader Access to Capital:** Public entities can attract impact investors interested in the outcomes of projects and willing to take a risk on project performance.
- **Tailored Outcomes-Based Finance Structuring:** Coupon rates, number and coverage of performance cases, principal exposure, and payment guarantees can all be tailored to suit the context and needs of a particular city.

Eligibility

Eligible applicants include **local governments, utilities, agencies, conservancy districts, water boards, special districts, or other authorities serving in a function related to infrastructure, flooding, coastal protection, water, forestry, land management, or energy in Texas.** Applicants should be empowered to make decisions regarding project deployment and raising funds and should have support from relevant stakeholders to ensure the project can be completed.

The Challenge seeks applicants characterized by the following qualities:

- Represent organizations that have demonstrated appetite and capacity for innovation, both in taking on new approaches to solutions as well as to financing.
- Represent an entity with financing capability – borrowing and bonding authority, financial resources to repay investors according to outcome achievement.
- Have buy-in from relevant stakeholders to ensure successful financing closure and project deployment (e.g., utility/agency executive, CFO, bond counsel).
- Have identified projects in the planning stages that could be construction-ready in 2021 or early 2022.

We will give preference to projects addressing flooding, power grid resilience and clean energy, water supply and water quality, coastal protection, forest retention, and land/habitat conservation, but we encourage and will consider all proposals for a project or suite of projects that support the funders' goal of building resilience in Texas. Projects should be large enough to warrant an EIB issuance or other outcomes-based capital solution, ideally amounting to a minimum of \$5 million.

Scope of Services

The selected applicants will receive technical assistance from Quantified Ventures to design, structure and issue outcomes-based financial solutions. Technical assistance services include:

- Validate size, scope, and objectives of the project
- Develop/validate economic cost-benefit model
- Design transaction, including structure, outcome metrics, and pricing and payment triggers
- Coordinate and mediate internal and external stakeholders
- Support the development of an evaluation model and support evaluator selection
- Develop technical memoranda to enable investor due diligence
- Undertake partner and investor outreach

4. Process and Timeline

Notice of Intent to Apply

Although it is not required, applicants are encouraged to submit a Notice of Intent to Apply by October 30, 2020, in an email to texas@quantifiedventures.com. Please include the name of the applicant organization, address, contact person, and phone number. The Notice of Intent to Apply helps the Challenge organizers to plan an efficient application review and notify applicants directly if Challenge materials are updated.

Communications and Webinar

Applicants are encouraged to reach out to Quantified Ventures with questions about outcomes-based financing, EIBs, and potential projects in advance of submitting applications. For more information, please contact Todd Appel, Managing Director, at texas@quantifiedventures.com. We highly encourage interested parties to join our [informational webinar on September 24, 2020, at 10am central time](#).

The RSI and additional information is online at quantifiedventures.com/texas-challenge.

Application Deadline and Award Date

Applications are due **November 13, 2020**. Please submit your proposal to Todd Appel at texas@quantifiedventures.com.

Successful applicants will be notified on **December 14, 2020**, via email and phone.

5. Submission Expectations and Evaluation Criteria

Submission Expectations

Each application should include the following components in a Word or PDF document:

A. Executive Summary (1 page max)

B. Project Scope and Fit with Outcomes-Based Financing and/or EIB (3 pages max)

1. Context of problems in city or region to be addressed through this project
2. Proposed project or projects that will be funded through the EIB or other outcomes-based financing, including current status of planning or development of projects as of the time of application
3. How this project fits within broader infrastructure resilience and/or related plans in the city or region
4. Project timeline, including feasibility of commencing implementation of these projects in the eligible timeframe
5. Estimate on size of Environmental Impact Bond or outcomes-based financing transaction (\$ amount)

C. Organizational Capabilities (1 page max)

1. Financial resources and ability to issue bond or similar financing, including track record of issuance-closings and credit rating
2. Plan for staff hours allocation and designation of project leadership
3. Existing relationships with local stakeholders required for successful project implementation, including specific points of contact and current status of discussions and plan development (letters of support from stakeholders may be provided in the Appendix)
4. Proposed decision-making process and engagement plan for working with necessary stakeholders to issue EIB, including parties required to approve the deal

D. Impact (2 pages max)

1. Description of the communities served or impacted by the proposed project(s)
2. Evaluation of benefits to these communities (e.g., environmental, economic, health, equity, social justice) of implementing these projects
3. Description of interest in the EIB or similar outcomes-based financing approach

E. Appendix: Applicants may include letters of support and commitment from relevant project stakeholders within and outside the public sector, as well as planning, design, legal, or other documents detailing the development status of projects to receive funding

Evaluation Criteria

Category	Percentage	Sub-Category	Points (Total = 100)
Eligibility and Compliance Screen	15%	Payor eligibility screen	Y/N
		Payor's resources to support the project	15
Project Scope and Fit	25%	Size of proposed transaction (min \$5M, can be one or multiple, bundled projects)	10
		Current status of proposed projects to be funded; technical readiness to begin implementation/deployment asap	15
Payor Capabilities	60%	Financing capability and credit rating	15
		Stakeholder buy-in and established decision-making process	15
		Expected outcomes and benefits to community (e.g., environmental, economic, health, equity, social justice); project contribution to address scale of problem and regulatory obligations	20
		Scalability of project and financing approach within this municipality or in other geographies	10
TOTALS	100%		100

6. Terms and Conditions

The selected applicants will be asked to sign a Memorandum of Understanding (MOU) prior to commencement of the project. The MOU will summarize the work plan and specify Quantified Ventures' role in managing the project and providing expertise and assistance in structuring and issuing an EIB or similar outcomes-based financing solution. The MOU also will commit the municipalities to providing a project leader, with support from other staff to provide the necessary information and decision-making. This will include engineering, legal, and financial staff as well as those with roles in city or departmental management. Services from Quantified Ventures will be covered by grants from the aforementioned funders. The selected applicants will not incur additional underwriting or structuring fees apart from typical deal expenses including but not limited to rating agency, bond counsel, municipal advisor, and paying agent, remarketing agent, and all other agent services.

This material is provided solely as a matter of possible interest. This Request for Statement of Interest ("RSI") does not represent any legal or otherwise commitment or relationship between any issuer of municipal securities and Quantified Ventures. Quantified Ventures reserves the right to reject any proposal received for any reason and is under no obligation to perform service thereunder. The information provided is not intended to be and should not be construed as "advice" under Section 15B of the Securities Exchange Act of 1934 or the municipal advisory rules of the SEC and MSRB. Quantified Ventures is not a municipal advisor, financial advisor, or agent and has no advisory, agency or fiduciary duty to any person pursuant to Section 15B of the Securities Exchange Act of 1934 or Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.