



ACES Conference – Pay For Success

DC Water's Environmental Impact Bond: Overview, lessons and the implications on PFS

December 7, 2016

Quantified Ventures is organized principally around three verticals, with a focus on matching impact capital to solutions that work



Healthcare

- 10 active transactions
- Focused on population health, social determinants of health, Medicare, Medicaid and payment reform
- 40% of current pipeline



Environment

- 5 active transactions
- Focused on green infrastructure, Ag BMPs and stormwater management
- 40% of current pipeline



Education and Workforce Development

- 2 active transactions
- Focused on ed tech, charter schools, K-12 and job placement
- 20% of current pipeline

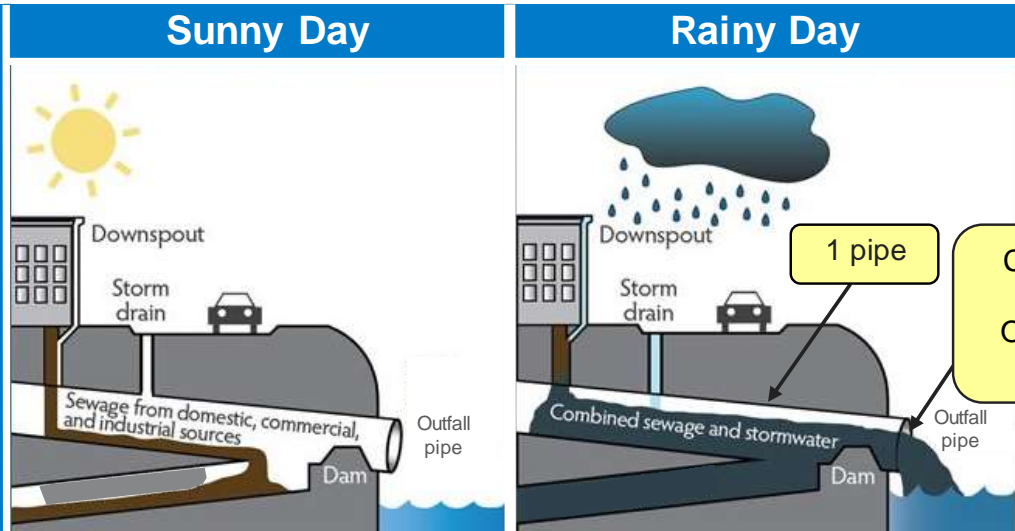
DC Water green infrastructure pay for success deal closed in Sept 2016

- Advised, structured DC Water's Green Infrastructure PFS Project
- Largest PFS project in US (\$25 million)
- Fastest PFS transaction closed in US
- Lowest PFS transaction cost in US
- Highly customizable financial structure
- Impact investors (Goldman Sachs, Calvert Foundation) "betting" on outcomes of green infrastructure

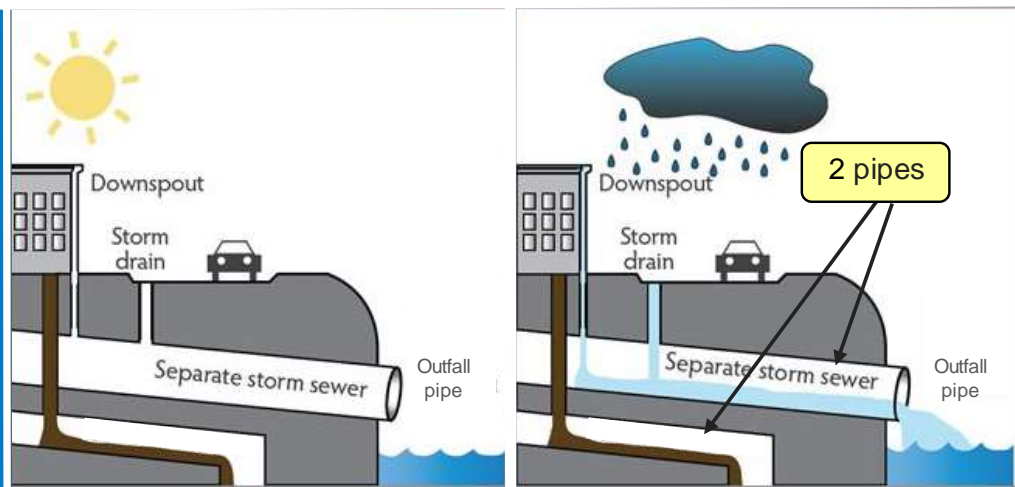


Along with 772 communities, DC Water faces a combined sewer overflow (CSO) challenge due to antiquated stormwater infrastructure

Combined Sewer System



Separate Sewer System



Despite the evidence base behind green infrastructure, we were confronted with the same problem: “What if it doesn’t work?”



I’m a steward of public funds...

...what if it doesn’t work?

Through our touchpoints with key stakeholders, we have heard consistent feedback preventing broader adoption of PFS

The challenge...

Investors

- **Not enough** deals
- **Bespoke** transactions
- **High transaction costs**
- Difficult **due diligence**

Government payors

- **Measuring outcomes** is hard
- Investor **return** concerns
- Dis-incentived to **innovate**
- Lack of **legislative** frameworks

Foundations and philanthropy

- Unclear **role**
- Balancing **evaluation approaches**

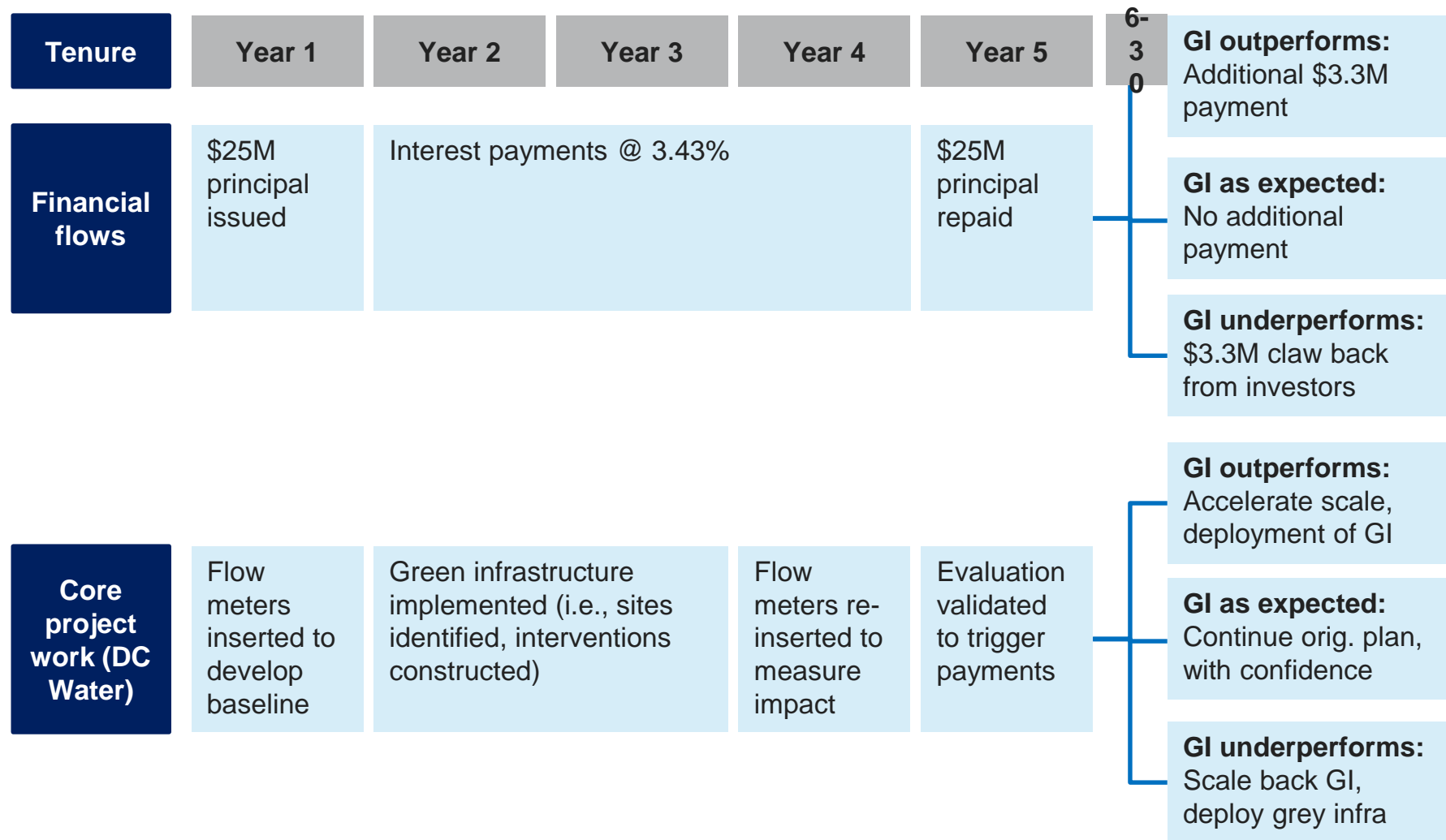
Service providers

- Lack resources and capital to scale
- Lack strong **data**

We were intentional in structuring DC Water's impact bond to address these challenges

[The resulting DC Water impact bond was recently recognized by Bond Buyer as an innovative tool for municipal financing](#)

We structured the DC Water impact bond with real bond characteristics while maintaining a PFS / outcomes-oriented success measure



The DC Water transaction helps us solve the challenges in impact investing (especially for environmental) that we have heard to date

	The challenge...	The solution from DC Water EIB...
Investors	<ul style="list-style-type: none"> • Not enough deals • Bespoke transactions • High transaction costs • Difficult due diligence 	<ul style="list-style-type: none"> • Replicable structure with >700 communities to go • It's a bond... with real bond features • 3 months to transaction close with investors • Technical memo circulated for investors to validate, same process as other asset classes
Government payors	<ul style="list-style-type: none"> • Measuring outcomes is hard • Investor return concerns • Dis-incentived to innovate • Lack of legislative frameworks 	<ul style="list-style-type: none"> • Financed a proxy, with established link to outcome • Investors negotiated on bond terms • Implicitly structured as free insurance policy to innovate • No legislation required, but consent decrees can drive demand for EIBs
Foundations and philanthropy	<ul style="list-style-type: none"> • Unclear role • Balancing evaluation approaches 	<ul style="list-style-type: none"> • No role required beyond initial EIB Feasibility Assessment, but demonstrates opportunity they can play to enable fast followers
Service providers	<ul style="list-style-type: none"> • Lack resources and access to capital to scale • Lack data infrastructure 	<ul style="list-style-type: none"> • Competitive market already exists, but firms are waiting for the demand from public sector

We believe the PFS industry will need to evolve to attract and retain market interest to be truly sustainable

