

Request for Proposals:

ENVIRONMENTAL IMPACT BOND (EIB) CHALLENGE

EIB structuring and issuance services for green infrastructure and resilience investments



Through grant funding from The Rockefeller Foundation, Quantified Ventures and Neighborly will collaborate to facilitate innovative financing for green infrastructure and resilience projects in two U.S. municipalities. Leveraging the power of Environmental Impact Bonds issued on Neighborly's online municipal bond platform that enables individuals to invest, this collaboration will provide new capital for green infrastructure and resilience projects while lowering cost risk to cities. This Request for Proposals (RFP) is designed to help the Quantified Ventures and Neighborly teams select two municipalities from across the country to pilot this innovative financing approach.

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1. Executive Summary

This Request for Proposals (RFP) will support two municipalities that want to launch green infrastructure or other resilience projects in their community through Environmental Impact Bond (EIB) financing. Quantified Ventures and Neighborly will choose the two municipalities and structure the EIB transactions in the next 12-15 months, and the EIBs will be issued through Neighborly's online municipal bond issuance platform. The two chosen municipalities will receive Quantified Ventures' and Neighborly's services at no cost¹, thereby decreasing the cost of raising capital for the implementation of the project.

2. Background and Opportunity

Project Collaborators

This RFP is funded through a grant from The Rockefeller Foundation, and the work will be led by Quantified Ventures and Neighborly.

- The Rockefeller Foundation and the 100 Resilient Cities Program:** The Rockefeller Foundation is a grantmaking organization whose mission is to improve the well-being of humanity around the world. Rockefeller's 100 Resilient Cities Program helps cities around the world become more resilient to the physical, social, and economic challenges that are a growing part of the 21st century.
- Quantified Ventures:** Quantified Ventures is a Washington, DC based impact investment and advisory firm. Quantified Ventures simplifies access to impact capital through a Pay for Success (PFS) approach, with strategies in the environment, education, economic development, and public health. As a leader in PFS transactions, Quantified Ventures helps de-risk investments in social and environmental innovation by evaluating, designing, executing, and managing Social and Environmental Impact Bonds. This includes structuring the economics and pricing, identifying and aligning stakeholders and investors, developing evaluation models, managing outcomes data, and coordinating launch. Quantified Ventures issued the first-ever Environmental Impact Bond for green infrastructure with DC Water in September 2016 (see Appendix), and hopes through this opportunity to catalyze a market for these innovative financing tools.

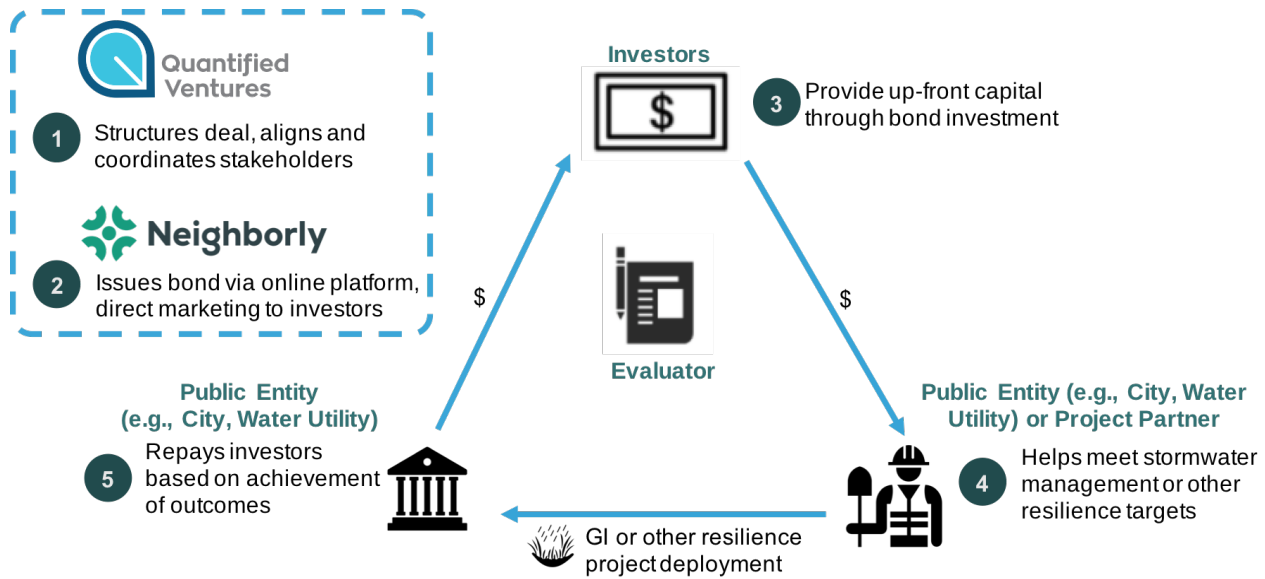
¹ No fees will be charged by Neighborly or Quantified Ventures for services. All other typical deal related expenses may apply, including rating agency, bond counsel, municipal advisor, trustee, paying agent, remarketing agent, and all other agent fees.

- **Neighborly:** Neighborly Corporation (“Neighborly”) is a San Francisco based technology company focused exclusively on municipal finance. Neighborly is modernizing the industry by democratizing access to municipal bonds through its online broker-dealer platform, enabling individuals to invest in the places they live, work, study, and play. Neighborly Securities, a wholly owned subsidiary of Neighborly Corporation, is located in Kansas City, Missouri. Neighborly and Neighborly Securities’ business lines include selling municipal securities and public finance. In addition to its online bond origination and distribution platform, Neighborly is developing other municipal data and municipal bond issuance products that it will make available to the marketplace. Securities are offered by Neighborly Securities member FINRA/SIPC registered with MSRB.

Pay for Success (PFS) and Environmental Impact Bonds (EIBs)

Pay for Success (PFS) models enable a municipality to pay for successful outcomes of a social or environmental initiative, rather than solely on the delivery of those initiatives, lowering the cost of a project if it is less successful. An Environmental Impact Bond (EIB) is an innovative financing tool that uses PFS to provide up-front capital from private investors for environmental projects, either to pilot a new approach whose performance is viewed as uncertain or to scale up a solution that has been tested on a small scale. In its most basic form, investors participating in a PFS model pay the upfront costs for deploying these environmental solutions. Following deployment and program evaluation, the “payor”, the public agency or private institution that benefits from these solutions, repays investors an amount linked to achievement of agreed-upon outcomes of the program (such as avoided stormwater runoff). By structuring this transaction as a bond, the municipality will enable many investors to finance and have a stake in a successful outcome of the project, or to share some of the downside risk if it is less successful or unsuccessful at achieving its intended outcome (see figure on next page).

Overall, the EIB approach allows municipalities to deploy pilot green infrastructure or resilience projects and apply the findings from these projects to broader infrastructure investment plans, while limiting risk to their organization and protecting budget.



Schematic representation of the Environmental Impact Bond (EIB) model presented through this opportunity.

Stormwater Management Challenges and the Promise of Green Infrastructure

Many municipalities face challenges related to stormwater management - both due to outdated “grey” infrastructure and combined sewer systems that can experience Combined Sewer Overflow (CSO) events in the case of heavy rain or storms. During a CSO event, the combined sewer system’s capacity is overwhelmed by excess stormwater, causing untreated or partially treated waste (human or industrial) as well as other toxic materials to discharge into municipal watersheds. Many municipalities are under consent decree by the EPA to invest in improvements to their stormwater infrastructure in order to avoid CSO events, and other cities are proactively addressing these infrastructure updates in the absence of a regulatory requirement. Green infrastructure (GI) can be a more cost-effective manner of increasing stormwater retention and diverting stormwater from sewer systems by facilitating on-site rainfall retention and absorption, thereby reducing the need to invest in costly upgrades to increase sewer system or treatment plant capacity. GI also provides many other public benefits, including mitigation of urban heat islands, neighborhood beautification, better access to recreational opportunities and public health outcomes in underserved communities, and creation of green jobs.

While this RFP will give preference to green infrastructure projects, cities are invited to propose other resilience projects beyond green infrastructure. These could include but are not limited to: clean and reliable electricity, sea level rise and flood mitigation, water conservation, or recycling and waste reduction.

3. RFP Goals, Eligibility, and Scope of Services

Project Goals and Overview

This project seeks to advance the goals of the Rockefeller Foundation's Innovative Finance Zero Gap portfolio and its 100 Resilient Cities program by catalyzing the deployment of two EIBs in the United States. These projects can then serve as models to enable other municipalities to more easily execute EIB transactions and for investors to evaluate them. This effort aims to demonstrate the scalability of the EIB model and develop the EIB market, while achieving environmental impact and serving poor and vulnerable communities.

The winning municipalities will issue an EIB via Neighborly's online platform for municipal bonds and use the proceeds of that issuance to finance the deployment of green infrastructure or other environmental resilience projects in their municipality. The proposals can be designed to fund one project or a bundle of projects.

Based on the responses to this RFP, two applicants will be selected and awarded. The two chosen applicants will begin work with Quantified Ventures and Neighborly in early 2018f to structure the transaction and prepare for bond issuance, which is expected by Fall of 2018.

Applicant Eligibility

Eligible applicants will be a United States county or municipal government, utility, water authority, sewer authority, or private sector actor serving in a function related to infrastructure or housing investment, stormwater management, or water management. The applicant should be empowered to make decisions regarding green infrastructure deployment and/or raising funds, or should have explicit support from relevant stakeholders who can ensure that the project can be completed.

This project seeks applicants who characterized by the following qualities:

- Represent municipalities that have demonstrated appetite and capacity for innovation, both in taking on new approaches to solutions (e.g., green infrastructure for stormwater management) as well as to financing (e.g., Environmental Impact Bonds)
- Represent an entity with financing capability - the ability to issue bonds, a strong credit rating, and the financial resources to repay investors in the Environmental Impact Bond according to outcome achievement

- Have buy-in from relevant stakeholders to ensure successful EIB issuance and project deployment (e.g., water utility, CFO, bond counsel)
- Represent a geography covered by the 100 Resilient Cities network. The applicant need not be restricted to municipal borders (e.g., a regional sewer district), but the placement of proposed projects in cities and counties that are part of the 100 Resilient Cities is highly encouraged.

Project Scope and Eligibility

Applicants should identify green infrastructure or other resilience projects that are already in the planning stages and could be construction-ready by Fall of 2018. The applicant may propose one project or a bundle of projects. Projects should be large enough to warrant an EIB issuance, ideally amounting to \$5 million or above.

In accordance with The Rockefeller Foundation's mission and goals, projects should provide benefits to poor and vulnerable communities.

Project Timeframe

February 2018 to September 31, 2018

- Phase 1: Select Municipalities (early 2018)
- Phase 2: Provide Technical Assistance for EIB Issuance (February – Sept 2018)

Scope of Technical Assistance Services Provided:

The two winning municipalities will receive technical assistance from Quantified Ventures and Neighborly to structure and issue EIBs. The Technical Assistance Services are organized as follows:

Quantified Ventures:

- Confirm size, scope, and objectives of the project and the EIB transaction
- Develop an economic model
- Design the transaction, including financial structure, outcome measures, and outcome payment triggers
- Establish an evaluation model
- Develop technical memoranda to enable investor due diligence
- Facilitate contracting between the payor, investors, service provider and evaluator

Neighborly:

- Provide underwriting services for an issuance of \$5 million or greater, with smaller issuances requiring Neighborly and Quantified Ventures approval
- Work with legal counsel to create legal documents and extend municipal finance broker-dealer platform for EIB issuance. Selected applicants will have access to the bond documents created as part of Neighborly's work creating templated language that works with existing indentures²
- Market EIB to potential investors
- Secure investors; facilitate agreement of investment banking services. Neighborly will not provide municipal advisor services

4. Process, Requirements, and Timeline

Communications

Applicants are encouraged to reach out to Quantified Ventures with questions about EIBs and potential projects, and to Neighborly with questions about bond issuance, in advance of submitting applications. For more information, please contact the Quantified Ventures team at environment@quantifiedventures.com, and the Neighborly team at EIB@neighborly.com. The RFP and supporting materials are available online at quantifiedventures.com/rockefeller-eib and neighborly.com/environmental-impact-bonds, where applicants can obtain more information.

Submission

Please submit your proposal to neighborly.com/environmental-impact-bonds.

5. Submission Expectations

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

- A. Executive Summary:** (1 page suggestion)
- B. Project Scope and Fit with EIB/PFS Model:** (3 page suggestion)

² Neighborly is issuing a separate RFP to legal firms to advise on the legal documents that Neighborly will contribute to these transactions. Issuers may still need to or elect to hire their own Bond Counsel, the cost of which will not be funded by this Environmental Impact Bond opportunity and which the issuer would have to pay from their own funds.

- a. Context of stormwater management or resilience problems in city or region to be addressed through this project
 - b. Proposed project or projects that will be funded through the environmental impact bond, including the current status of planning or development of these projects as of the time of application
 - c. How this project/these projects fit within broader green infrastructure, stormwater management, and/or resilience plans in the City or region
 - d. Project timeline, including feasibility of commencing implementation of these projects in the 12-15 month timeframe
 - e. Estimate of Environmental Impact Bond transaction size (\$)
- C. Organizational Capabilities:** (1 page suggestion)
- a. Financial resources and ability to issue bond, including track record of bond issuance and credit rating
 - b. Plan for staff hours allocation and designation of project leadership
 - c. 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 these stakeholders may be provided in the Appendix)
 - d. Proposed decision-making process and engagement plan for working with necessary stakeholders to issue EIB, including which parties will be required to approve the deal
- D. Impact:** (2 page suggestion)
- a. Description of the community(ies) served or impacted by the proposed project(s), including location, demographics, population size, and other relevant demographic information
 - b. Evaluation of benefits to these communities (e.g., environmental, economic, health, social) of implementing the proposed project(s)
 - c. Description of the need for EIB financing approach, including what financing the proposed project in this way will allow the City or payor to do that would otherwise not occur
 - d. Description of scalability - what the City hopes to learn from this process, and how this project and financing approach could be scaled within this City or in other geographies
- 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

6. Evaluation Criteria

Applications will be evaluated according to the following criteria:

Category	Percentage	Sub-Category	Points (Total = 100)
Eligibility / Compliance	10%	Payor eligibility screen	Y/N
		Meet 100RC / Rockefeller grant parameters	Y/N

Category	Percentage	Sub-Category	Points (Total = 100)
Screen		Payor's resources to support the project	10
Project Scope and Fit with EIB/PFS Model	25%	Size of proposed transaction (suggested \geq \$5M, can be one or multiple projects), fit with EIB model	10
		Current status of proposed projects to be funded - technical readiness to begin implementation / deployment in 12-15 months	15
Payor Capabilities	30%	Financing capability and credit rating	15
		Stakeholder buy-in and established decision-making process	15
Impact	35%	Benefits to poor and vulnerable communities	15
		Expected outcomes; contribution of project to address scale of problem and regulatory obligations	10
		Scalability of project and financing approach within this City or in other geographies	10
TOTALS	100%		100

7. Terms and Conditions

The selected municipalities 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' and Neighborly's role in managing the project and providing expertise and assistance in structuring and issuing an EIB. 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 and Neighborly will be covered by the Rockefeller grant. The municipalities 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 Proposal ("RFP") does not represent any legal or otherwise commitment or relationship between any issuer of municipal securities and Quantified Ventures or Neighborly (or its broker dealer affiliate Neighborly Securities). Quantified Ventures and Neighborly reserve the right to reject any proposal received for any reason, and are 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. Neighborly Corporation, a Delaware corporation and its wholly owned broker-dealer Neighborly Securities ("Neighborly"), is acting for its own account. Quantified Ventures and Neighborly are not municipal advisors,

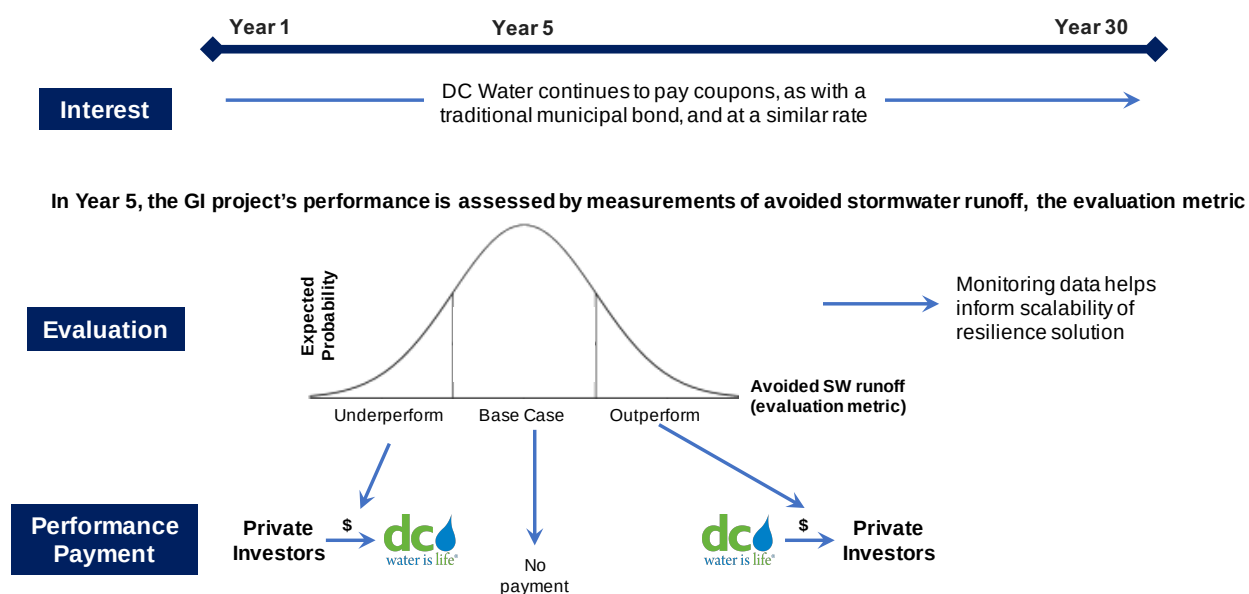
financial advisors or agents and have no advisory, agency or fiduciary duty to any person pursuant to Section 15B of the Securities Exchange Act of 1934 or Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Securities are offered through Neighborly Securities, member FINRA, SIPC and registered with the MSRB. Learn more at <https://learn.neighborly.com/terms>

8. Appendix

DC Water Environmental Impact Bond

Quantified Ventures structured the first-ever EIB with the District of Columbia Water and Sewer Authority (DC Water) in September 2016 to finance green infrastructure for stormwater management. DC Water was interested in the potential cost savings of green infrastructure compared to grey to meet their EPA consent decree obligations, as well as the environmental, economic, and health benefits green infrastructure provides, but was concerned about performance risk. Through the PFS approach of the EIB, private investors are now taking on the risk of non-performance of a 20-acre pilot green infrastructure project. DC Water will use the results of the pilot to inform scalability and integration of green solutions in its capital program. The mechanics of the DC Water EIB are illustrated in the figure below. The specifics of the EIB structure, including the evaluation metric used, the size of the performance payment, the term of the EIB, the coupon rate, the risk coverage of the performance bands, and the inclusion of payment guarantees, can all be tailored to suit a particular project and context.



For more information on the DC Water EIB, visit:

- <http://www.quantifiedventures.com/dc-water>
- <https://neighborly.com/environmental-impact-bonds/dc-water>
- <http://www.goldmansachs.com/media-relations/press-releases/current/dc-water-environmental-impact-bond-fact-sheet.pdf>