



Social Impact Bond Marketing

Let's pay for programs that work and not for programs that fail has become the battle cry for reformers on both sides of the aisle. This sounds like a great idea in concept but how do we make it work in reality? How can such a goal be achieved in today's economy? Enter the concept of the social impact bond.

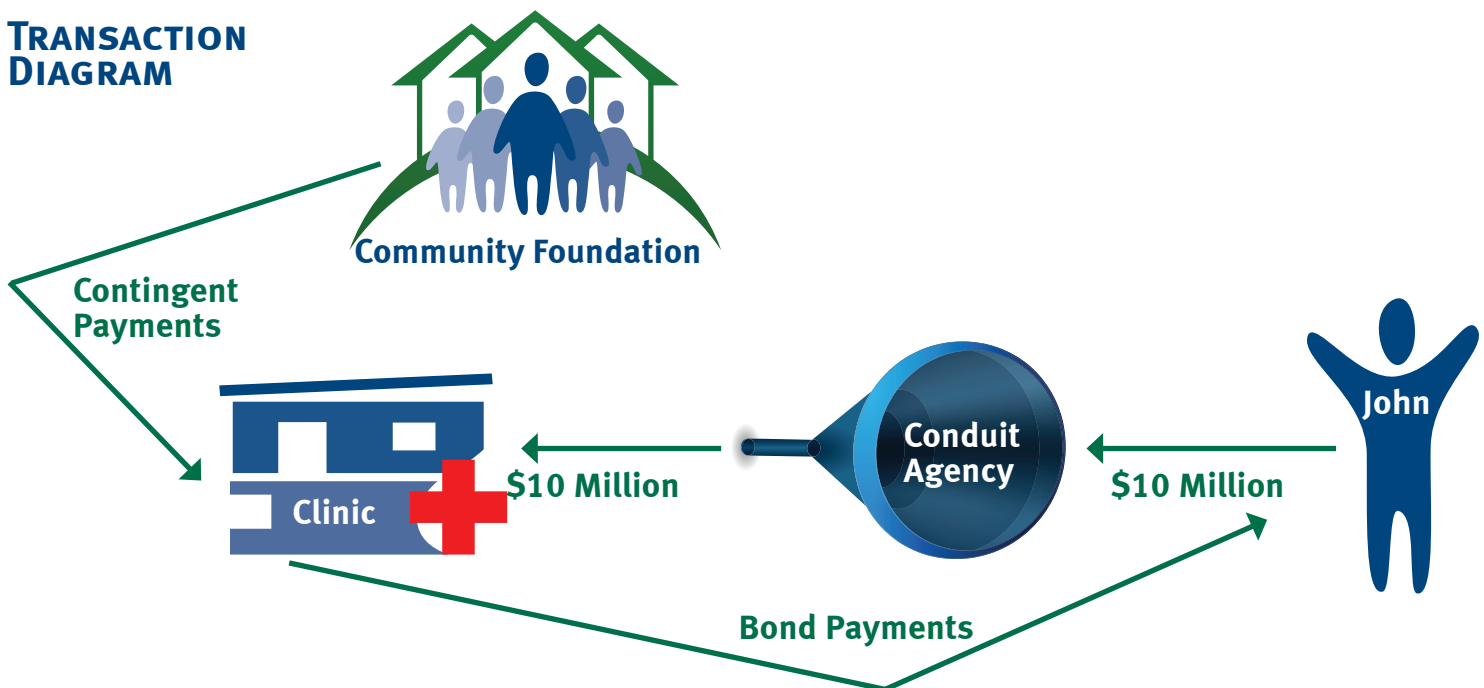
What is a social impact bond? How does it work? What does it achieve? These questions can best be answered by way of example.

Consider a local health clinic that would like to construct an addition to its facilities to expand its services to children. The cost of the expansion is \$10,000,000. If the expansion is completed, the clinic projects that it will be able to provide services to an additional 500 children each year. The proposed expansion not only fills a vital community need it also generates positive cash flow fees for these services. The clinic is a nonprofit and has conducted a feasibility study to determine the likelihood of a capital campaign's success to raise the cost of construction and an endowment to provide a sustainable source of funds for the clinic's expansion. After considering all of the possibilities,

the clinic's board has determined that although enough funds could probably be raised for the endowment, it is not possible to raise the \$10,000,000 needed for construction.

During the course of the clinic's study the board has held a number of discussions with a local community foundation that has provided financial support for the clinic over the years. While the foundation recognizes the need for expansion, the foundation is reluctant to provide the \$10,000,000 needed, particularly since more donors to the foundation have been voicing concerns about funding programs that fail to produce

TRANSACTION DIAGRAM



Notes: The use of the conduit agency is required in order for the bonds issued to qualify as tax-exempt bonds for federal tax purposes. Additionally, the structure of the transaction as described above could be redesigned to suit the goals of the participants. For example, the "community foundation" may be some other type of charitable organization, or, in the more traditional setting, a government agency.



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measurable results. Thus, the foundation suggests to the clinic that if it can prove that once construction is completed, it does in fact provide services to at least 500 children as claimed, the foundation will provide the financial resources needed. The problem, however, is the clinic still needs to secure the 10 million dollars to construct the facility.

After careful consideration, the clinic decides to enter into a deal with John Jones. John is a successful investor and although he likes the work the clinic does, he is not prepared to make a \$10,000,000 donation. John does, however, like tax exempt bonds, though not so much today because yields are so low. In order to satisfy the objectives of all parties, the following transaction is completed.

- John Jones provides the \$10,000,000 dollars needed by the clinic to construct the facility.
- In exchange for the \$10,000,000, the clinic issues a tax exempt bond to John that carries a 5.5% coupon.

- The community foundation enters into an agreement with the clinic and John. The agreement provides that should the clinic meet its goal of providing services to at least 500 children each year, the foundation will be responsible for making the bond payments. If the clinic fails to provide the required level of services, the clinic remains liable for the payments. As an added inducement to John, the foundation also agrees to be secondarily liable on the bond should the clinic become insolvent.

The Result – All Parties Succeed

- The clinic gets the funds it needs to expand.
- John receives a tax exempt bond that pays better than many other tax exempt bonds that are otherwise available with substantial security of performance.
- The community foundation also succeeds because, assuming the clinic does not become insolvent, only pays if the program succeeds.

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