

# The U.S. Impact Investing Ecosystem

SOCIAL IMPACT INVESTMENT TASKFORCE  
APRIL 2014

# U.S. MARKET IN SUMMARY

## ■ Historical Context

The U.S. has a rich and long history of public-private partnership and social investment

## ■ Current Market

- The U.S. market is large and diverse
- Multi-layer political system that includes activity at Federal, state, and local levels
- At the sector level there are tools that are relatively easy to adapt for impact investing

## ■ Emerging Opportunities

- There are significant emerging opportunities for connecting private investors to high-priority, sector-oriented initiatives
- Financial and social innovation serves as a critical catalyst for motivating private capital for public purpose

# Policy Levers for Impact Investing in the U.S.: An Orientation

Understanding the interconnected entry points for activating and shaping the impact investing market

## 1 Public Sector Leadership And Coordination

Developing platforms and the capacity for ...

### Activities and Approaches

- Administrative/legislative capacity
- Convenings
- Data and information
- Education and communication
- General principles

### Audiences

Key actors driving policy innovation

Policy professionals and cross-agency public officials

## 2 Market Infrastructure

... designing the mechanisms that create sustainable market conditions for ...

Supply development	Directing capital	Demand Development
Policies that catalyze new investment (e.g. PRI)	Policies that redirect/enhance the impact of existing capital (e.g. Build America Bonds)	Policies that bolster deal flow and investment readiness (e.g. CDFI Fund)

Source: *Impact Investing: A Framework for Policy Design and Analysis*. InSight at Pacific Community Ventures and the Initiative for Responsible Investment at Harvard University, January 2011.

### Audiences

Larger market-level practitioners across the public, private and nonprofit sectors

## 3 Sector Targets

... maximizing discrete social and/or environmental impacts.

- Affordable Housing
- Community Development
- Education
- Environment
- Health
- Infrastructure/Sustainable Cities
- Manufacturing
- Small Business
- Sustainable Agriculture & Rural Communities
- Workforce Development

### Audiences

Sector-based investors, intermediaries, entrepreneurs and beneficiaries

This resource is a snapshot of current federal policy levers, not an exhaustive review of all policies, agencies, or actors, nor a roadmap for future action. These levers can take the form of legislative, regulatory or administrative policies.

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# ECOSYSTEM SCOPE & LIMITATIONS

- **The US impact investing market is complex.** Policy provides the lens through which to describe and size outcomes oriented investment.
- **This presentation is illustrative rather than comprehensive,** demonstrating the breadth and depth of the US impact investing market through examples.
- **Capital flow models are included where possible,** but thorough representation is limited by both a dearth of reliable data and the prevalence of double counting.
- **Focus is on federal level policy,** with two important notes:
  - State and local level policies such as municipal bonds, and economically-targeted investment pension fund regulations have not been included, but are significant and important motivators of capital
  - Broad financial market defining policies around monetary/fiscal policy, disclosure, and other regulation that shapes the U.S. environment for impact investing have not been included

# Impact Investing in the U.S.

Definition and  
track record

U.S. Market  
Context

Domestic  
Impact  
Investors

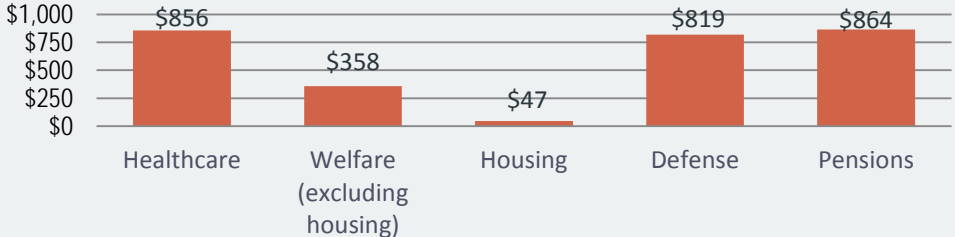
# DEFINITION AND TRACK RECORD

Impact investments are made **intentionally** to generate measurable **social benefits**, by a **variety of investor types**, **across all asset classes**, and with a **diversity of return characteristics**. They **encompass multiple sectors** – e.g. community development, affordable housing, health, social services, clean energy, energy efficiency, and land conservation – in which there are efforts to **motivate private investors to support public benefit through financial mechanisms**.

## **Outcomes targeted by impact investments have included:**

- Economic development in underserved markets
- Provision of social services to LMI and underserved communities
- Creation and retention of quality jobs
- Support for LMI, women and minority owned businesses
- Access to, expansion, and maintenance of affordable housing
- Renewable energy, energy efficiency, and environmental conservation
- Walkable and/or transit-oriented developments
- Sustainable, educated, and healthy communities

# U.S. MARKET CONTEXT

Actor	Capital Snapshots*												
U.S. Federal Government	<p>\$3.454 trillion in FY2013 federal outlays</p> <p><b>2013 Outlays (\$B)</b></p>  <table border="1"> <caption>2013 Outlays (\$B)</caption> <thead> <tr> <th>Category</th> <th>Outlay (\$B)</th> </tr> </thead> <tbody> <tr> <td>Healthcare</td> <td>\$856</td> </tr> <tr> <td>Welfare (excluding housing)</td> <td>\$358</td> </tr> <tr> <td>Housing</td> <td>\$47</td> </tr> <tr> <td>Defense</td> <td>\$819</td> </tr> <tr> <td>Pensions</td> <td>\$864</td> </tr> </tbody> </table>	Category	Outlay (\$B)	Healthcare	\$856	Welfare (excluding housing)	\$358	Housing	\$47	Defense	\$819	Pensions	\$864
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U.S. Institutional Investors (Pension Funds, Insurance Companies, College/University Endowments, Private Foundations)	\$22.4 trillion in assets under management according to research published in February, 2012 (see sources)												
Community Reinvestment Act (CRA) Motivated Investments	\$218 billion in originations and loan purchases in FY2012												
Private Foundations	PRIs: \$701 million in 2009 Grants: \$49 billion in 2011 Assets Under Management: \$662 billion as of year-end 2011												
Nonprofits (includes, for example, Service Delivery organizations, Universities, Hospitals, and Think Tank organizations)	\$1.49 trillion in total expenses in 2011												
Socially Responsible Investments (SRI)	\$3.74 trillion in 2012												

\*Note: These dollar amounts can not be summed. Amounts double-count investor types, represent different time frames, and include different capital categories (i.e. assets under management, expenses, loan originations, etc.)



# DOMESTIC IMPACT INVESTORS

Asset Owner Type	Investor Example	Investment Example	Targeted Outcomes
Bank	JP Morgan Chase	1070 Washington Ave, Bronx, NY <ul style="list-style-type: none"> <li>• \$12.5 million in tax credit equity sourced in partnership with Enterprise</li> <li>• \$4 million in loans through HPD, HOME, and NSP</li> <li>• \$4.7 million federal grant through NYCHA</li> </ul>	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Environment</li> <li>• Affordable Housing</li> <li>• Community Development</li> </ul>
Foundation	California Endowment	California FreshWorks Fund <ul style="list-style-type: none"> <li>• \$272 million fund, seeded with \$30 million mission-related investment and \$3 million grant from California Endowment</li> </ul>	<ul style="list-style-type: none"> <li>• Health</li> <li>• Community Development</li> </ul>
Pension Fund	New York City Retirement System	Public Private Apartment Rehabilitation Program (ETI) <ul style="list-style-type: none"> <li>• \$757 million invested since inception as of 6/30/2012</li> </ul>	<ul style="list-style-type: none"> <li>• Affordable Housing</li> </ul>
Insurance Company	MetLife	\$40 million equity capital to LISC to support veterans housing projects	<ul style="list-style-type: none"> <li>• Affordable Housing</li> <li>• Veterans Health</li> </ul>
High Net Worth/Family Office	Crown Family Philanthropies	DBL Equity Fund BAEF II <ul style="list-style-type: none"> <li>• \$125 million venture capital fund focused on companies in or near LMI areas in the Western US</li> </ul>	<ul style="list-style-type: none"> <li>• Environment (Clean Technology and Sustainability Oriented Services and Products)</li> <li>• Health</li> </ul>
Retail Investor		Calvert Community Investment Note <ul style="list-style-type: none"> <li>• \$800 million from 13,500 investors since 1995</li> </ul>	<ul style="list-style-type: none"> <li>• Community Development</li> <li>• Affordable Housing</li> <li>• Small Business</li> </ul>

# U.S. Policy Levers for Impact Investing

U.S. Policy Map

Policy Timeline

Public Sector  
Leadership &  
Coordination

Social  
Investment  
Infrastructure  
Policies

Policies with  
Sector Targets

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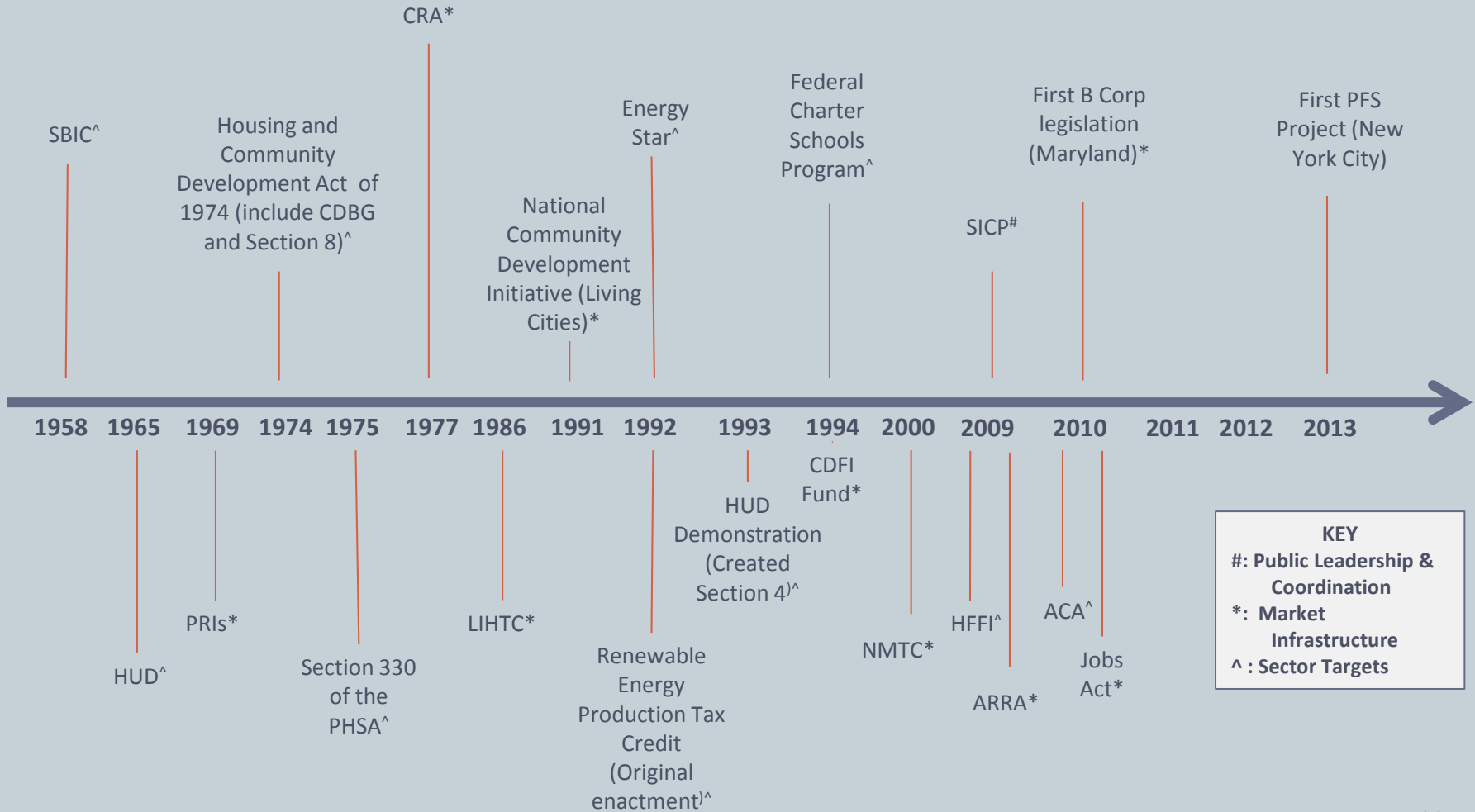
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# POLICY TIMELINE



**KEY**  
**#:** Public Leadership & Coordination  
**\***: Market Infrastructure  
**^** : Sector Targets

# PUBLIC SECTOR LEADERSHIP & COORDINATION

## *Example*

### Office of Social Innovation and Civic Participation (SICP)

- Within the United States executive branch of government.
- Advises the US President and Executive Office on policies that encourage collaboration and innovation around significant national challenges, e.g. poverty and education.
- Key initiatives:
  - The Social Innovation Fund at the Corporation for National and Community Service
    - To date **\$177.6 million** in Federal grants leveraging **\$423 million** in non-federal match commitments reaching **217 nonprofits\***
  - Investing in Innovation Fund (I3) at the Department of Education
    - An estimated **\$1.07 billion** in grant awards from 2010 through 2013

# SOCIAL INVESTMENT INFRASTRUCTURE POLICIES

Infrastructure policies motivate larger market-level actors across the public, private, and nonprofit sectors and establish mechanisms that create sustainable market conditions for sector targets.

## *Examples*

- **Community Reinvestment Act (CRA):** Requires banks to help meet the credit needs of the communities in which they operate, resulting in significant lending and investing for rental housing, small business development, and support for community facilities
  - **\$218 billion** in originations and loan purchases in 2012
  - Banks have reported more than **\$764 billion** in small business loans in low- and moderate-income communities since 1996
  - Banks have also reportedly made more than **\$602 billion** in community development lending since 1996
- **Program Related Investments (PRIs):** Philanthropic investments designated by the Internal Revenue Service (IRS) that allow foundations to make concessionary investments and count them towards their annually mandated philanthropic giving.
  - **\$701 million** in PRIs in 2009
  - **\$3.7 billion** between 1990 and 2009
- **CDFI Fund:** Promotes “economic revitalization and community development through investment in and assistance to community development financial institutions (CDFIs).” This happens primarily through CDFI certification, technical assistance, and financial assistance programs, as well as the New Markets Tax Credit Program.
  - **808 certified CDFIs** as of December, 2013
  - Over **\$1.7 billion** in awards to community development organizations and financial institutions since its creation in 1994 (through 2012)
  - As of 2012, the CDFI Fund has awarded **\$33 billion** in tax credit authority

# POLICIES WITH SECTOR TARGETS

Policies motivate sector-based investors, intermediaries, entrepreneurs and beneficiaries to maximize discrete social and/or environmental impacts.

## *Example Sectors*

- Affordable Rental Housing
- Small Business
- Health
- Energy
- Education

# Sector Policy Examples

Affordable  
Rental Housing

Small Business

Health

Energy

Education



# AFFORDABLE RENTAL HOUSING

- As rents rise and wages stagnate, demand for affordable housing is growing across the United States. The pace of new construction and preservation will need to increase to meet rising demand and close the gap.
- The federal government encourages private investment in affordable housing through direct subsidy (such as LIHTC); indirect subsidy/credit enhancement (such as FHA mortgage insurance); and regulatory obligations (such as the Community Reinvestment Act)
- Often a single project receives federal support from several sources - e.g. LIHTC equity, a mortgage from Fannie Mae or Freddie Mac, and gap financing from HOME or CDBG - to ensure reasonable return to investors and desired level of affordability.

	Policy <sup>1</sup>	Public Funding	Other Capital Leveraged*
Direct Subsidy	Low Income Housing Tax Credit	\$6 billion (Annual Avg.)	~\$9.5 billion (2012)
	Section 8 Project Based Rental Assistance <sup>2</sup>	\$9.3 billion (FY2012)	~\$30 billion (2013)
	Section 202 Supportive Housing for the Elderly	\$400 million(FY2012)	Data Not Available
	Community Development Block Grant <sup>3</sup>	\$3 billion (FY2013)	~\$9 billion (2013)
	HOME Investment Partnership Program	\$1 billion (FY2013)	~\$3 billion (FY2013)
	Capital Magnet Fund <sup>3</sup>	\$80 million (2010)	~\$1 billion (2014)
	Federal Home Loan Banks: Affordable Housing Program <sup>3</sup>	No Explicit Annual Cost	\$300 million (2013)
	Section 4	\$350 million (FY2012)	Data Not Available
Indirect Subsidy / Regulation	Federal Housing Administration Multifamily Mortgage Insurance	No Explicit Annual Cost	\$17.6 billion (2013)
	Fannie Mae and Freddie Mac Multifamily Affordable Housing Goals	No Explicit Annual Cost	\$29.9 billion (2013)
	Community Reinvestment Act (CRA), Community Development Investments <sup>3</sup>	No Explicit Annual Cost	\$54.8 billion (2012)

<sup>1</sup>For policy descriptions, please see appendices.

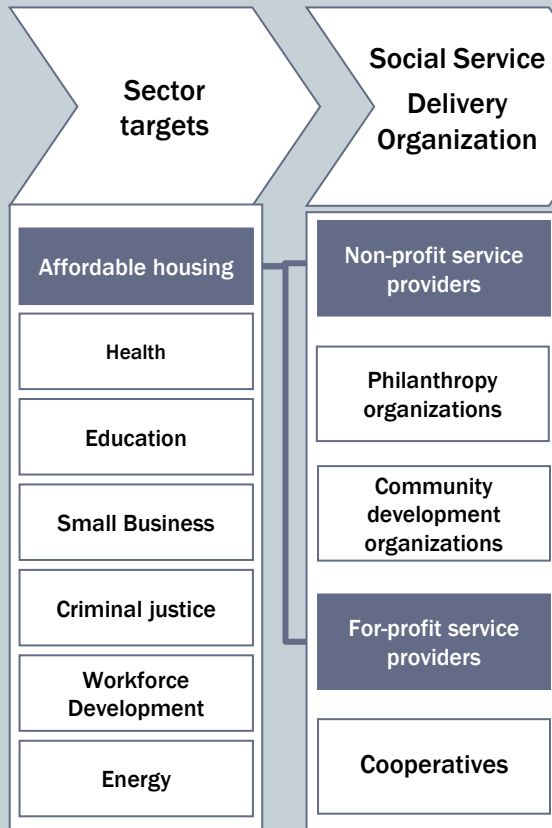
<sup>2</sup>Section 8 also provides direct support to households through the Tenant Based Rental Assistance Program. In 2012, the Federal government allocated \$19 billion in rental vouchers, significantly expanded housing options for low-income families.

<sup>3</sup>Totals include investments outside of affordable housing that are eligible for funding, including homeowner assistance, community services or economic development investments.

\*Where not otherwise indicated (with "FY" prefix), dates refer to calendar years.

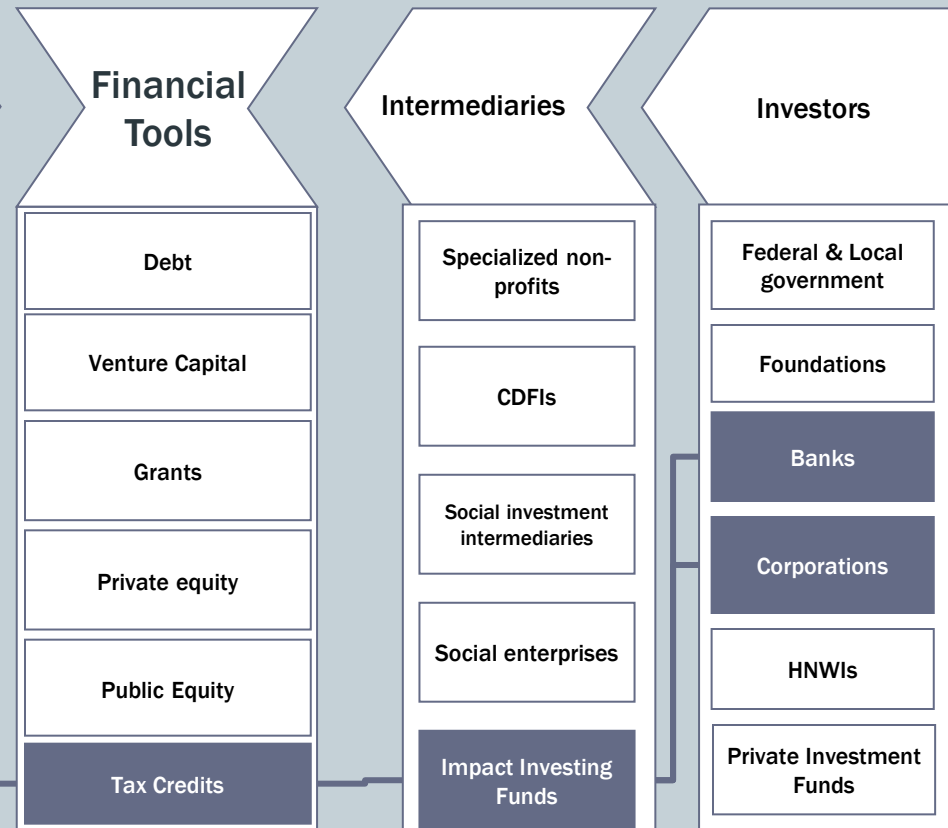
# REPRESENTATIVE DEAL FLOW: LOW INCOME HOUSING TAX CREDIT

## Addressing social need



**Demand-side Infrastructure**

## Supply of investment finance



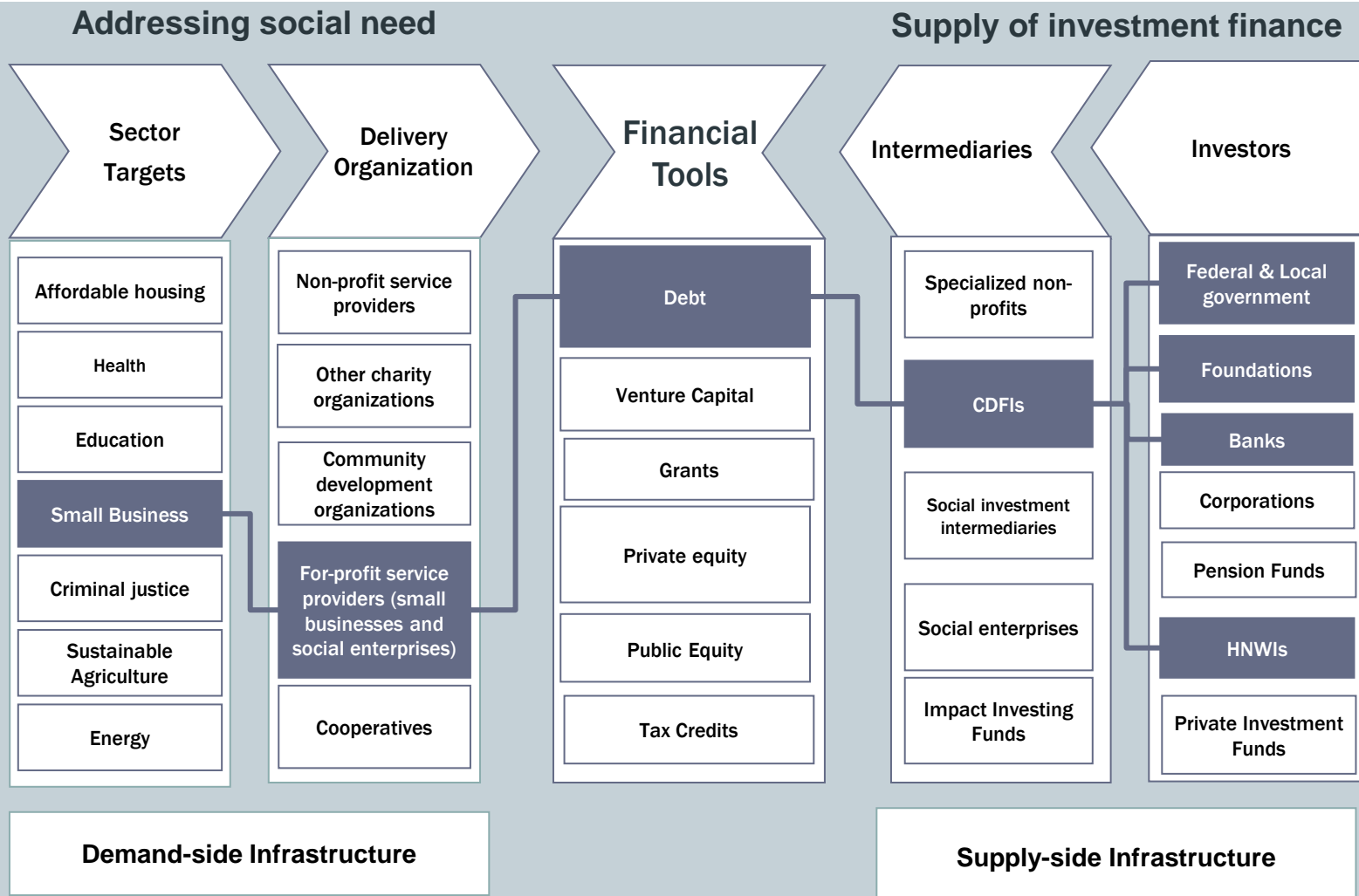
**Supply-side Infrastructure**

# SMALL BUSINESS

- Major policy support comes from the Small Business Administration (SBA), as well as Community Development initiatives, including the CDFI Fund and NMTC programs
- Policies target businesses with less than \$18 million in tangible net worth
- Recent policies have emphasized supporting woman-, minority- or veteran-owned businesses, especially those serving or employing LMI individuals

Policy Examples	Public Funding	Private Capital Leveraged
SBA 7(a) Loan Guaranty Program	\$136.9 million (FY2012 allocation of credit subsidies)	\$15.1 billion (FY2012 loans)
SBA CDC/504 Loan Program	\$70.2 million (FY2012 allocation of credit subsidies)	\$3.36 billion (FY2012 loans)
SBA Micro Loans Program	\$3.678 million (FY2012 appropriations)	\$44.7 million (FY2012 loans)
SBIC Program	\$1.9 billion (FY2012 guaranteed leverage commitments)	\$3.1 billion (FY2012 in financing to small businesses)
CDFI Fund FA and TA Programs programs	Across Programs: \$172.5 million (FY2013 award)	N/A
New Markets Tax Credit (NMTC) Program	\$3.5 Billion (2012 allocations)	N/A
Small Business Jobs Act of 2010	N/A	\$12 billion in lending support

# REPRESENTATIVE DEAL FLOW: COMMUNITY DEVELOPMENT FINANCE INSTITUTIONS



# HEALTH

- Impact investments can include healthcare delivery; facilities; technology; drugs, devices, and diagnostics; care optimization; food and nutrition; fitness; and other services/products.
- Community health centers, providing health services for nearly 22 million Americans in underserved communities, and healthy food financing opportunities are examples of impact investments in health.
- Estimates of private capital leveraged not available for this sector.**

	Policy	Description	Public Funding	Sample Impact Investment
Community Health Centers	Public Health Act Section 330	Defines FQHCs, provides grant funding	<b>\$1.495 billion (FY2013)</b>	<b>Lowell Community Health Center.</b> This 42,000 patient CHC rehabbed an old mill building as part of a facility expansion project. The \$42+ million deal involved commercial debt, NMTC and Historic Tax Credit equity, an HHS facilities improvement grant (ARRA), a CDBG grant, and a HUD Section 108 loan.
	ACA Community Health Center Trust Fund	Provides grant funding for CHC operations and capital	<b>\$1.5 billion (FY2013)</b>	
	Medicaid/Medicare reimbursement rates	Reimburses CHCs for cost of care; 45% of CHC revenue	<b>\$6.19 billion (FY2013)</b>	
	CMS Innovation Center	Innovation programs to test service and payment models	<b>\$1.3 billion (FY2013)</b>	
Healthy Food Financing	Farm Bill 2014	USDA funding for HFFI loan funds, grants, TA	<b>\$125 million (FY2014-2018)</b>	<b>California FreshWorks Fund.</b> Seeded by the California Endowment, this \$272 million fund provides financing for fresh food retailers in California. The fund is supported by a CDFI grant and a mixture of grants and debt, with over 10 major funders. NMTCs frequently support fund investments.
	NMTC (HFFI allowed)	Tax credit allocations to CDFIs for HFFI projects	<b>(no specific set asides FY2013)</b>	
	CED-HFFI Program	HHS grants to CDCs for HFFI projects	<b>\$9.4 million (FY2013)</b>	
	CDFI Financial Assistance	Treasury grants and loans for CDFIs for HFFI projects	<b>\$22.3 million (FY2013)</b>	

**Other related policies:** Rural Health programs, NIH research grants, FDA/FCC approvals, Prevention and Public Health Fund, nutrition guides, farming subsidies, SBA loan guarantees

# ENERGY

- Impact investments can include renewable energy (wind, solar, biomass, hydro, geothermal), energy efficiency, clean tech, energy infrastructure, and other energy use reduction efforts).
- New investments in renewable energy in 2013 totaled **\$48.4 billion**, down from **\$68.5 billion** in 2011. Energy efficiency investments by utilities and energy service companies totaled over **\$12 billion** in 2012, excluding significant annual investments in residential and commercial energy efficiency projects.
- The renewable energy market's significant growth over the last decade has been fueled by federal tax credits, many of which expired in 2013.
- Additional estimates of private capital leveraged not available for this sector.**

	Policy	Description	Public Funding	Sample Impact Investment:
Renewable Energy	Business Energy Investment Tax Credit	Tax credit for 30% of project expenditures	<b>\$500 million (FY2013)</b>	The 1603 program, authorized by ARRA, offered renewable energy project developers cash payments in lieu of investment tax credits at a rate equal to the ITC. The program, which leveraged \$68.9 billion in private investment for 91,871 projects with \$19.8 billion in public funding, was not renewed and is not eligible for any project started after 12/31/11.
	Renewable Electricity Production Tax Credit	Tax credit per kWh electricity generated	<b>\$1.7 billion (FY2013)</b>	
	1603 Treasury Program	Partial reimbursement for project expenditures	<b>\$19.8 billion (lifetime)</b>	
	MACRS + Bonus Depreciation	Tax deductions for depreciation of renewable assets	<b>\$300 million (FY2013)</b>	
	USDA High Energy Cost Grant Program	Grants to support renewable energy in rural areas	<b>\$9.3 million (FY2012)</b>	
Other Relevant Policies	Better Buildings Challenge	Energy Savings Performance Contracts challenge for federal agencies	<b>\$2.3 billion (2011-2013)</b>	
	Residential Energy Efficiency tax credit	Tax credit for home energy efficiency projects	<b>\$3.0 billion (FY2013)</b>	
	Energy-Efficient Commercial Buildings tax credit	Tax credit for commercial energy efficiency projects	<b>\$200 million (FY2013)</b>	

# EDUCATION

- Impact investments can include improving targeted educational outcomes such as early childhood learning or graduation rates; facilities; technology; teacher training, building infrastructure for measurements and standards.
  - Examples include the Head Start program, which provides access to education, health, nutritional service to 31 million children in low-income communities, and Charter Schools.
- **Examples of private capital leveraged:**
  - 12 national foundations committed a combined **\$500 million** in 2010 to leverage the U.S. Department of Education's **\$650 million** Investing in Innovation (i3) Fund.
  - Canyon Capital Realty Advisors LLC recently raised **\$500 million** for the Canyon-Agassi Charter School Facilities Fund with contributions from CitiGroup Inc. and Intel Corp.

	Policy	Description	Public Funding	Sample Impact Investment:
American Recovery and Reinvestment Act	Race to the Top	Grant competition for innovation in state and local K-12 education	<b>\$4.35 billion (FY2010)</b>	One of the first Promise Neighborhoods announced is in the City of Los Angeles, which is partnering with the Youth Policy Institute and L.A. Unified School District to expand its Full Service Community Schools model from 7 schools to 45 Promise Zone schools by 2019. The Los Angeles Promise Neighborhood was allotted \$30 million of federal funds, and raised \$30 million matching funds.
	Investing in Innovation (I3)	Competitive grants to local education agencies for innovation in education	<b>\$650 million (FY2010)</b>	
Charter Schools	Office of Charter Schools Program	Provides money to create new high-quality public charter schools, as well as to disseminate information about ones with a proven track record.	<b>\$242 million (FY2013)</b>	
Other Relevant Policies	Head Start	Early learning program for preschool-aged children of families in poverty, designed to meet children's emotional, social, health, nutritional, and psychological needs.	<b>\$7.96 billion authorized (FY2012)</b>	
	Impact Aid program	Compensates local school districts for local revenue lost due to presence of federally owned property and costs for "federally connected" students	<b>\$1.3 billion (FY2014)</b>	
	Promise Neighborhoods	Federal government invests in communities, chosen through a competitive process, to create jobs, leverage private investment, expand educational opportunities, etc.	<b>\$300 million (FY2014)</b>	

# Emerging Opportunities for Impact Investing

Innovation in  
Government  
Payment  
Structures

Example  
Innovation:  
Pay for  
Success

Cross-sector  
Opportunities  
Through  
Public-Private  
Partnerships

Market  
Reshaping  
Opportunities



# INNOVATION IN GOVERNMENT PAYMENT STRUCTURES

## ■ Pay for Success

- Pay for Success (PFS) is an innovative approach that harnesses cross-sector funding to achieve social outcomes; government agencies pay for the outcomes after they are achieved. Social Impact Bonds are one example of PFS projects, where philanthropic and private capital finance social programs for returns if outcomes are achieved.
- First proposed in the President's budget in FY 2012, with a request of \$100 million; FY2015 budget requests \$300 million for the U.S. Treasury
- Currently four active projects in the U.S., bringing approximately \$50 million into the social sector

## ■ HUD Rental Assistance Demonstration (RAD)

- Established in 2011, RAD helps convert at-risk public housing projects to rental assistance contracts (housing vouchers).
- This voluntary conversion gives public housing authorities access to more private and public funding sources.
- HUD's inaugural pilot (announced in early 2013) is expected to leverage about \$650 million in capital to renovate and rebuild 12,000 rental homes, creating an estimated 10,000 jobs in the process.

# EXAMPLE INNOVATION: PAY FOR SUCCESS

## Launched Projects

- Massachusetts – *Juvenile Justice*
- New York – *Justice/Workforce Development*
- New York City – *Juvenile Justice*
- Salt Lake City, UT – *Early Education*

## Active Deal Construction

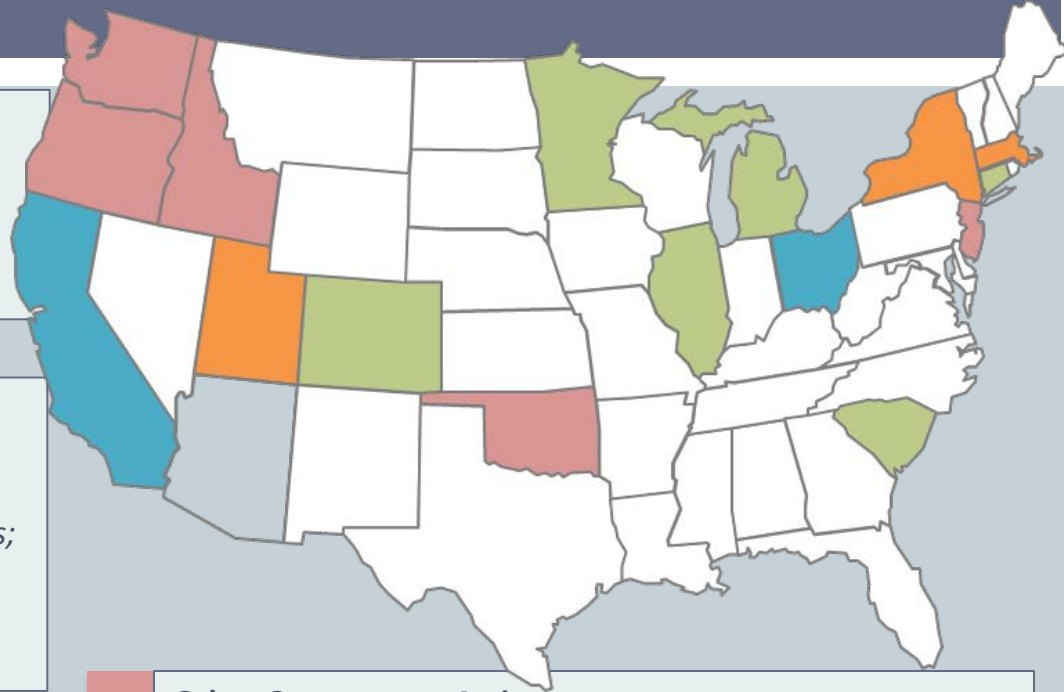
- Cuyahoga County, OH – *Family Homelessness/Foster Care*
- Santa Clara County, CA – *Chronic Homelessness; Mental Health*
- New York City – *Juvenile Justice*
- Fresno County, CA – *Asthma*

## Active Government Procurement

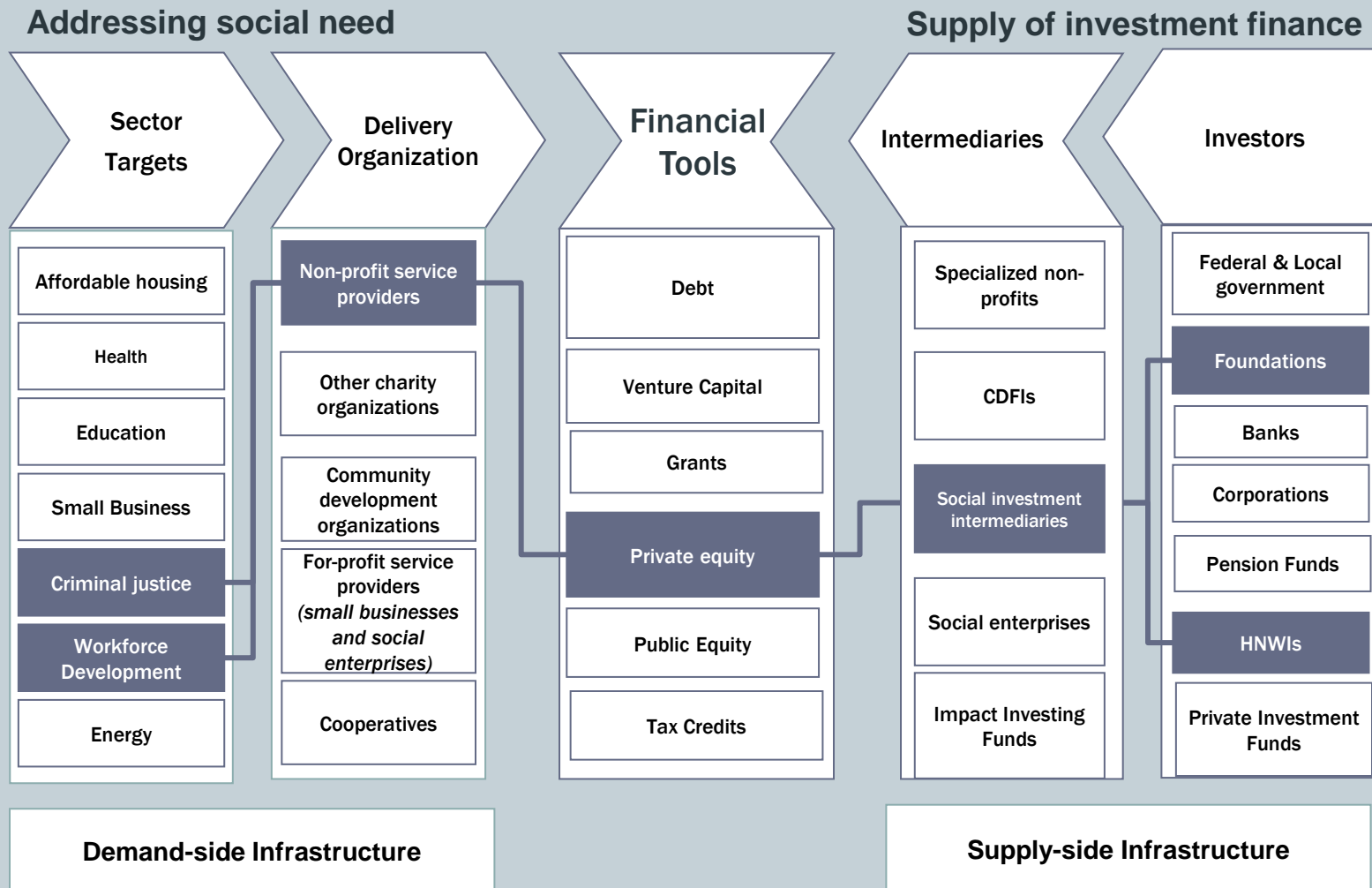
- **Request for Information (RFI)** – Denver, CO; Colorado; Michigan; Minnesota; South Carolina
- **Request for Proposals (RFP)** – Connecticut; Illinois; Massachusetts

## Other Government Action

- **Pending Legislation** – Idaho; Los Angeles County, CA; New Jersey; Oklahoma; Oregon; Washington
- **Procurement Expected** – Ohio, Pima County, AZ
- **Federal Interest**
  - Department of Labor: \$24 million 2013 grants to the state-level labor agencies in NY and MA
  - Department of Justice; \$10.5 million 2012 for research and implementation projects
  - President Budget FY 2015: Proposed \$300 million for Treasury for Pay for Success Incentive Fund



# REPRESENTATIVE DEAL FLOW: PAY FOR SUCCESS IN NEW YORK STATE



# REPRESENTATIVE STATE PAY FOR SUCCESS ACTIVITY

## **New York City:** Recidivism

- First to close a deal – pioneered a project with philanthropy guarantee
- \$9.6m from Goldman Sachs
- \$7.2m guarantee from Bloomberg Philanthropies
- Intermediary: MDRC
- Service Provider: Osborne Association

## **New York State:** Productive Employment

- Large number of institutional and HNWI investors
- \$13.5m from over 40 investors (raised by Social Finance and BAML)
- \$1.3m guarantee from Rockefeller Foundation,
- Outcome payment includes ~\$12m from US DoL
- Intermediary: Social Finance
- Service Provider: Center for Employment Opportunities (CEO)

## **Utah:** Early Childhood Development

- First to pilot a program with near-term success targets and extremely long-term results due to young age of constituents
- \$4.6m senior debt from Goldman Sachs
- \$2.4m subordinated debt from J.B. Pritzker
- Intermediary: United Way of Salt Lake
- Service Provider: Granite School District

## **Massachusetts:** Recidivism

- Initiated the first PFS Request for Information process
- \$9m senior debt from Goldman Sachs Social Impact Fund
- \$6m in grants and \$3m in subordinated debt from philanthropy (including The Laura and John Arnold Foundation, Kresge Foundation, among others)
- **\$3.31m** in deferred service fees (by Roca, Inc. and Third Sector Capital Partners, Inc.)
- Service Provider: Roca, Inc.
- Intermediary: Third Sector Capital Partners, Inc.

# CROSS-SECTOR OPPORTUNITIES THROUGH PUBLIC-PRIVATE PARTNERSHIPS

- **Partnership for Sustainable Communities (PSC)**

- A joint project of the U.S. Departments of Housing and Urban Development, Transportation, and Environmental Protection Agency
- Coordinates federal programs around transportation, energy, housing, water, and other infrastructure with local and regional planning efforts, and supports private sector engagement around implementation.
- This federal efforts towards cross-agency collaboration, and attendant policies like the Sustainable Communities Initiative, reflects growing interest in place-based investments, public-private collaboration around shared goals, and projects that have social outcomes in multiple target sectors

- **Economy, Energy, Environment (E3)**

- E3 is a federal and local technical assistance framework that supports green manufacturing, with the goal of creating jobs while promoting energy efficiency.
- E3 is a collaborative effort that utilizes existing federal resources to help local businesses assess the environmental impacts of their products, processes, and/or facilities to support sustainable growth strategies.
- An example of cross-agency partnership, this innovative use of federal government expertise helps to increase supply of environmentally-impactful enterprises

# MARKET RESHAPING OPPORTUNITIES

- **Affordable Care Act (ACA)**
  - The most significant overhaul of the U.S. healthcare system since the establishment of Medicaid and Medicare in 1965.
  - ACA increases healthcare accessibility for Americans while reshaping the ways healthcare is delivered and paid for with increased emphasis on outcomes.
  - ACA has the potential to open new doors for impact investors to support health and wellness throughout the healthcare system, including potentially, community health center expansion, and new technology that improves the quality of care, among others.
  
- **Employee Retirement Income Security Act (ERISA):**
  - ERISA sets minimum regulation for private sector pension funds.
  - Existing ERISA guidance is perceived to dissuade fund managers from taking into account social and environmental impact when making investment decisions.
  - A revision of this guidance could allow funds the legal cover to engage in impact investments, potentially increasing the scale of the market.

# U.S. MARKET IN SUMMARY

## ■ Historical Context

The U.S. has a rich and long history of public-private partnership and social investment

## ■ Current Market

- The U.S. market is large and diverse
- Multi-layer political system that includes activity at Federal, state, and local levels
- At the sector level there are tools that are relatively easy to adapt for impact investing

## ■ Emerging Opportunities

- There are significant emerging opportunities for connecting private investors to high-priority, sector-oriented initiatives
- Financial and social innovation serves as a critical catalyst for motivating private capital for public purpose

# Appendices



# APPENDIX I

## Glossary of Timeline Policy Acronyms

<b>SBA</b>	Small Business Administration
<b>HUD</b>	U.S. Department of Housing and Urban Development
<b>PRIs</b>	Program Related Investments
<b>HCDA (include CDBG and Section 8)</b>	Housing and Community Development Act (Community Development Block Grant and Section 8)
<b>Section 330 of the PHSA</b>	Community Health Center program is authorized under Section 330 of the Public Health Service Act
<b>CRA</b>	Community Reinvestment Act
<b>LIHTC</b>	Low Income Housing Tax Credit
<b>NCDI (Living Cities)</b>	National Community Development Initiative
<b>PTC (Original enactment)</b>	Renewable Energy Production Tax Credit
<b>HUD Demonstration Act of 1993 (Created Section 4)</b>	U.S. Department of Housing and Urban Development
<b>CDFI Fund</b>	Community Development Financial Institutions Fund
<b>NMTC</b>	New Market Tax Credit
<b>HFFI</b>	Healthy Food Financing Initiative
<b>SICP</b>	Office of Social Innovation and Civic Participation
<b>ARRA</b>	American Recovery and Reinvestment Act
<b>First B Corp legislation (Maryland)</b>	Benefit Corporation
<b>ACA</b>	Affordable Care Act
<b>JOBS Act</b>	Jumpstart Our Business Startups Act
<b>First state-led PFS (New York State)</b>	Pay For Success

# APPENDIX II

## Federal Housing Policies Explained

<b>Low Income Housing Tax Credit (LIHTC)</b>	Allows private investors to lower tax obligation by providing equity for affordable housing projects
<b>Section 8: Project Based Rental Assistance and Rental Based Rental Assistance</b>	Provides rental assistance funding to privately-owned multifamily rental housing developments and tenants. Addresses gap between the amount tenants can pay and the market value of the property
<b>Section 202</b>	Finances the production and preservation of low-income, supportive housing for the elderly
<b>Community Development Block Grant (CDBG)</b>	Provides states and counties with grants to address housing and community development needs in low-income areas
<b>HOME Funds</b>	Primarily used in conjunction with other programs. Provides gap financing for affordable housing development
<b>Capital Magnet Fund</b>	Provides competitive grants to CDFIs to finance affordable housing and community development
<b>Federal Home Loan Banks: Affordable Housing Program</b>	Member banks must commit 10% of net income to fund program
<b>Section 4</b>	Provides grant funding in support of capacity building and technical assistance for non-profit organizations in community development and affordable housing
<b>Federal Housing Administration Multifamily Mortgage Insurance</b>	Government-run mortgage insurer, with a focus on affordable housing
<b>Freddie Mac and Fannie Mae</b>	Government-sponsored enterprises that purchase and securitize multifamily mortgages, with explicit obligations to support affordable housing
<b>Community Reinvestment Act (CRA), Community Development investments</b>	Requires regulated retail banks to direct financing to low-income communities
<b>Section 8 Tenant Based Rental Assistance</b>	Provides vouchers, subsidizing rents for eligible low-income households

# APPENDIX III

## **Representative Social Impact Bond Market Sizing**

A 2012 McKinsey & Company report provided an in-depth analysis of the potential market for social impact bonds in the areas of chronic homelessness, and criminal and juvenile justice. The exercise also revealed that sizing the market for additional areas where PFS might be relevant (like chronic disease management, maternal health and early childhood development) requires significant customized analysis and expert assistance.

### ■ **Chronic Homelessness**

- Estimated federal, state and local government spending on remedial homeless programs was \$6 - \$7 billion (2010)
- Estimate included both program targeted for homeless individuals or families, and mainstream programs (like Medicaid and food stamps) that serve homeless people as well as a broader population
- 110,000 chronically homeless people could benefit from an intervention like Permanent Supportive Housing

### ■ **Criminal and Juvenile Justice**

- National corrections spending was \$74 billion (2007)
- Average corrections spending was \$80,000 per youth and \$30,000 per adult, respectively
- It is not possible to estimate national remedial spending on criminal and juvenile justice since the individuals health, length of stay and required security level are significant factors for which aggregate data is lacking. Incarceration costs also vary greatly by state.
- 900,000 adult prisoners incarcerated offenses and 1.6 million adult prisoners with a mental health or substance abuse disorder, plus 100,000 juveniles could be candidates for alternatives to incarceration

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