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Executive Summary

Purpose: Nonprofit Finance Fund (NFF) proposal to Structure Pay for Success (PFS)

Transactions Eligibility: 501(c)(3); nonprofit organization; NFF is sole applicant, submitting only one application, with no subcontractors and no pre-selected sub-grantees; we have not been convicted of a Federal crime and we will not engage in lobbying.

Geographic Focus: National

Grant amount request: \$5,400,000 (\$1,800,000/year)

Proposed grant period: 3 years

I. Program Design

NFF proposes to intermediate SIF funds for Pay for Success (PFS) transaction structuring and to expand PFS knowledge sharing. The proposed program leverages NFF's recognized roles as a leading PFS market facilitator, a knowledge integrator and an independent trusted advisor to multiple PFS stakeholders (service providers, government, investors and foundations, intermediaries, and evaluators) across a broad range of geographies and social issues. All of NFF's work in the PFS arena is designed to nurture responsible systems change that supports funding of preventative services that can deliver positive outcomes to low income communities and underserved geographies while directing taxpayer dollars to programs that get results. The SIF program has been designed to complement rather than supplant our ongoing PFS activities, including our continuing work with the California Pay for Success Initiative and the Federal CDFI Fund Award, neither of which we believe will conflict with this award. Utilizing NFF's diverse nationwide networks, experienced PFS team, and history managing similar PFS sub-grant initiatives, NFF's proposed program will (i) develop and execute an open, transparent, and competitive sub-recipient selection process that will emphasize the SIF funding priorities and give preference to proposed interventions with a moderate (or better) level of evidence (as defined by CNCS), (ii) create and share well-defined criteria by which to assess opportunities to successfully structure and close PFS transactions, and (iii) collect and share knowledge and tools through NFF's learning platforms, such as our market-leading Pay for Success Learning Hub website. NFF has designed our proposed selection process so that we will invite applications from potential sub-recipients of transaction structuring support, who have themselves selected Transaction Coordinators to help guide the structuring process. We will establish objective criteria to consider in selecting qualified Transaction Coordinators and will provide open public access to these criteria so that they will be broadly available to the market and more specifically, to

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governments and providers interested in structuring PFS projects with guidance from a qualified Transaction Coordinator. This design serves to educate and broaden access to PFS for more potential sub-recipients and enables informed, comprehensive applications for transaction structuring support to be crafted by potential sub-recipients with Transaction Coordinator support and it preemptively addresses any potential conflicts of interest that might arise from NFF having a direct role in selecting Transaction Coordinators.

II. Organizational Capability

NFF has significant experience in designing and managing complex re-grant programs for high-performing providers, including all phases of work from the selection process to reporting out learnings to the field. One example of this is the Leading for the Future (LFF) initiative in which we partnered with the Doris Duke Charitable Trust. From 2009-2014, NFF distributed \$12 million in LFF funds to provide "change capital" grants and technical assistance to 10 high-performing national arts organizations (selected from 1300 nominations and 20 complete applications), effectively demonstrating that grants invested to enable organizational change can enable organizations to realign revenue with the full costs of operations. Also, as a federally certified Community Development Financial Institution (CDFI), NFF has had longstanding success as an intermediary financing economic revitalization projects in low-income communities through a variety of financing vehicles and with disciplined portfolio management. NFF manages a portfolio of roughly \$300 million in assets and has made over 700 loans supporting in excess of \$1.4 billion in projects in these communities. A particularly relevant aspect of NFF's capabilities is the significant experience and expertise NFF has developed as the PFS fund intermediary for the California PFS Initiative. Launched in January 2014 with a \$2.5 million grant from, and in partnership with, the James Irvine Foundation, NFF designed and implemented a program to provide flexible funding and expert support to five leaders (selected from an open competitive process that attracted 38 applicants) who will structure PFS agreements in California over the next two years. In addition, the CA PFS Initiative has created a learning community for the leaders, regional and national technical assistance experts, and intermediaries that are engaged to explore PFS opportunities around evidence-based and promising interventions. As is the case with each of these three examples and all of our work, NFF's significant investment in implementing the Salesforce data management system throughout our operations will provide the necessary capacity for the real-time oversight and reporting involved in our program for SIF.

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III. Leadership and Team

NFF has 30+ years of experience in grant administration and accounting, financial analysis and federal grant compliance and has been a leader in the PFS field in the U.S. since its inception in 2010. Our team has managed numerous federal grant and contract awards and the 18-person team supporting the SIF PFS work includes 15 current staff averaging over 11.5 years of experience in nonprofit grant accounting, financial planning and analysis, and federal grant compliance. Our program augments NFF's in-house experience and expertise with a national "panel of experts," comprised of a select voluntary network of organizations, that NFF will call on periodically during implementation for advice in their areas of specialized interventions and technical expertise.

IV. Cost Effectiveness and Budget Adequacy

The project budget totals \$1.8 million in SIF funding annually for a three-year total proposal of \$5.4 million in SIF support. NFF has secured a \$1.08 million grant, which is a full three-year match (20% of \$5.4 million), from the Laura and John Arnold Foundation for administration and knowledge sharing activities. The remaining match of \$4.32 million, or 80% of the SIF funding, will be passed through as sub-grants to support transaction structuring and will be matched at the sub-grantee level. Our experience demonstrates that matching at a sub-grantee level is an important signal of local commitment and support for PFS activities.

Program Design

1. Program Design

1a. Goals and Objectives

Nonprofit Finance Fund (NFF) proposes to administer a \$5.4 million national program over three years, of which \$4.32 million (80%) will be sub-granted to support Pay for Success (PFS) transaction structuring. NFF's vision is one where "capital and expertise come together to build a more just and vibrant society." Our theory of change for this Competition grows out of this vision and is twofold - an expansion of Pay for Success transactions contributes to a just and more vibrant society by providing more reliable and sustainable funding for high-performing service providers. Beyond specific transactions, our proposed transaction structuring program for accelerating PFS transactions is a means to a bolder, more strategic end. We believe PFS can fundamentally improve how preventative social services are funded by better aligning payment with outcomes, helping ensure results, and providing more reliable and sustainable funding for high-performing service providers that ultimately

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delivers meaningful, positive results for individuals, families, and communities in need. From our 34 years providing capital and advice to service providers and their funders, we know that supporting effective service delivery and sparking fundamental improvements in funding practices requires analytical discipline and sensitivity to the interests of diverse stakeholders.

Our Theory of Change is founded on three key principles:

- 1) objectivity and unbiased, independent assessments are essential for finding solutions that work;
- 2) transparency and collaboration are essential for making them work for more people; and
- 3) support to the field must be grounded in a deep understanding of how capital, incentives, and outcomes actually work across the social services sector, not theoretical assumptions about how they *should* work.

These principles have guided our work as a leader and honest broker in the U.S. PFS field since its inception in 2010. We have designed and run a range of programs to support broad-based, accessible education and participation in the PFS field across geographies and issue areas: NFF's PFS Learning Hub (www.payforsuccess.org) is a central, curated site for knowledge integration and learning; NFF's Incubators and Accelerators provide targeted and tailored training for high-performing services providers to understand and plan for the organizational adaptations required to effectively access capital through PFS models; and the CA PFS Initiative is a collaboration between NFF and the James Irvine Foundation funding local government leaders and other stakeholders to advance evidence-based programs towards launched PFS transactions. These programs are applicable to an array of issue areas and have been well-received across the country addressing knowledge sharing, stakeholder capacity building, transaction structuring, and execution in the nascent but growing PFS market.

Drawing on all of this experience, and with these principles underpinning our approach, we propose two overarching objectives and short-, medium-, and long-term goals to guide our activities to achieve them. NFF's primary objective is to leverage our expertise and reach in the social finance and PFS fields to direct SIF funding to the widest range of transactions nationwide that expand "high-quality" opportunities, which we define as evidence-based interventions demonstrating positive outcomes. However, good transactions are not enough. NFF's secondary objective is to broaden the PFS field through ongoing learning and knowledge sharing that supports new players to enter the PFS market and strengthens the infrastructure for PFS to evolve and scale. Ultimately, we intend to

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transform PFS from a set of disconnected experiments to a sustainable and growing industry. The administration of a national program to support transaction structuring augments NFF's work building and strengthening a national infrastructure upon which the viability of PFS financing can be explored and, if and when its potential is realized, also expanded.

Our goals reflect our objectives to identify and support high-quality transactions that can catalyze broader industry development and positive systems change.

Short-term goals: Accelerate the launch of well-constructed PFS transactions by identifying and supporting diverse opportunities, and building deeper, more widespread knowledge on the transaction structuring process to facilitate the entry of more Transaction Coordinators (TC) and interested Sub-Recipients (SR) (governments and nonprofits with scalable, preventative programs) in the market.

Medium-term goals: Enhance government and intermediary capacity to assess and construct viable transactions on an ongoing basis, increase the number of service providers with capacity to participate in PFS and other outcomes-based financing arrangements, and build a broader network of philanthropic and commercial investors in this space.

Long-term goals: Catalyze a viable and sustainable PFS industry that can prompt wider systemic change in how social services are financed so that more taxpayer dollars support social sector programs that produce positive results.

Measurable outcomes / deliverables: Based upon the program activities outlined in this application and in pursuit of our theory of change, NFF will assess the progress of our program activities through a set of measurable short-term outcomes. These short-term outcomes will facilitate our two overarching objectives to direct SIF funding to the widest range of transactions that expand high-quality, evidence-based, outcomes-focused opportunities and to broaden the PFS field through ongoing learning and knowledge sharing that supports the entry of new players to the PFS market and strengthens the infrastructure for PFS to evolve and scale.

The primary outcome will be the provision of \$4.32 million in grant funding to an estimated 20 SRs (anticipated as state, county, or local governments, and nonprofit providers) to structure high-quality

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PFS transactions with the support of TCs. Those SRs selected for SIF funding will be expected to structure and close PFS transactions within two years of receiving support. As such, we anticipate 8 to 12 transactions funded through the program will get to contract within the three-year SIF grant term (depending on the timing of sub-grants awards). We have developed deliverables, which will be realized through our supporting activities, to ensure we address both the qualitative and quantitative aspects of this outcome.

These deliverables include developing a set of criteria by which to assess viable PFS projects and the pre-conditions necessary to structure high quality transactions. These criteria will be shared with the field broadly via a dedicated section on our PFS Learning Hub website for SIF PFS, as a means of increasing awareness and strengthening the field. The criteria also will be a resource to potential applicants for structuring support. As described in 1b, SRs, with the support of their chosen TCs, will apply for the grant funds and applications will be assessed against these criteria. Applications will be reviewed over an estimated 4-5 open and competitive applications rounds occurring every 4-6 months until the grant funds are fully allocated so that as exploration of PFS applications expands over the next three years, we can direct SIF funding broadly to support innovative and transformative opportunities and new market players. Prior to opening the first application process, NFF will also make resources available on our website to help sub-recipients interested in structuring PFS projects to select skilled TCs whose contributions and leadership to transaction structuring will help ensure the development of “high quality” transactions. These resources are another project deliverable that, in conjunction with structuring the application process to include multiple rounds, will allow SRs not selected in an initial round to incorporate feedback, improve their program, and reapply. For funded projects under SIF PFS, NFF will foster a collaborative learning network between SRs as well as provide them information and support for their transaction structuring efforts, as our experience with the CA PFS Initiative suggests this is a value-add activity that will enhance the SIF PFS program and help SRs achieve their outcomes. We will further monitor quality during the execution of the sub-grants to ensure fulfillment of and compliance with SIF and related federal requirements. Additionally, we will define performance metrics upon award selection and evaluate recipients against them throughout the sub-grant term.

In addition to deliverables outlined above, NFF will also create and compile resources on the transaction structuring process and conduct an information session webinar about the application and

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selection process, so that potential applicants are well-prepared to enter into this process. To ensure a broad and diverse pipeline of applicants (we are targeting no less than 30 applicants over the term of the project), we will provide the information session webinar for a minimum of 60 potential applicants, who can participate live or through a recording made available on our PFS Learning Hub. We project delivering funding to at least 5 SRs by Q3 2015, 10 by the beginning of 2016, 15 by Q3 2016, and deploying all \$4.32 million by Q1 2017.

The activities and corresponding deliverables articulated above are designed to catalyze transaction execution nationwide and support the SIF PFS goals to: assess the potential of PFS to address a multitude of social issues relating to diverse populations in diverse geographic contexts; strengthen and diversify the pipeline of governments and nonprofit organizations that are prepared to engage in PFS projects; and attract capital to high-performing organizations that are seeking to strengthen, grow, and sustain effective solutions for challenges facing low-income communities. Ultimately, NFF shares SIF's hope and expectations that these activities will accelerate the national market for future PFS transactions and evidenced-based programs to address systemic issues across communities.

Our secondary outcome is to share learning and facilitate knowledge transfer. Our knowledge sharing activities, discussed in detail in 1c, are designed to deepen sector knowledge through encouraging transparency and collaboration. Deliverables associated with deepening knowledge will include, but may not be limited to, a yearly sub-grantee web convening, developing and administering a sub-grantee listserv, posts to NFF's SIF PFS section on the PFS Learning Hub, and a minimum of two blog posts per year. NFF will support an increased reach of PFS through developing an open, online repository of information and materials that can support potential applicants to solicit TCs and devise comprehensive work plans, budgets, and timelines. A specific SIF PFS section on our PFS Learning Hub, which currently reaches around 2,500 people each month, will serve as the communication platform for this outreach. Reports, webinars, and SR virtual convenings will be hosted on this site over the grant period. We will assess these activities by counting the number of people they reach and measuring the extent to which they deepen the knowledge of those who access them. This can be tracked using metrics such as the number of documents created, the number of views/downloads, and the geographic location of those accessing the content. Further, PFS Learning Hub analytics allow us to estimate if the site experiences an increase in traffic as the SIF initiative ramps up. Additional analytics may include data on potential applicants receiving support or participating in education

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sessions.

Strengthening the Field and Increasing Understanding of PFS: Our theory of change - complete with activities, deliverables, and outcomes - is designed to strengthen the PFS field toward the long-term goal of catalyzing lasting and fundamental change in funding practices for solutions that work and enabling them to work for more people. The cornerstone of our field-broadening work will be to connect approximately 20 feasible projects with transaction structuring expertise. This will accelerate an otherwise long and complicated process that involves innovation at many junctures and collaboration among multiple stakeholders. These projects will have higher impact on their target populations due to the rich resources NFF brings to the table as a veteran member in the PFS field in addition to our robust knowledge sharing activities.

Around these cornerstone transactions, our outreach and knowledge sharing work will spark self-reinforcing momentum in the PFS field beyond those we fund directly. Sharing process and template documents for transaction structuring and other learnings from sub-grantees through a repository on our PFS Learning Hub will make it easier for more TCs and SRs to enter the market. Supporting more transactions and sharing what we learn in the process will ease the launch of innovative transactions in new interventions. Further, we will participate in educational forums across the country (through our ancillary activities) and share our learnings and experiences with interested market players beyond potential SRs. Having participated in 75 events on social impact financing last year, we know how powerful outreach can be when grounded in specific examples from actual transactions. This will also increase awareness and understanding among government officials, private funders, investors, and service providers. On the local level, our rolling application model, online resources, and availability of NFF technical assistance will allow an unlimited pool of interested parties to gain insight and feedback as they develop and seek to structure PFS models. Parties interested in analyzing our aggregated data will have access to our learnings and documents on our PFS Learning Hub.

Alignment with SIF Priorities: As evidenced in 2d, NFF is a national organization dedicated to spreading the opportunities of the PFS model across underserved issue areas and geographies. In addition, we have a longstanding history supporting organizations within SIF Tier 1 funding priorities of Healthy Futures, Economic Opportunity, and Youth Development. As such, we have a common interest in running this competition in alignment with the SIF priorities. We intend to balance

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prioritizing funding to projects in these areas with the broader purpose of the SIF PFS competition to "encourage the implementation of PFS strategies in order to enhance the reach and impact of innovative community-based solutions that have evidence of improving the lives of people in low-income communities." Our selection criteria will award points to projects that align with SIF funding priorities, applications representing geographies and issue areas not broadly represented thus far in the PFS arena (and in so doing expand the exploration of PFS₂ applicability and potential in a broader range of locations and social issues), and those that provide comparable examples to others operating in similar types of geographies and social issues. This is an important part of how NFF will use the criteria and selection process to identify and advance innovative, evidence-based programs that have the potential to not only impact the PFS community, but also to serve as a replicative example. However, in order to receive funding, applicants will also demonstrate that other conditions necessary to structure successful transactions exist. More fully defined in 1b, this will include completion of a high-quality feasibility assessment to ascertain scalability and positive, evidence-based outcomes; strong leadership; momentum and stakeholder buy-in; engagement of strong structuring partners and TCs; provider capacity for delivering the intervention(s) under the PFS structure; local commitment of support and match fund resources; and a comprehensive budget, timeline, and scope of work.

As described in detail in 2b, NFF was awarded \$1.15 million from the CDFI Fund to invest as subordinate debt in PFS transactions. We expect that the program we are proposing in this application will supplement NFF's ongoing work with the CDFI Fund. In addition, we believe that our CDFI Fund role will serve an important market function by facilitating increased participation of other philanthropic funders (who provide credit enhancement and subordinate debt critical to structuring PFS transactions) in transactions that are currently in process. We are in the process of assessing two potential transactions for CDFI Fund investment within the coming year that both are currently in the transaction structuring stage and it is anticipated that commitments of the entire CDFI Fund award will be made prior to the end of 2014. Intermediating the deployment of these CDFI Funds in transactions will also enable NFF to build and share greater insight into effective transaction structures than is currently available to any interested party that has not participated directly in a PFS transaction or similar outcomes-based financing approach. We intend to use this knowledge in our work under this proposed program and to help build the field through NFF's information sharing plan and learning platform discussed in detail in other sections of this proposal.

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NFF has taken a central role in the nascent but growing PFS market because of the potential it could have to better capitalize the social sector. Our activities in the space have been designed to address barriers to exploration and application of PFS and to support innovation and adaptation necessary to enable PFS to be tested. As such, our PFS related initiatives all have discrete, but complementary aims connected by a larger goal of reducing barriers to entry in the PFS space and supporting exploration of its application in different markets and social issues. Our CDFI Fund award, for instance, aims to support the entry of critical philanthropic equity into early stage transactions, while our Incubators and Accelerators aim to shore up the adaptive capacities of service providers to successfully participate in outcomes based financing transactions. Intermediating a SIF fund to support transaction structuring and serving as an independent, educated party vetting proposed PFS opportunities to ensure they have the necessary pre-conditions to be successfully structured as PFS transactions is yet another complimentary but distinct activity aimed at supporting the development of a strong infrastructure upon which PFS can develop as a viable, replicable, social financing mechanism. As such, NFF's proposed program to intermediate SIF funds to support transaction structuring, expand knowledge sharing, and identify of innovative, effective solutions has been carefully designed to support and not supplant our ongoing activities, including those with federal funding. Maximizing each funding opportunity to enhance our field-building activities in the PFS space in a complimentary, additive manner is the most efficient path to affecting impact in the space.

1b. Description of Activities: Provision on Transaction Structuring Services

NFF proposes to run periodic, open, and transparent competitions for sub-recipients (SRs) that seek funding to structure PFS transactions with guidance and expertise of Transaction Coordinators (TCs). We will expect SRs to have identified a TC prior to submitting a proposal for SIF funding. As described in 1c, we will provide guidance for selecting TCs and criteria to consider prior to structuring PFS transactions. We will also provide planning support through broad knowledge sharing efforts and direct support from NFF staff for all potential applicants. Below, we outline our plan for selecting SRs to receive SIF funding for transaction structuring activities and building strong oversight and support to move funded projects toward success.

We plan to launch the first round application for SIF support to structure PFS transactions by January 2015. We expect respondents in the first application round will have completed feasibility

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assessments of proposed projects prior to the launch of the SIF PFS program. This expectation is based on our direct knowledge of current PFS activity, sourced from our deep networks with current PFS stakeholders and displayed on NFF's PFS Activity Map on our Learning Hub. Beyond this standing pipeline (currently at least 20 projects assessing feasibility), the SIF PFS feasibility awards will provide for a greater and more diverse number of PFS projects to be initiated over the next two years. To tap into emerging opportunities beyond those already in the pipeline, NFF will invite and review applications for transaction structuring support on a periodic basis (estimated at twice a year) until all available SIF funding is allocated (estimated at up to five application rounds).

NFF has developed a list of key criteria against which all applicants will be scored. We will prioritize support to projects that align with SIF priority funding areas, while also demonstrating strong capability to structure and close a high-quality project, based on weighted criteria.

1) Proposed PFS intervention Suitability: NFF will assess whether the application is high quality, defined as an evidence-based intervention demonstrating positive outcomes - whether those outcomes can be quantified - the extent to which quantifiable outcomes include savings that can be captured at the proposed back-end payor level, and whether the feasibility assessment suggests that the program can be effectively scaled with PFS financing. We will prioritize programs with a strong evidence base (e.g., Random Controlled Trials, quasi-experimental evaluation, and/or strong provider performance data). Ideally, a feasibility assessment and/or cost benefit analysis will be completed (or near completion) so to assess the intervention's alignment with PFS.

2) Capabilities of Selected Transaction Coordinators: We will assess the strength of selected TCs based on the following capabilities: PFS, SIB, and/or other social finance structuring experience; financial modeling expertise; ability to raise and manage investment capital; and ability to coordinate and vet effective providers, evaluators, payors, and other transaction partners. TCs should have relevant program area expertise or the ability to partner to acquire it, willingness to share knowledge and lessons learned with the field, and strong project management/collaboration capabilities (e.g., working with multiple stakeholders to achieve a common goal, having or building local relationships). TCs should also exhibit strong organizational leadership, governance, and core financial management and administrative capacities. As indicated, we will require applicants to have selected a TC in advance of application through an open, transparent process consistent with local procurement guidelines.

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3) Sub-recipient and stakeholder capacity/engagement: NFF will assess the ability and staff capacity of all partners to fully engage in pursuing a PFS project, including dedicated staff or project managers, prior education or experience with outcomes-based finance, and identification of high quality service providers. If service providers have not yet been selected, we will assess applicants' intention to select service providers with multi-year track record of delivering evidence-based program and demonstrated ability to bring programs to scale. As appropriate, we will ask applicants to describe the demonstrated commitment of potential government back-end payor(s) (e.g., enabling legislation, set-aside funding) to create an enabling environment in which PFS can succeed.

4) Award Usage & Proposed Work-plan: NFF will assess applicants on the extent to which they reflect a clear, reasonable outline for award usage and justification for how the award will help catalyze a high quality transaction. Applications will also be assessed on proposed work plans, timeline and budget, and demonstrating a comprehension of the steps necessary to reach successful transaction launch. We anticipate asking applicants to clearly outline the likelihood of successfully reaching contract and identifying potential barriers.

5) Match Funding: Applicants will be required to have 10% of a 1:1 funding match committed or in-hand at the time of application and an outline of planned sources of match, describing both cash and in-kind, if applicable, consistent with the parameters outlined in the SIF PFS NOFA and to demonstrate capacity to secure remaining match funding in line with CNCS parameters for match funding. Local stakeholder support and buy-in is a critical determinant of success for a proposed PFS project, given the innovation, complexity, and risk inherent in these new funding mechanisms. Additionally, having local stakeholders invested in the transaction structuring process provides another level of local oversight and support to TCs that ensures representation and knowledge of local communities.

6) Alignment with SIF Priorities: In our selection process, NFF will consider balancing characteristics of the portfolio in addition to the aforementioned selection criteria. We will seek to prioritize projects in geographies and focus areas that are currently underserved by PFS efforts, as well as projects that fall within SIF Priority Funding areas. Those new to the PFS model and approach (be they geographically or by issue area) will have the opportunity to receive feedback from NFF through the open selection

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process, incorporate feedback that could enhance and strengthen a second application, and have the opportunity to apply in a later round. As we are committed to growing the field of PFS, this feedback process ensures that more players have the expertise and experience to support transaction partnerships. We will aim to support new players to the market provided they have the necessary expertise to lead project structuring.

We anticipate that potential SR applicants will receive significant support from TCs in compiling and submitting their applications for support. We see this as a positive occurrence, as it allows for the TCs' experience in PFS or similar social financing work to be brought to bear in project and budget planning, and also contributes to building knowledge and experience in the broader use of PFS models and financing. As discussed in 1c, our website will include guidance to potential applicants on selecting qualified TCs and NFF staff will be available to provide technical assistance in this regard also.

Post-Selection Oversight and Support: Once projects for funding have been selected based on relative strength against the criteria above, we anticipate making sub-grants of \$75k-\$250k per year using SIF funding (not including match dollars). Based on NFF's experience in administering the CA PFS Initiative and general market intelligence, we estimate that the full cost of structuring a PFS transaction is somewhere between \$400,000 and \$500,000 per project during the market's evolution. Taking this into consideration, we anticipate that most of the awards we make with SIF funding will be on the higher end of the allowable sub-grant range. We estimate a total of 20 sub-recipients to be supported with dollar grant awards through the grant term. This is part of our plan to ensure that projects have adequate resources to move toward success.

Additional plans to maintain strong oversight, to support sub-grantees, and to confirm applicants have the necessary resources and support to move projects toward successful close include: the aforementioned requirement around match funding at the project level, ongoing monitoring and NFF staff support from a dedicated relationship manager with PFS expertise, co-developed determination of performance metrics and progress tracking against those goals, continued sharing of information on the PFS Learning Hub, annual virtual convenings of sub-grantees, and a sub-grantee list-serve to foster connection and sharing.

Once SRs have been selected to receive SIF funding, NFF's program staff (who serve as relationship

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managers for the sub-grantees, with support, guidance and oversight from NFF's SIF Program Director) will work with sub-grantees to finalize a scope of work, timeline (that includes deliverables), and final budget that will be reflected in the sub-grantee funding agreement. This will allow us to apply the experience gained from observing and supporting PFS transaction structuring work in the CA PFS Initiative to the SIF program to certify that initial application variances are surfaced and addressed prior to funding. On an ongoing basis, we intend to have bi-monthly monitoring calls with all sub-grantee partnerships (TC and SR) to ensure progress against timelines and to stay apprised of any challenges that may arise.

Throughout the post-selection oversight, we will determine if, and under what circumstances, we will consider making additional funding available to current sub-grantees through subsequent application funding rounds. Some of the factors that will influence this decision include: the demonstrated demand for funding from new applicants, the pipeline of other feasibility assessments underway, the amount of funding initially provided from SIF to the sub-grantee (not to exceed \$250k annually), the availability of other funding support in the market to satisfy the additional need, and the specific nature of the request for additional funding.

Throughout the time period of the grant, we will engage in the SIF's programmatic evaluation with the CNCS-selected third-party evaluator. As per final sub-grantee agreements, we will confirm that all sub-grantee partnerships be versed in all facets of evaluation participation and reporting requirements, with a goal of transparency and shared learnings to further the field.

1c. Description of Activities: Proposal for Knowledge Sharing

NFF is dedicated to supporting the independent national evaluation and learning community of the SIF PFS Program. We have extensive experience furnishing data and metrics for other initiatives and evaluations including our CARS (CDFI Assessment and Rating System) rating with AERIS to whom we must periodically provide performance data to maintain our strong AAA+2 rating, the New Markets Tax Credit yearly application which includes extensive data reporting, and yearly detailed reports on our loan clients as well as grant applications for the CDFI Fund. As described in 2c, we have the systems in place, primarily via Salesforce, the world's leading Client Relationship Management (CRM) system, to collect and easily access and report on large amounts of information at both the grantee and sub-grantee and SR level. We will acquire an additional block of storage space specifically

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for documentation related to the SIF competition. In addition, we have a full-time Manager dedicated to administering and providing reports from our Salesforce system.

One of NFF's primary goals in the market is to be an open-source clearinghouse and efficient disseminator of information on the burgeoning PFS field. Our PFS Learning Hub is the most comprehensive open resource of updated, real-time news and information from all types and locations of PFS stakeholders. Through the SIF initiative, NFF similarly is committed to making the transaction structuring process as comprehensible and transparent as possible.

How NFF will Provide Public Access to Document Resources: NFF will aggregate document resources, make anonymous where legally necessary, and post publicly in a dedicated section on the PFS Learning Hub (when in accordance with legal and proprietary regulations) so they may be readily viewed and downloaded. The details of what we will collect and share are described below. NFF will also send periodic email blasts to publicize the availability of these resources, communicate their availability via various digital media including our twitter handles @NFFSocialImpact (1740 followers), @nff_news (12,470 followers), and targeted outreach. We have maintained the Learning Hub since 2010 (over 3,500 members) and our Knowledge & Communications department specializes in strategic outreach through social media and more traditional formats.

Providing Documents on Pre-Transaction Feasibility: As outlined in 1b, through the application process, NFF will ask for evidence that a feasibility assessment has been completed. This information will be shared, to the extent possible, on the PFS Learning Hub if it has not already been shared publicly by feasibility assessors. Other potential transaction leaders can then leverage these resources. While specific data from one region may not entirely apply to another (e.g., a supportive housing program in Compton vs. Omaha), the documents and processes provide guidance - a crucial starting point - and make the process more transparent and efficient for the market.

Providing Documents and Data on All Elements of Transaction Structuring: As with the pre-transaction deal feasibility resources, NFF also will collect information from the transactions that are structured with SIF funding. These may include legal documents, costs benefit analyses, cash flows, scopes of work, and budgets. We will share as many documents as possible to increase access to data and, therefore, data analysis capabilities. This activity will foster the creation of more TCs and more

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data analysis capacity by increasing the accessibility of meaningful and deep details of PFS transactions.

Beyond what is required, NFF will facilitate cross-learning and build a peer network among sub-grantees and SRs and share learnings from the SIF Initiative with the field more broadly through the PFS Learning Hub and beyond.

Cohort activities: 1-2 sub-grantee web chats per year, administration of sub-grantee listserv to enable shared learning and communication as well as encourage efficiencies and connections;

Field-building: 2 SR authored blog posts per year and ongoing NFF participation (funded through other NFF PFS Initiatives) in forums, panels, and educational opportunities across the country that will be support and enhance the SIF Program;

Bi-monthly monitoring of progress of sub-recipients/grantees: opportunity to provide additional support and facilitate connections in promoting cross-learning and leveraging NFF's expansive and growing network of others leading exploration in this space.

Our goal in all of the aforementioned activities is to reach a wide range of audiences, enhancing PFS knowledge for all, no matter their current sophistication level. We believe our knowledge sharing strategies can help to educate and thereby broaden the pool of potential well-qualified applicants for PFS funding, by giving new entrants a well-lit pathway into the field.

1d. Description of Activities: Proposal to Identify Innovative, More Effective Solutions

The first step in identifying innovative, more effective solutions will involve investing in feasibility and capacity to expand PFS into more communities and issue areas, as SIF seeks to accomplish through the Technical Assistance component of the PFS Competition. NFF sees the transaction structuring component as an extension of these efforts. We will aim to transform participation in the PFS model by delivering a two-pronged, reinforcing approach: 1) education to governments and other participants on what PFS has to offer local communities and how best to prepare to apply for transaction structuring support; 2) a set of criteria that drive selection towards projects and transaction teams that can deliver success beyond one particular transaction, and include

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interventions that can be replicated and scaled by other parties, thereby growing the participation and impact of PFS.

All of this will be accomplished through the direct experience NFF brings from educating and growing the PFS dialogue for more than four years. NFF will utilize its large and standing national network, including the Mayor's and Governor's Associations, issue affinity groups, community development finance institutions, nonprofit provider associations and umbrella groups, and research and evaluation experts as well as our existing and growing PFS Funder Working Group, comprised of 24 philanthropies active in or exploring the PFS space, to ensure we are reaching geographies (especially beyond the northeast and west coast) and interested parties that are not currently involved in PFS activity. Complementing our networks, we have held educational convenings, capacity building trainings, and webinars in diverse locations in the Midwest (IN, MI, MN), South (TX), mid-Atlantic (PA), and mountain states (CO) that have expanded PFS' reach. Additionally, NFF's recent and specific experience of designing and executing on the CA PFS Initiative provides a model for a similar selection process where we have been able to harness innovative ideas in local communities and support various teams (governments, providers, and intermediaries) to advance five projects in various stages of transaction readiness, while also identifying an additional 33 projects involving diverse locations and mission areas that were in earlier stages of development. For example, based on a wide outreach plan (social media, press releases, emails to philanthropic and affinity group networks), NFF received applications from emerging issue areas such as healthcare, youth employment, mental health, and place-based collective impact strategies in a range of communities many of which were in early stages of PFS exploration. This is indicative of the scope that NFF's outreach strategy can yield and how it can effectively bring greater, more diverse participation to the PFS field.

It is clear that one measure of success in all of this work will be the number of closed transactions. However, capturing the longer term learnings and identifying sustainable PFS financing models are also critical to advancing PFS replication and simplifying the uptake of these models across the country. As we discussed in 1c, NFF will incorporate an active and ongoing learning agenda that will leverage our existing online PFS Learning Hub and build transparency requirements into the awards to SRs and sub-grantees such that feasibility assessments and key transaction and process documents (sample RFPs, sample structuring work plans, budgets, timelines, etc.) can be shared as much as is

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possible and legally allowed. The greatest measure of success in transforming the PFS field under this award will be the degree to which projects and transactions can be supported after the SIF PFS project concludes its three years of investments. NFF's proposed activity under transaction structuring will maintain outreach and education, replication and scaling, and ongoing learning as critical to successful transaction completion.

1e. Work plan and deliverables

NFF has budgeted for the involvement of 18 staff on this project. (See 3a for a description of this staff and their respective roles). All but three of these (Program Associate, Grants and Operations Associate, and Financial Compliance Analyst) are existing NFF staff, named in 3a below. The below provides deliverables, their associated timeline, which project staff would contribute to each deliverable, and the estimated hours of activity contributed to (and budgeted for) by staff.

Pre-Application & Set-up Period: These activities are tied to launching the program and preparing for the initial application round (anticipated for Q1 15), thus they will occur from Q4 14- Q1 15.

1. Award Announcement (93 combined hrs from 8 staff: Led by Program Director (PD) with Program Associate, Analyst, & Coordinator support ; Managing Director (MD) and CEO guidance; Knowledge & Communication (K&C) Director leading outreach with K&C Associate support)
2. SIF PFS web platform development (131 hrs from 9 staff; Guided by Prgm Director; Led by Associate Director (AD) with support from Analyst, Grants & Operations Associate (G&O Assoc.), K&C Dir & Associate, and IT Dir. & Manager)
3. Creation and compilation of resource materials to include on website (300 hrs from 7 staff mainly in Yr 1 with updates over grant term; AD leadership, with Manager, Associate & Coordinator support and MD, VP, PD guidance)
4. SIF PFS Initial Training (840 combined hrs over 3 yrs; Includes upfront training for all 18 staff led by PD and Compliance Director plus additional external trainings for Compliance staff; budget includes room for additional trainings in Yr 2 & 3 in case of staff turnover)
5. Refinement of application process and creation of application materials (180 hrs from 7staff; PD lead with full program team support from AD, Manager, Associate and Analyst and MD & VP guidance (hereafter referred to as ¿Program Team¿))
6. Announcement & launch of application materials (317 hrs from 8 staff; PD led with Associate,

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Analyst, Coordinator support, MD & CEO guidance, K&C team on marketing)

7. Conducting of initial application webinar, recording and housed on SIF PFS web platform (65 hrs from 7 staff; Primarily program team with K&C and IT support)

8. Upfront Compliance Adaptations: Work with CNCS evaluation team to establish evaluation plan for NFF and sub-grantees including indicators of success (133 hrs from 8 staff from Program and Compliance teams) and to determine mechanism for Learning Community participation (38 hrs from 5 staff: PD, AD, MD and K&C Team); Adapt internal data management system (Salesforce or otherwise) to: interface with national evaluation team (117 hrs from 10 staff), time track NFF's staff time & otherwise collect & store information on our work on the SIF PFS Initiative (69 hrs from 8 staff), to capture, monitor and store sub-grantee information and compliance (100 hrs from 11 staff); All led by Compliance Dir with G&A Associate and Fin Comp Analyst, IT team support, and Program team guidance from MD and PD and support from AD, Mngr & Coordinator); Adapt compliance management, auditing and accounting systems for SIF PFS funds and matching dollars (118 hrs from 7 staff: Program Associate, Analyst, Coordinator, Compliance and IT Teams)

Planning through Sub-Recipient selection: These are the activities tied to the SR selection and sub-grant award-making process. We expect 4-5 application deadlines, each approximately 4-6 months apart, beginning four months into grant period (Q1 15) and running over the next 20 months (through Q4 16).

9. Technical assistance to potential applicants throughout each application round. We estimate providing 100hrs of TA in the first round, with approximately 1-5hrs of assistance provided to potential applicants, and an average of 80 hrs of TA for each of the up to four subsequent rounds for a total of 420 hrs over 3 years from 5 program staff (PD, AD, Mngr, Associate, Analyst)

10. Capture and report on all applicants (set-up and populate Salesforce and generate applicant reports). We budgeted for 60 total applicants for a total of 480 hrs over 3 yrs with 8 staff: G&O Associate led, with Compliance Director and Program AD oversight, and Associate, Analyst, Coordinator & IT support

11. Review of first round applications: We estimate 15 applications in the first round and 5-20 each subsequent round. (1700 hrs total over 3 yrs from 8 program staff- led by PD, Support from program team, guidance from MD & VP)

12. Selection and Announcement of first round sub-grant recipients approximately 6-8 weeks after

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each application deadline. (426 hrs over 3 yrs and 10 staff from program team and K&C team)

Post Sub-Recipient selection: These activities occur once sub-grantees have been selected in each application round (Q2 15- Q3 17)

13. Sub-grant award closing for up to ~7 sub-grantees after round 1 and up to 4 after each subsequent round (2-5). This includes refining and executing scopes of work, work-plans, timelines, deliverables, performance metrics, evaluation plans, disbursement arrangements, and match requirement assurances and documentation. We estimate 2,112 hrs over 3 yrs from the Program team (1,015 in Yr 1, 769 in Yr 2, and 228 in Yr 3) and 14 staff in Yrs 1 and 2 and 11 staff in Yr 3 (due to lower volume).

14. Update finance and accounting systems to deploy pass-through funds (402 hrs over 3 yrs) and Set-up and populate Salesforce management system to capture, manage and report on sub-grantees, match funding and deliverables (462 hrs over 3 yrs; Led by Program and G&O Associates with Program, Compliance and Finance support)

15. Sub-grantee monitoring through bi-monthly check-in calls, performance measurement and evaluation, compliance reporting and oversight over estimated 12-18 month sub-grant terms. (1205 hrs over 3 yrs from 13 staff; Program team and Compliance team with Finance support)

Ongoing Activities Tied to Knowledge Sharing, Evaluation and CNCS Relationship Management and Reporting Requirements: These activities are ongoing over the entire grant term, Q414- Q317. The hours indicated below are cumulative over three years.

16. Ongoing Knowledge Sharing: Program team will create and facilitate additional Knowledge Sharing for sub-grantees including: sub-grantee cohort webinars (~2/year), sub-grantee cohort listserv admin, ~2 Hub reports/year, ~ 2 blog/articles (1554hrs over 3 yrs from Program team with K&C support); NFF staff will facilitate market connections and respond to information requests beyond those from applicants to further knowledge sharing (465 hrs over 3 yrs from full program team); and NFF leaders (CEO, MD, PD and AD) will attend and prepare for SIF PFS learning community events and annual program meetings (1 of each/yr) (520 hrs over 3 yrs).

17. Evaluation: Preparation of interim evaluation reports and participation in evaluation calls (1125 hrs over 3 yrs); Quarterly reporting on NFF's progress against performance metrics (483hrs over 3 yrs) and that of all sub-grantees (806 hrs over 3 yrs); Oversight of sub-grantee evaluation

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participation (463 hrs). (Led by PD with Program team & compliance support)

18. Compliance Management: Manage internal data management system (Salesforce) to: time track NFF's staff time & otherwise collect & store information on our work on the SIF PFS Initiative (918 hrs from all 18 staff, led by G&OP Associate) and capture, monitor and store sub-grantee information and compliance (1125hrs from 15 Program team, Compliance, Finance and IT staff); Oversee compliance management, including criminal background checks, auditing and accounting systems for NFF SIF PFS and match funds, (1052 hrs from 12staff, led by G&O Associate with Program, Compliance and Finance support) as well as sub-recipient compliance management and criminal background checks (1197 hrs from same 12 staff); Sub-grant reporting on all grants over \$25,000 & executive compensation for the recipient organizations and sub-recipients (as sub-grants are made) (135 hrs over 7 Program and Compliance staff); Up to 10 sub-grantee site visits for monitoring purposes (budget assumes 5 local (drivable) visits and 5 that require air/hotel travel) (310 hrs from 8 Program team and compliance staff); Quarterly progress reports (4/yr) (357 hrs), Quarterly expense reports (4/yr) (506 hrs), Bi-annual financial reports (2/yr) (478hrs), and Continuation funding requests for Year 2 and Year 3 funding (173hrs). (Led by Compliance team with Program team and finance support.)

19. Relationship Management & Reporting: SIF relationship management/engagement with CNCS program officer, staff and consultants, est. monthly calls, two in-person mtgs annually, and feedback/revision on intermediate & final evaluation findings before publicizing (581 hrs in aggregate over 3 yrs) (Led by PD with guidance from MD, support from Compliance Director, Program AD and Manager.)

Programmatic evaluation completion: These activities will occur only at the end of the grant term, anticipated for Q3-Q4 17.

20. Final evaluation report (135 hrs), Final financial report (126 hrs) & final progress report (98 hrs): (Program Director leadership with support from AD, Manager, G&O Associate, Fin. Comp Analyst, Sr. Grants Mngr and guidance from CFO, Compliance Dir, MD and VP)

Organizational Capability

2. Organizational Capability

2a. Demonstrates track record in selecting and working with sub-grantees and sub-recipients.

NFF has the robust organizational capacity - through its systems, procedures, and staff capacity (referenced in 2c) - to administer complex grants that select and work with sub-grantees and SRs, as

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evidenced by our 34 year track record of successfully running similar programs. For example: NFF advanced place-based strategies for community transformation through ArtPlace (2011-2014), deploying \$42 million in grant support from 14 different funders to 134 organizations in 79 different communities. As a federally certified Community Development Financial Institution (CDFI), NFF has longstanding success promoting economic revitalization in low-income communities through financing and portfolio management, currently maintaining a \$293 million portfolio which has produced over 700 loans. By consistently reaching lending goals, NFF earns revolving awards from the CDFI Fund (in growing scale) for multiple projects. From 2009-2014, NFF ran the \$12 million Leading for the Future program for the Doris Duke Charitable Trust, providing change capital grants and technical assistance to 10 leading national arts organizations (selected from 1300 nominations and 20 complete applications) effectively researching and demonstrating that change capital can enable organizations to realign revenue with the full costs of operations and to generate reliable surpluses beyond the term of the investment.

While NFF has a long track record of selecting cohorts, our capacity to design and implement an open selection process is best exemplified through the recently launched \$2.5 million CA PFS Initiative. The Initiative provides flexible funding and technical assistance to structure PFS agreements in California over the next two years. NFF designed the open and transparent application process to identify and select a cohort of five leaders (government or social service sector leaders) working to create PFS agreements. The application process articulated above draws significantly (and applies lessons learned) from the process NFF developed for the CA PFS Initiative. To support potential applicants and ensure broad notice of the opportunity, NFF composed a FAQ sheet to address questions, and disseminated the application through diverse channels including: twitter, email lists (which totaled over 6,300 emails), joint press-releases, partner organizations, and the PFS Learning Hub and NFF websites (the Initiative website received over 1,000 views in the first week). During the application period, NFF fielded over 50 inquiries, received 36 applications, conducted an initial review, and scored applications along selection criteria (likelihood to close in two years, stakeholder engagement, quality of service provider with scalable, evidenced-based intervention, and proposed award usage). Based on this assessment, NFF selected 18 leading candidates to proceed to the interview process for application clarification. Finally, NFF selected a cohort of five projects to receive flexible funding for technical support. Our work with the cohort leaders and TA providers has expanded and deepened NFF's breadth of experience engaging these stakeholders (who are akin to sub-recipients and sub-grantees)

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as well as our knowledge of the roles they can play in the transaction structuring process.

More broadly, NFF's PFS initiatives have engaged nonprofits across the country and supported exploration of PFS among public entities that includes collaboration and support for the White House, Department of Labor, Department of Justice, and the Office of Management and Budget on PFS initiatives, hosting information sessions and participating in exploratory meetings with government officials in Alabama, Tennessee, Philadelphia, Chicago, Dallas, New York City, Dakota County (MN), Los Angeles, Fresno, Contra Costa, Santa Clara and Richmond (CA) as well as California State, Connecticut, State of New Jersey, Cook County (IL), Portland (ME), and others.

This breadth of national experience, with various stakeholders, has placed NFF at the center of a deep and far-reaching PFS network that can secure comprehensive outreach to stakeholders in a given community or focus area. NFF has full-time staff based in six cities (Boston, New York, Philadelphia, Chicago, Los Angeles, and San Francisco) with deep community relationships. The PFS project team that would lead this work is located across five of the six NFF locations (all but Philadelphia). Beyond engaging nonprofit service providers and public entities, NFF has working relationships with technical assistance providers and investors in the field such as Coalition for Evidence Based Policy, Urban Institute, Results for America, Deloitte, McKinsey, Harvard SIB Lab, Third Sector Capital Partners, Social Finance, MDRC, Institute for Child Success, Corporation for Supportive Housing, REDF, Bank of America, Merrill Lynch, Goldman Sachs, Kresge Foundation, Laura and John Arnold Foundation, Joyce Foundation, Rockefeller Foundation, James Irvine Foundation, Hewlett Foundation, Robert Wood Johnson Foundation, and other philanthropic supporters and field-builders of PFS to date. Moreover, NFF has conducted a series of PFS Incubators and Accelerators for potential service providers across the country (Dallas, Santa Clara, South Carolina, Connecticut, Chicago) where we leveraged relationships with local stakeholders and developed new ones to further the exploration of PFS. This network can powerfully support our outreach work, as demonstrated in California, where we were able to identify 80 key contacts (funders, nonprofits, TA providers, advisors, government officials, and academics) well-placed to spread word of our PFS initiative and generate a robust applicant response.

2b. Project experience with PFS, social financing or related activities

NFF has a 34 year track record as a social financing pioneer. We are a nationally recognized CDFI,

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providing strategic advice, tailored investments, and accessible insights to thousands of nonprofit organizations nationally. This direct and deep experience in social finance inspired us to make a strong commitment to PFS early on and to systematically prepare the social sector for PFS transactions. As an early adopter, we initially started as a non-partisan convener running events such as Pay for Success: Investing in What Works, which we co-hosted with the White House Office of Social Innovation in 2011, and developing our PFS Learning Hub. Over the past four years we have expanded our project experience with PFS as the movement has grown. Our portfolio of work in PFS focuses in three main areas: 1) knowledge aggregator and integrator through the PFS Learning Hub, 2) expert consultant and capacity builder to high-performing service providers and stakeholders in diverse jurisdictions across the US, including Dallas, Santa Clara, Hartford, Charlotte and Chicago; and 3) market facilitation and transaction structuring support through NFF's CA PFS Initiative. We believe these combined experiences and capabilities uniquely match the requirements to successfully lead this SIF program.

Beyond PFS, we have placed over \$500 million in capital and made more than 700 loans to support \$1.4 billion in projects for thousands of organizations nationwide. In partnership with others, we've generated capital for nonprofits facilities reserves, cash reserves and endowments, provided \$1.2 million in loan guarantees, and \$25 million in recovery capital and planning grants. Our financing work connects institutional capital to high-impact organizations. We raise capital and borrow money from large institutions (e.g., banks, philanthropies) and deploy a national business development team that works with a wide range of partners to identify credit-worthy, mission driven organizations who can benefit from borrowing from NFF and to market these investment opportunities to others who lend alongside NFF. Our vetting process for potential borrowers includes due diligence and financial analysis of risk and return potential, and a cost/benefit assessment of how our loan or investment could impact our client's sustainability. A tiered set of credit committees ultimately vet all deals. After approval, NFF develops contracts and supplemental documentation and the portfolio management team ensures the funds are dispersed and the loan is repaid through financial reporting and, if necessary, through restructuring to meet the needs of the client. In our 34-year lending history, we have written off less than 1.4%. In addition, we administer \$231 million in New Markets Tax Credits where NFF leverages government grants, provided by the CDFI fund, to market deals and raise private capital for investment in low-income communities.

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NFF continues to work to raise capital from and market investment opportunities to philanthropic partners for strategic deployment to improve the social sector through its specialized Funds. The Community Resilience Fund (CRF) redistributes \$3.4 million through advisory services paired with individual grants over an 18-month period to make participating organizations financially stronger and more resilient. CRF is currently working with 17 NYC organizations, which support vulnerable populations. The Boston Catalyst Fund (seeded with \$1.9 million in capital raised from five funders to whom NFF marketed the investment opportunity in 2010) incentivizes voluntary collaborative ventures and mergers among nonprofit organizations through financial grants and matching nonprofit applicants to the right technical advisory (TA) support. This Catalyst Fund is a regional and national model with the goal of developing a permanent resource infrastructure to support nonprofit collaborations - rooted in best practices and data-based outcomes.

We are now applying our unique perspective and skill as a mission-driven investor in PFS transactions through an award from the Community Development Financial Institutions Fund (CDFI Fund) Program.

Advancing PFS Investing with Flexible Subordinate Debt: CDFI Fund

In 2013, NFF received \$1.347 million from the CDFI Fund's Core Financial Assistance Program Awards, to facilitate the development of PFS transactions throughout the US. One of the barriers to growing the PFS market is the availability of philanthropically minded and higher risk capital to provide critical investments to PFS projects during the market's early years. In furtherance of our aim to reduce barriers in the PFS space and with a specific goal of attracting new socially-minded philanthropic and commercial investors into early PFS transactions, NFF will invest \$1.15 million of the CDFI funds as subordinate debt in two to three innovative, high-impact PFS transactions. With this flexible capital, NFF's investment will provide a level of loss protection to other potential investors as a means of leveraging additional, more traditional capital (targeted at \$15-30 million) into the PFS investment arena. With this investment, we intend to support effective interventions with demonstrable social outcomes, target projects that serve at-risk populations, and prioritize transactions with innovative features, such as programs involving new issue areas like healthy futures, emerging intermediaries, unique intervention designs, or new payors.

Working towards these goals and with the intention of committing and/or deploying the capital by the

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end of 2014, we are currently sourcing potential investments that target preventative programs in a broad range of issue areas, primarily related to social/human services, early childhood development, and healthcare. We are assessing potential projects against a set of standard and specific criteria: Impact Risk (analysis of the evidence behind interventions, service provider performance data, and ability to reach target population needed to achieve sufficient scale), Service Provider Strength (prior experiences scaling similar interventions, financial stability, management and board), Back-End Payment Assessment (level of commitment and/or legislation by government or other payors), Economic Analysis (Review of feasibility conducted, cost/benefit analysis, testing of underlying assumptions).

Assessing PFS transactions through an investment lens requires diligent review of the achievability of outcomes targets with a holistic approach, much like NFF's proposed program design role outlined for the SIF program. This investment experience enhances NFF's ability to understand and assess all facets of potential PFS projects. There is insight gained from the experience of investing directly in a PFS transaction that is not publicly accessible at this point in the market's development. NFF intends to apply the experience gained from our CDFI Fund investments to better support the processes of others attempting to structure PFS projects in the future.

2c. Experience in Program Management

NFF has significant experience managing and overseeing large and complex initiatives with multiple organizations to achieve project goals, as exemplified in 2a and 2b through Leading for the Future, Artplace, our CDFI Fund and NMTC investments, and specifically running a similar program in our CA PFS Initiative. We have built strong systems, procedures, and staff capabilities to extend this work.

NFF's systems compile and analyze data and memorialize our activities over time. Our Salesforce client relationship management system enables us to record all client facing interactions; serves as a comprehensive database for funders, investors, clients, and vendors; and monitors our work by business unit, program, source of funding, personnel, geography, and time period, among others. A series of related finance and administration systems track funds from when they are committed to NFF through the close of a project. Our accounting system interacts with our Concur expense system and Adaptive Insights forecasting system to monitor revenue and expenses throughout an engagement. When funds are received they are recorded in the database, required legal documents,

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proposals, and reports are appended to each record. When the project requires re-granting, the sub-grantee files housed in each individual record include countersigned grant agreement letters, amendments, modifications, and financial files (audits and mandatory programmatic reports) allowing us to efficiently report on the disbursement of funds and activities over the life of each re-grant project.

Beyond IT systems, we have implemented a series of procedures and controls to manage sub-recipient activity and hold all parties responsible for meeting project goals. In our re-grant work, our programmatic team is responsible for reviewing applications, making funding decisions and monitoring programmatic activity. Our finance, administration, and compliance team works simultaneously to disburse funds, maintain grant records, respond to audit confirmations, work with external auditors, and prepare financial reports. The separation of duties creates a high degree of checks and balances. For example, during the CA PFS Initiative, NFF's program team coordinated with each project leader and their TA provider to develop detailed scopes of work and corresponding budgets with award payments (disbursed by our finance team) tied to achievement of deliverables and milestones. Throughout this process, NFF sought to be catalytic by remaining responsive and adaptive to leaders' individual and unique program needs. Once scopes of work were finalized, NFF's administration and compliance team executed award letters for each sub-grantee and a NFF relationship manager was assigned to check-in regularly, monitor and assess progress and lessons learned and facilitate greater catalytic support and connection as needed.

As we have done with the proposed design for the SIF PFS Program, NFF utilizes a team of staff to serve as sub-grantee relationship managers. This staff is supported by senior leaders with expertise and guidance to draw upon as needed. In this way, NFF is able to accommodate increases and decreases in activity of our various re-grant administration programs, by having a wide cadre of qualified, experience staff to support sub-grantees as needed. NFF program staff participate in multiple projects and capacity of all staff is monitored and pro-actively forecast to ensure adequate coverage to support NFF's programs.

Our current team has been responsible for managing numerous federal awards, such as our CDFI awards and NMTC allocations (mentioned in 2b). A specific, recent example of this capacity was our administration of an American Recovery and Reinvestment Act (ARRA) program in Philadelphia.

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From 2009-2012 NFF's Capital and Capacity for Economic Recovery (CCER) program built the capacity of organizations that addressed economic recovery issues (i.e. homelessness, employment programs, etc.). NFF raised \$250,000 to match \$1 million in ARRA funds and administered the CCER program to provide re-grants and technical assistance to a cohort of 22 sub-recipients. This familiarized NFF with the requirements and rigor associated with federal funding and eligibility during cohort selection, sub-grantee goal setting, and evaluation. Further, NFF will be able to employ lessons learned around the expected timeline of a federal award, the need for specificity in selection criteria, and working with a federal program officer to smooth workflow and deliver more efficient results.

2d. Organizational Commitment to PFS beyond grant

NFF is committed to the continued development and expansion of PFS. Ongoing projects - such as the CDFI fund award, CA PFS Initiative, and the PFS Learning Hub - ensure our continued involvement in and development of the PFS space. We work nationally across sectors and, in alignment with the SIF Tier 2 funding priorities, seek a variety of potential projects diverse in issue areas and geographies to expand PFS. As a CDFI, NFF has long focused on SIF's Tier 1 investment priorities of Youth Development, Economic Opportunity, and Healthy Futures:

Youth Development: NFF began assisting youth-serving providers in 1991. Project examples include: The Management Initiative for New York City Organizations that Serve Youth which bolstered managerial capacity and infrastructure of 20 community-based youth serving organizations. The Philadelphia Child Care Initiative (2003-2013) leveraged \$11.7 million to build a sustainable child-care system by providing capital, capacity-building services, and technical assistance to organizations improving the quality of their programs and facilities. Building for the Future (BFF), incentivized the development of reserve funds for facility maintenance for Boys and Girls Clubs in Boston, New York, and New Jersey through administering \$4.5 million in matching grants and providing NFF's asset-building financial service.

Economic Opportunity: Approximately 70% of NFF's clients are located in or provide services to residents of low- and moderate-income 'economic opportunity' communities. These clients include community development corporations, advocates for affordable housing, job training programs, and urban redevelopment and revitalization organizations. We have been awarded \$231 million in New

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Market Tax Credit (NMTC) allocations by the CDFI Fund of the US Treasury Department. NFF has provided these tax credits to nonprofit borrowers (such as a nonprofit theatre, headquarters for social service providers, a statewide food bank, and charter schools) closing 26 transactions and attracting private investment (i.e. Goldman Sachs, JP Morgan Chase, US Bank) to low-income communities.

Healthy Futures: NFF is further expanding its financing in support of healthy futures, leveraging NMTC opportunities, in response to healthcare reform (the ACA). NFF deploys roughly a third of its NMTC allocations to health clinics across the country, from Hawaii to New York. In addition, NFF and local healthcare foundations launched the California Catalyst Fund (March 2012); this ongoing fund has grown from \$500,000 to over \$1,500,000 and facilitates technical assistance to support community based primary care providers implement strategic restructuring projects.

NFF's continued commitment to PFS and strengthening service providers will provide materials and resources to support the long-term desired outcome of positioning SRs to continue pursuing PFS beyond this grant. Our designated short term outcome to sub-grant SIF Funds to support at least 20 projects has not only immediate benefit to the projects supported. By requiring a 1:1 match, our program design facilitates vested local interest and support for PFS beyond the SIF funds.

Additionally, the knowledge gained through this work will be compiled and shared intentionally and deliberately to build the infrastructure of the PFS field by enabling accessible, "in house" expertise in SRs to structure PFS projects, enhancing and developing transaction coordinators experience, particularly in new arenas, and increasing the number of supporting services (legal, accounting, evaluators. etc.) with direct experience structuring PFS projects. Meeting this short-term outcome, particularly as it relates to knowledge capture and sharing, facilitates our medium-term outcome for increased government and intermediary capacity beyond direct recipients of SIF funded support to further structure and execute additional PFS transactions. These stakeholders will have access to the materials NFF develops from this program as well as NFF's complementary PFS work and other non-NFF resources published on the PFS Learning Hub. Finally, through NFF's core advisory work and our PFS Incubators and Accelerators, we provide education and strategic financial management consulting to social sector leaders that positions SRs well, beyond this grant, to engage in PFS going forward.

Leadership and Team

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3. Leadership and Team

3a. Proposed Team - including partnership proposed - capacity and expertise

The NFF team includes capacity across a range of institutional expertise that directly supports the effective implementation of the proposed transaction structuring program. In addition to the four years of PFS-specific expertise that the organization and the proposed project team leader, Jessica LaBarbera, and senior project team members, Antony Bugg-Levine, Kristin Giantris, Bill Pinakiewiz and Nima Krodel (see 3b), NFF has 30+ years of deep experience in program management, community development finance, grant administration and accounting, financial analysis, and federal grant compliance. Our current team has been responsible for managing numerous federal awards, such as our CDFI awards and NMTC allocations (mentioned in 2b), and program grants under the American Recovery and Reinvestment Act and the National Endowment for the Arts. NFF's SIF PFS team (roster of staff provided below) has a combined 178 years of expertise in program management, nonprofit grant accounting, financial planning and analysis, and federal grant compliance.

In addition to NFF's in-house experience, we have a strong and longstanding network of organizations who have agreed to serve on an informal "panel of experts" during the implementation of the proposed program. The identified areas of expertise and experts would include:

Research and evaluation: MDRC

Program assessment: Coalition for Evidenced Based Policy

Cataloging of evidence-based programs: Results for America

Healthy futures: Corporation for Supportive Housing and Robert Wood Johnson Foundation

Youth development: Institute for Child Success, YouthBuild

Economic opportunity: REDF, Joyce Foundation

PFS market development: Rockefeller Foundation

The panel will serve two purposes. First, it will contribute information to the outreach and education resources NFF will develop for sub-grantee/sub-recipient applicants, which will be shared broadly with the field. Second, the panel will lend their unique expertise according to SIF funding priority areas and findings from feasibility assessments. We will only seek support from these experts after considering any potential conflict of interest for any of the experts who may be pursuing a TC role. NFF recognizes that a number of the above parties may be involved in other components of the SIF

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PFS program, and it is our highest priority to ensure we and they are not in conflict.

The proposed SIF PFS Program will be delivered by 18 staff - 15 of whom are current employees. These staff cut across existing NFF's PFS program delivery, Knowledge and Communications (K&C), IT, Finance, and Compliance teams. The number of involved staff and the diversity of experience that the NFF team brings ensures adequate capacity and appropriate experience to successfully deliver the SIF program. Section 3b explicitly speaks to the capacity and experience that the PFS program delivery team leading this work brings to this project, while relevant experience for members of the other teams is provided below.

The Project Lead will be Program Director, Jessica LaBarbera who will have primary ownership for successfully delivering on the SIF PFS program. The Program Director will be the primary relationship manager with CNCS. She will approve of and oversee website content, the application design, the applicant review process and funding decisions, the engagement of expert advisory panel, oversight of scopes of work, and award agreements. She will be responsible for NFF meeting performance metrics and contributing to knowledge sharing. She will contribute to NFF's compliance reporting, lead continuation process for years 2 and 3 funding, as needed, and participate in CNCS' evaluation and learning community events. Jessica designed and has overseen the CA PFS Initiative as well as other successful national re-grant initiatives discussed in 3b.

Nima Krodel, will serve as the Program's Associate Director and will oversee and provide senior support to delivery staff, lead evaluation efforts and knowledge sharing activities, respond to market requests for information, lead TA support to applicants, support monitoring of sub-grantees by program staff, and contribute to compliance reporting for NFF and sub-grantees.

The Program delivery staff (comprised of a Manager, Alexandra Chan, Associate, to be hired and Analyst, David Friedkin) will be responsible for website and other knowledge sharing content, the creation of the application, and launch webinar. As primary sub-grantee relationship managers they will respond to potential applicant inquiries, review submitted applications, work with sub-grantees to finalize scopes of work, performance metrics, and award agreements, monitor progress toward performance metrics, and contribute to compliance reporting for sub-grantees.

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A Program Coordinator, from among NFF's team of five, will provide coordination and logistics support to the entire project team and engagement with CNCS, the evaluation and learning community, sub-grantees, and potential applicants. She will support website upkeep and announcements to the field.

CEO, Antony Bugg-Levine, and Advisory Services/PFS Managing Director, Kristin Giantris and VP, Bill Pinakiewicz, will provide senior programmatic support, advice, and guidance. They will represent the program in the market and CNCS, evaluation and knowledge community events, contribute to announcements, engage with the expert panel, provide relationship management support with CNCS, evaluation team and expert panel of advisors, and offer insights gained from each of their respective senior leadership and experience in PFS space as well as advice and guidance on award decisions.

Anjali Deshmukh, Director, and Tessa Borelli, Associate, from NFF's Knowledge and Communications (K&C) team will create and distribute program announcements, contribute to the creation and presentation of information on the web platform as well as information communicated in emails and press releases to sub-grantees and the market. They will support evaluation and knowledge sharing efforts. Anjali is one of the chief architects behind the creation of the PFS Learning Hub, and Tessa Borelli serves as NFF's email campaign and social media manager.

Program delivery will include support from a Grants and Operations Associate and a Financial Compliance Analyst (both to be hired) operating under the oversight of Emily Guthman, Compliance Director, responsible for enabling and supporting program compliance. Emily is a certified federal grant manager. She has extensive expertise in managing multi-million dollar federal re-grant initiatives, overseeing sub-grantees, and ensuring compliance with OMB circulars and cost principles. The grants and operations associate will ensure NFF and sub-grantee compliance with CNCS requirements, including criminal background checks, and performance metrics and sub-grantee agreements. The Financial Compliance Analyst will be responsible for budget management and releases, financial compliance of sub-grantees, financial reporting and match funding reporting. NFF's Finance team will contribute time with CFO, Craig Reigel and Senior Grants Manager, Joanne Cheung, responsible for grant accounting and auditing, supporting financial compliance with CNCS requirements, oversight of and disbursement of sub-grants and contributing to financial reporting for NFF and sub-grantees. Craig brings over 20 years of experience and as CFO is responsible for

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financial reporting, compliance, human capital, and the alignment of resources with NFF's strategy, and Joanne also brings more than 20 years of experience and assists in the production and monitoring of grant activity and reporting. Finally, NFF's IT Director, Jim Schandall, and Manager, Lee Goldin, will manage design and maintenance needs around the SIF PFS web platform and the Salesforce internal database system used to capture, manage, and report on NFF and sub-grantee compliance with CNCS and achievement against performance metrics. Jim Schandall brings two decades of experience managing IT systems and developing IT solutions for complex organizations, and Lee has served as a Salesforce Administrator for nearly four years. We have budgeted to draw on additional IT consulting support as needed from NFF's Salesforce developer, Jesse Grenfell, if added database design is needed.

3b. Proposed project lead - expertise in PFS or social financing, experience working with relevant stakeholders

Jessica LaBarbera, Director will be the project lead for this work. She has been at the forefront of PFS activity since its first appearance in the US market in 2010. She has led the design and delivery of NFF's PFS initiatives including ideation and implementation of NFF's CA PFS Initiative to catalyze PFS transactions from concept to close, and NFF's PFS Readiness Incubators/Accelerators to assist service providers in building the adaptive capacities necessary for PFS participation. She has spoken at more than 75 events across the country on PFS and provided education and strategic advice to dozens of governments, investors, service providers, and stakeholder collaborations since in the last four years. In 2013, she testified before the CA State Legislature on PFS and currently serves on a CA State Task Force on PFS. Ms. LaBarbera brings to her PFS work over six years at NFF leading special initiatives, including previous re-grant programs such as a national zero-interest revolving loan fund that since 2009 has recycled \$1 million to provide over \$3.4 million in working capital loans to 39 arts organizations, and providing strategic consulting support to nonprofits and foundations as NFF's California Market Director. Previously, she was a Vice President at Citi Community Capital, a division of Citigroup Global Markets Inc., where she provided structured financing and relationship management to national nonprofit and CDFI clients. Ms. LaBarbera has also served as a consultant to municipal government social service agencies, nonprofit advocacy organizations, and direct service providers and she serves as Board Secretary to a nonprofit charter middle school in Canoga Park, CA. She holds an MPA in Nonprofit Management and Urban Policy from Columbia University's School of International and Public Affairs and a BA in Sociology from the University of Virginia. (Los Angeles

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based)

The Project Lead will coordinate support from a wide-ranging and high-level NFF team. NFF's PFS team, focused, from the outset, on helping various stakeholders understand and build readiness for productive participation in a U.S. social sector where providing and accessing capital is increasingly tied to the achievement of meaningful and measurable outcomes. Since 2010, this team has led sector-wide PFS education, outreach and convening efforts in close collaboration with multiple stakeholders, including the Rockefeller Foundation, the White House Office of Social Innovation and Civic Participation, William and Flora Hewlett Foundation, Joyce Foundation, DoL, DoJ, OMB, and numerous other service providers, state and local government entities, intermediaries and researchers.

The below speaks to the experience of the other key PFS program staff supporting this project:

Antony Bugg-Levine, CEO, is a nationally recognized leader in the PFS and impact investing fields. He writes and speaks regularly on social sector finance and PFS and advises foundations, financial services firms, and social service providers on their pay-for-success initiatives. He has been cited as an expert source on PFS by, among others, the New York Times, National Public Radio, and the Chronicle of Philanthropy. He invested in the world's first social impact bond and provided grant support to a range of organizations promoting PFS approaches in the US and abroad as the head of Rockefeller Foundation's Program Related Investment portfolio and impact investing initiative from 2007-2011. Antony is the chair of the Global Impact Investing Network and member of the US National Advisory Board to the G8 Social Impact Investment Taskforce. He co-authored the seminal book, *Impact Investing: Transforming How We Make Money While Making a Difference* (Wiley 2011), which described the potential of pay-for-success approaches. (New York based)

Kristin Giantris, Managing Director has been at the forefront of PFS activity since its first appearance in the US market in 2010. Through speaking, educating and advising on the topic, she has helped to bring the ideas of PFS to a broad audience of stakeholders. Kristin leads NFF's PFS team in their national work, which ranges from education, to transaction facilitation to investment. In 2011, Kristin co-led the first national PFS convening, *Investing in What Works*, co-hosted by the White House Office of Social Innovation and NFF. She has been cited in various media on the topic of PFS, including the Wall Street Journal, Crain's New York Business, and New York Nonprofit Press, and

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contributed to the Federal Reserve Bank of San Francisco's Community Development Investment Review, with an article titled, "Pay for Success: Understanding the Risk Trade-Offs." As head of NFF's national financial advisory practice, Kristin brings NFF's 30 years of nonprofit finance experience to the PFS field and has incorporated the innovations and learnings of PFS into the broader social sector. (New York based)

Bill Pinakiewicz, Vice President has been at the forefront of PFS activity since its 2010 emergence in the U.S. In addition to his field building work with state and local governments, service providers, investors and other stakeholders, Bill also speaks and writes extensively on PFS operational and systems change issues and has served as keynote speaker or expert panelist at over 35 national and regional PFS convenings in the U.S. and Canada. Bill was an expert panelist on PFS Readiness at the Pay for Success: Investing in What Works convening that NFF co-hosted with the White House Office of Social Innovation and Civic Participation, and he co-authored Pay for Success: Understanding the Risk Trade-Offs, for the San Francisco Federal Reserve Bank's Community Development Investment Review volume on PFS. Bill's insights into PFS have been featured in events and articles by organizations including the National Council of State Legislatures, National Governor's Association, The Aspen Institute, PRI Makers Network, Social Enterprise Alliance, The Center for Leadership Innovation, The New York Times, Institutional Investor Magazine, Huffington Post and The Chronicle of Philanthropy. Bill brings 12 years of experience in education and 20 years of finance and capital markets experience from his career in investment and private banking to his work in the PFS field. (Boston based)

Nima Krodel, Associate Director has over a decade of financing and consulting experience in the public, private, and nonprofit sectors. Nima is a key member of NFF's PFS team, responsible for design, delivery, and operations of PFS initiatives. With deep market knowledge, Nima has overseen workforce related PFS convenings and field reports, designed and delivered trainings and technical assistance for nonprofit service providers assessing PFS and outcomes driven funding, and coordinated pipeline management and due diligence for potential PFS subordinate debt investments. Nima also leads advisory teams to advise NFF's nonprofit clients on growth, capitalization, business model restructuring, and strategic financial planning. Previously, she managed NFF's New England and Western Region Tailored Investments practice. Prior to joining NFF, Nima worked for Goldman Sachs in the Municipal Finance and Infrastructure Group, where she covered non-profit healthcare

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and government clients. Nima has served on numerous boards and committees, including Chicago Foundation for Women's Asian American Leadership Council, past co-chair for Northern California Grantmakers Emergency Loan Fund, and finance committee member of Asian Pacific Islander American Health Forum, a national health policy nonprofit. Nima received an MBA from the Tuck School of Business at Dartmouth College and a BA in Economics from Northwestern University. (Chicago based)

Alexandra Chan, Manager, oversees funder initiatives and works with nonprofit clients to evaluate their financial health and assesses their readiness for change or growth. As a member of NFF's PFS team, Alex manages relationships with project leaders in the CA PFS Initiative - working to finalize award agreements, monitoring their progress against scopes of work, and organizing cohort convenings and other learning opportunities. Prior to joining NFF, Alex worked as a lending assistant at the Local Initiatives Support Corporation, and as program manager at the Food Bank for New York City. Alex holds an MBA from the New York University Stern School of Business, and a BA in American Studies from Williams College. (San Francisco based)

David Friedkin, Analyst, supports the business development team in advancing strategic initiatives and improving the effectiveness of resource mobilization. David is also on NFF's Pay for Success team, where he manages the PFS Learning Hub and associated social media efforts including the twitter account @NFFSocialImpact. He has lent critical coordinating support to NFF's CEO and the organization's strategic planning process. Previously, David worked as a consultant for World Learning, an international education and development organization, as an analyst for a real estate investment firm, and he received the World Partners Fellowship from the American Jewish World Service to spend a year working for an NGO in Mumbai, India. David graduated with a BSBA in Finance and Arabic from Washington University in St. Louis. (New York based)

As a longstanding, national organization with 65 people in six cities, NFF has the experience and the team in place to effectively implement the proposed transaction structuring program. NFF is led by a CEO and senior leadership team that bring a combined 90+ years of experience in the fields of financing, transaction structuring, program design and management, grantmaking, and financial management. NFF's organizational structure mirrors our various lines of business. The CEO manages three Managing Directors and the CFO, each of who oversees their respective line of business:

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Financial Services, Advisory Services, Knowledge and Impact, and Finance & Administration. NFF's current PFS team draws on staff and expertise from across all four business lines.

NFF's senior leadership team makes the decisions on the major strategic directions and investments of the organization. NFF's early entry into the PFS space in 2010 was a decision made at the senior level and shared with the board of directors. Regular updates are provided to the board on how our PFS work has evolved. As our PFS work has progressed, the senior team has revisited the direction of the work and how it aligns with NFF's mission and vision. This held true in the decision to pursue this SIF award, and the senior team fully endorses the application. The Executive and Finance Committees of NFF's board have been informed of the application and also support its submission.

Budget Adequacy & Cost Effectiveness

4. Cost Effectiveness and Budget Adequacy

4a. Budget justification

NFF has prepared a reasonable and sufficient budget that allows us to carry out the tasks described in our project narrative. The project budget totals \$1.8 million in SIF funding annually for a total proposal of \$5.4 million in SIF funding over three year. Given the required 1:1 match of SIF funding, the attached budget reflects \$10.8 million of program activity. A full explanation of each cost item, its purpose, justification, and the basis of the calculations are included in the corresponding three-year budget.

NFF is proposing a budget in accordance with the guidelines requiring a minimum of 80% (\$4.32 million) of funding spent on services or sub-grants to SRs over the three year grant term. The activities covered by the remaining 20% of the proposed budget are comprised primarily of developing and administering the application process for selecting SRs, managing and supporting sub-grantees once selected, as well as all of the knowledge-sharing, field-building activity described above. While over the three year grant term, we are proposing a budget that includes a 20% allocation for NFF's direct administration of the program, in Years 1 and 2, we are actually proposing to use a greater portion of SIF funding (of \$1.8 million annually) to provide direct support for transaction structuring activities (and thus have proposed utilizing less than 20% of Year 1 and 2 SIF awards for our administration costs). Specifically, our proposed budget includes 88% of the requested Year 1 SIF funding be used as direct grants, with 83% of Year 2 funding being re-granted and 67% of Year 3 funds being directed to support transaction structuring. The corresponding remainder of SIF funds

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each year is allocated toward administration and results in a Sub-Grant/Administration split of 80/20 over the life of the three-year project.

Our rationale for this proposed budget is driven by our experience in the PFS market, which suggests that it takes up to two years from the launch of transaction structuring to get to a signed PFS contract. As such, the program that best catalyzes the PFS field by supporting more transactions to close in the next three years is one in which we sub-grant a more significant portion of funds as direct grants for transaction structuring in the early years of the program. In light of the \$1.8 million maximum annual CNCS share for this project, NFF's distinctive and responsive program design leaves less of the \$1.8 million annually available from SIF to be utilized to cover fund administration and knowledge activities. As discussed further below, NFF has secured a 1:1 match for the 20% administrative portion of our proposed program. Our match funder has conceptually agreed to enable NFF to draw down on our match funding at a higher rate than that at which we access SIF funding for administrative support. Essentially, this arrangement allows us to make more SIF funds available earlier in the program to support more transaction structuring activity in the market without having to sacrifice the quality of our program administration or cut down on the significant resource compilation we have proposed for the start of the program.

The activity under this three year project includes the milestones in 1e, with \$2.16 million in administration resources (from SIF and our 1:1 admin match) allocated as follows:

- a. Pre-award Activities: \$255,000 (12%)
- b. Planning through Sub-Recipient selection: \$290,000 (13%)
- c. Post Sub-Recipient selection: \$382,000 (18%)
- d. Ongoing Knowledge-Sharing and Learning Community Contributions: \$317,000 (15%)
- e. Ongoing Evaluation: \$290,000 (13%)
- f. Compliance, Reporting and Relationship Management: \$626,000 (29%)

Over the three year project term, NFF proposes an aggregate budget distribution of \$3.9 million in year 1, with \$3.2 million allocated toward sub-grants; \$3.7 million in year 2, with \$3.0 million allocated toward sub-grants; and \$3.1 million in year 3, with \$2.44 million allocated toward sub-grants.

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4b. Match resources

NFF has secured a full match from the Laura and John Arnold Foundation for the \$1.08 million that represents the 20% of total SIF funding we will use for fund administration and knowledge sharing activities. An executed commitment letter has been provided as verification of NFF having secured the full 1:1 match of non-federal funds to support our fund administration costs.

The other \$4.32 million, or 80%, that will be passed through as sub-grants to support transaction structuring will be matched at the sub-grantee level. More specifically, NFF will require applicants for SIF sub-grant funding to raise a 1:1 match in order to be eligible to receive support from SIF. We feel this is an appropriate and important signal of local commitment and support for PFS activities.

NFF has also begun to engage in conversation with philanthropies that have funding priorities that align with the SIF priority areas to assess their interest in leveraging support toward helping sub-grantees meet their 1:1 match requirements. Specifically, NFF has received preliminary indications of interest from Robert Wood Johnson Foundation, First 5 LA, the Children and Families Commission of Orange County to provide matching funds to interested potential SR applicants with projects in the Healthy Futures and Youth Development arenas that are aligned with their programmatic and geographical priorities. Were we to be selected to administer transaction structuring funds, we would anticipate more thoroughly engaging in similar conversations with additional philanthropies and governments across the country that have expressed an interest in supporting PFS development in a similar manner.

Clarification Summary

In response to a request for clarification received on September 22, 2014, we are providing the following clarifications:

Personnel Fringe

Please include the items include in the fringe including the corresponding percentage or amount:

Payroll Taxes: 8.2%

Employee Insurance (health, dental, vision, STD, LTD): 12.2%

Pension Benefits: 5.6%

Total in year 1 = 26% of salaries

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In years 2 and 3, there is an assumption that healthcare costs will continue to rise and that field will be 13.2%, bringing the year 2 and 3 total to 27%.

Training

For each of the line items provide the expenses included and the calculations used to estimate the total charge. Please insert this explanation in the budget narrative.

Staff Training for New Hires

Staff Training for Existing Programs

This includes the registration/attendance fee for trainings that will enhance the capacity of new and existing staff directly working on this project. We have estimated the fee to be an average \$1,000 per class, based on a review of current relevant training offerings available. The number of trainings per year are simply a count related to the base fee. Any training-related travel expense is listed in the Travel section under Staff Training Related Travel. Some of the trainings will not require travel because they will likely take place in where NFF staff are located and some will be conducted on-line; thus there are four trips tied to trainings each year.

Contractual & Consultant

Expert Consultation: Please describe the service provided and the calculation used to estimate the total charge.

NFF will call on a panel of experts with various specialties in the PFS, impact investing, evaluation, or programmatic areas of focus that align with the SIF priority funding arenas. As noted in the narrative, all of these partners have agreed to make themselves available as needed for consultation over the course of the grant period and thus the budget line is intended to provide us with funding to remunerate any of these individuals for their time -- at a blended rate of \$1,500 per day -- should we seek to impose upon them for more than a brief conversation in order to benefit from their expertise in better designing our program or making more informed funding decisions.

Legal In-Kind

Since the time of the application, NFF has been able to secure in-kind legal support from Orrick, Herrington and Sutcliffe LLP and thus have accounted for this in-kind in our revised budget. This amounts to \$155,000 with \$75,000 in year 1, and \$40,000 in years 2 and 3.

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Previously submitted:

1. Please confirm the total requested amount from CNCS.

We are asking for a \$5.4MM grant award from CNCS over 3 years.

2. If not done so already, the budget needs to be entered in eGrants by line item. The subsidiary budget function needs to be utilized to gain an accurate representation of the expenses included.

We have entered the budget into e-grants to the best of our ability using the subsidiary budget function; however we recognize that there are remaining issues to be addressed by the developers (Help Desk Reference # 140827-000358). The pre-populated "sub-grants" line item cannot be edited for our second and third subsidiary budgets (aka years 2 and 3) and is contributing to errors in the reporting system. As a work around we have currently entered a new line item under other costs and titled it "sub-grants"; however, this prevents the "sub-grants" line items from rolling up properly on the Aggregate Budget Report. Further, line item titles (such as "sub-grants") are also failing to appear on the reports, resulting in a report comprised of values with no descriptive titles.

3. Pay for Success applicants must demonstrate that a minimum of 80% of the federal funds requested are used for sub-grants or services provided to sub-recipients. Please designate the line items that include these costs with the header: "sub-recipient services or sub-grants".

We are using 80% of federal funds as sub-grants provided to sub-recipients. The pre-populated "sub-grants" line item is not functioning correctly, as discussed above. Due to this technical error, the report is not clearly showing that our sub-grants total 80% of federal funds being provided to sub-recipients. For clarification: Year 1 has a total sub-grant line item of \$3.2MM (\$1.6MM CNCS and \$1.6MM Grantee), Year 2 should have a sub-grant line item totaling \$3MM (\$1.5MM CNCS and \$1.5MM Grantee), and Year 3 should have sub-grant line item totaling \$2.44MM (\$1.22MM CNCS and \$1.22MM Grantee) for an Aggregate Budget "sub-grant" line item that should total \$8.64MM with the total CNCS share at \$4.32MM, which is 80% of \$5.4MM, and the total Grantee share at \$4.32MM.

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4. Evaluation costs: Please clarify what the \$2,000 for evaluation will cover.

The evaluation line item of \$2000 will cover external expertise in supporting the required evaluation activity or tracking tied to this program (at a daily rate of \$1000). This external support would provide expertise beyond what exists in the project team (and NFF staff more broadly) to assist with evaluation design, process or system of tracking information tied to the evaluation requirements. We have separately budgeted for Salesforce compatible evaluation instruments (at \$25 per month over 12 months times FTE contributing to the evaluation effort on this particular project each year) to support any subscription to an app in Salesforce that may be required to track this information or connect to the SIF system. (In eGrants, we had to move this line up in the budget to the supplies area because the eGrants system wouldn't let us input something without a daily rate into the evaluation line). Thus the \$2,000 referenced is anticipated support to implement the specific SIF PFS evaluation.

5. Source of Funds: Please include all matching funds under Source of Funds including all in-kind contributions. For in-kind contributions, please list service, good or function

NFF has secured a \$1.08 million grant, a full three-year administrative match (20% of \$5.4 million), from the Laura and John Arnold Foundation. The remaining \$4.32 million sub-grant funds will be matched 1:1 at the sub-grantee level.