Procurement Options for South Carolina

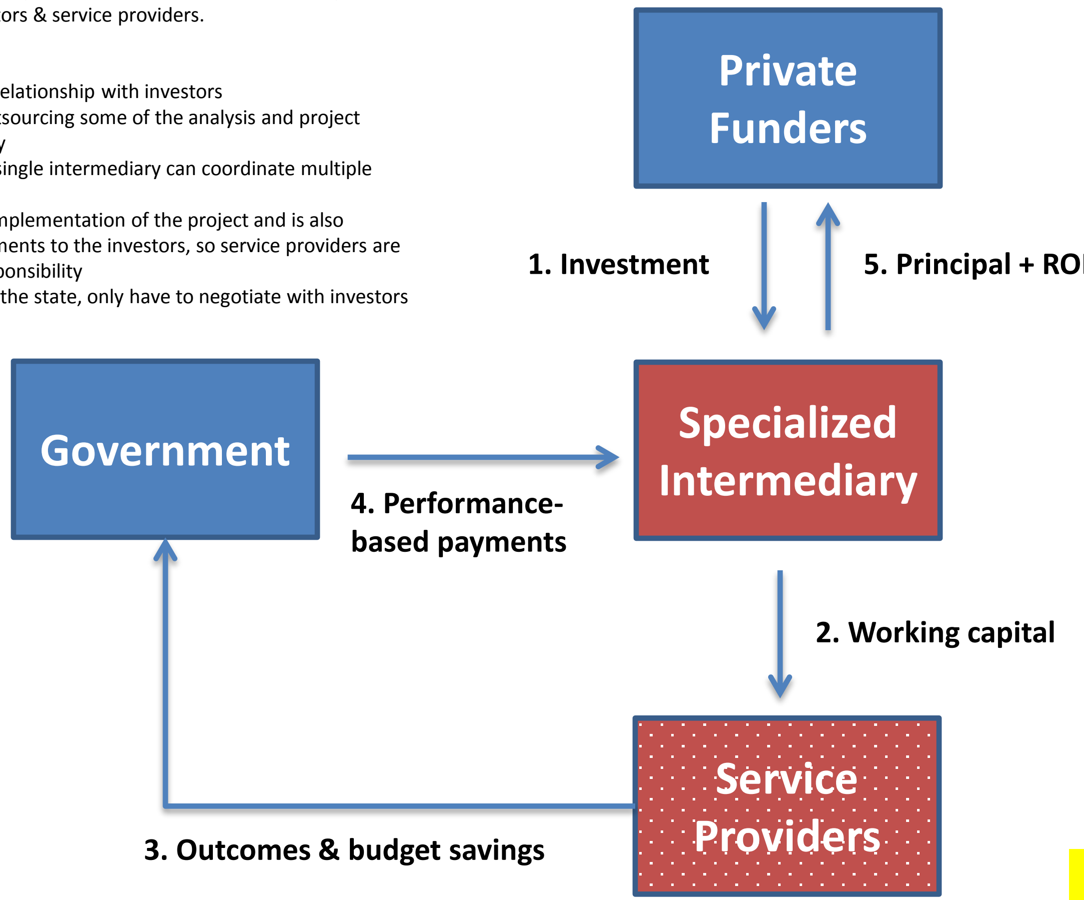
September 25, 2013

1.) State Procures Specialized Intermediary + Service Provider (MA1 Model)

State can procure for the intermediary and task it with selecting the most competent provider(s) OR procure for the service provider(s) concurrently OR procure for the Intermediary and specify which service providers will be involved. State negotiates through the intermediary with investors & service providers.

Advantages:
- State maintains an arms-length relationship with investors
- State conserves resources by outsourcing some of the analysis and project management to the intermediary
- If we take "basket approach", a single intermediary can coordinate multiple service providers
- The intermediary oversees the implementation of the project and is also responsible for managing repayments to the investors, so service providers are alleviated of the major fiscal responsibility
- If intermediary acts on behalf of the state, only have to negotiate with investors

Disadvantages:
- If intermediary does not act on state's behalf, cumbersome, multi-party negotiations with intermediary will occur
- Investors may prefer a more simplistic model without an intermediary (anecdotal from Goldman Sachs)
- May result in an intermediary/service provider team who doesn't want to work together



3 Options:
- Concurrent RFPs for Intermediary and Service Provider(s)
- RFP for Intermediary and indicate Service Provider(s) to be involved
- RFP for Intermediary only who then selects Service Provider(s)

Potential Intermediaries:
- Social Finance
- Third Sector
- Accenture, etc.

2.) State Procures Local Intermediary + Service Provider (Utah Model)

State can procure for the intermediary and task it with selecting the most competent provider(s) OR procure for the service provider(s) concurrently OR procure for the Intermediary and specify which service providers will be involved. State negotiates through the intermediary with investors & service providers.

Advantages:
- State maintains an arms-length relationship with investors
- State conserves resources by outsourcing some of the analysis and project management to the intermediary
- If we take "basket approach", a single intermediary can coordinate multiple service providers
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Disadvantages:
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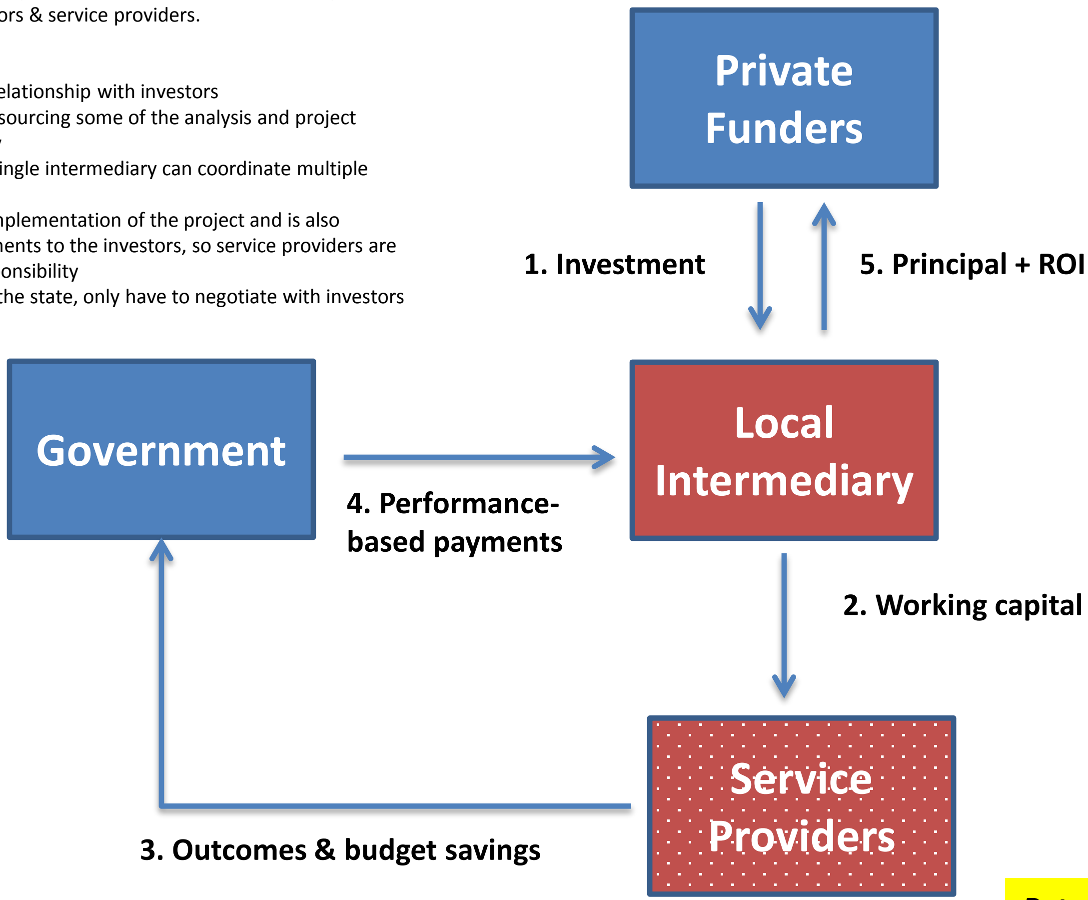

3 Options:
- Concurrent RFPs for Intermediary and Service Provider(s)
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- RFP for Intermediary only who then selects Service Provider(s)

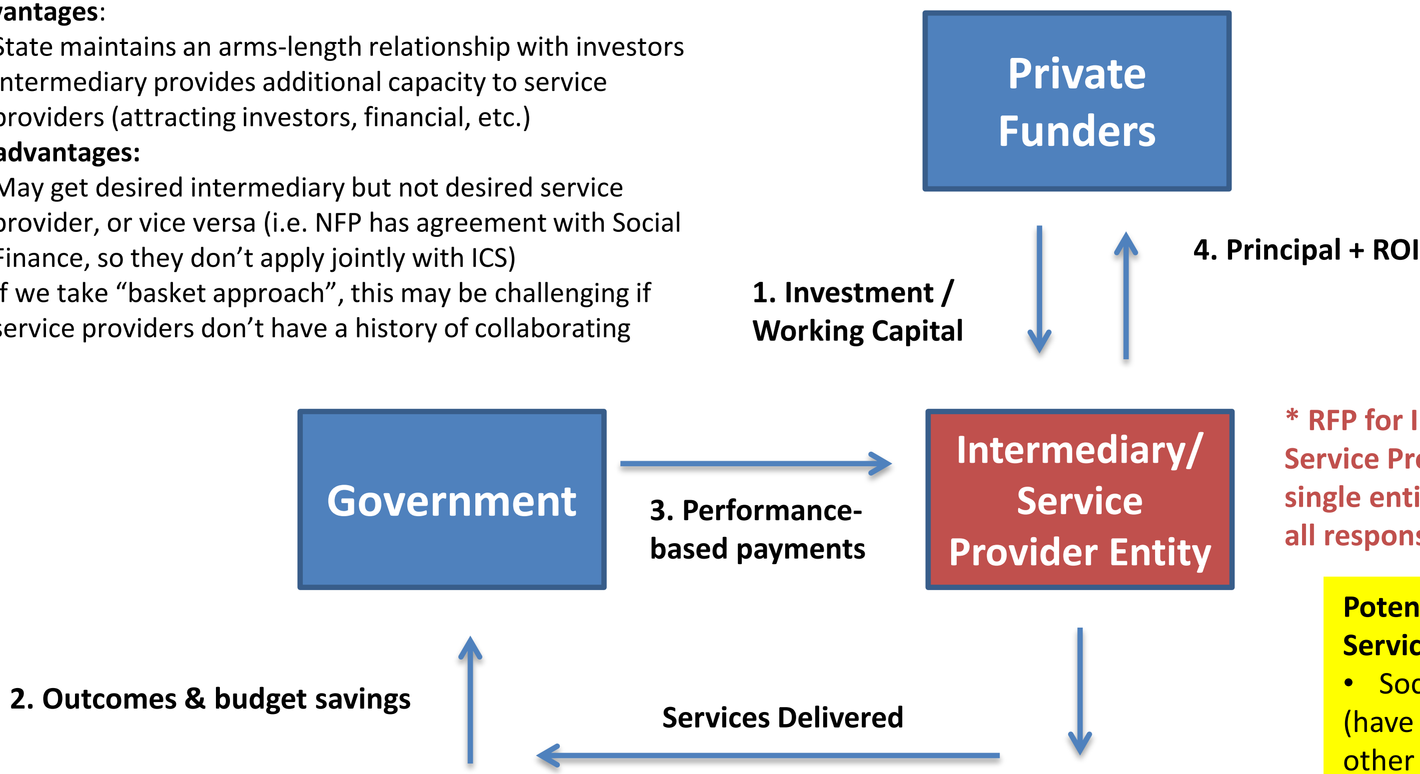
Potential Local Intermediaries:
- ICS
- United Way?

3.) State Procures Intermediary / Service Provider Team (NY2 Model)

State can procure for a Single Entity (Intermediary / Service Provider Team – multiple entities respond to procurement jointly). State negotiates with the single entity.

Advantages:
- State maintains an arms-length relationship with investors
- Intermediary provides additional capacity to service providers (attracting investors, financial, etc.)

Disadvantages:
- May get desired intermediary but not desired service provider, or vice versa (i.e. NFP has agreement with Social Finance, so they don't apply jointly with ICS)
- If we take "basket approach", this may be challenging if service providers don't have a history of collaborating



*** RFP for Intermediary / Service Provider Team OR single entity that can assume all responsibilities**

Potential Intermediary / Service Provider Teams:
- Social Finance & NFP (have responded jointly in other states – ICS indicated this would likely be the case in SC)
- NFP only
- Social Finance + NFP + Healthy Steps, etc.

4.) Service Provider Takes on Intermediary Role

State seeks a provider that can perform the functions of the intermediary, including raising operating funds. The state would need to decide if it would require negotiations with investors prior or after the procurement.

Advantages:
- Reduces the number of parties that the state must negotiate with
- Places the provider fully in charge of achieving the target outcomes

Disadvantages:
- Shifts the onus of identifying investors and negotiating terms to service providers
- Only providers that are well-connected and financed may be effectively eligible to participate, especially if procurement requires service providers to have secured investment in advance
- If we take “basket approach” this may be challenging

Private Funders

1. Investment/ Working capital

4. Principal and ROI

Government

3. Performance-based payments

2. Outcomes and budget savings

Service Provider

Technical consultants as needed

* RFP for Service Provider

Potential Service Providers:
- NFP
- HFA

Considerations

- Intermediary acts on behalf of state?
- Local vs. Specialized Intermediary?
- Legal/Financial Concerns of Service Providers acting as intermediaries?
- If procuring Service Provider only, do investor negotiations happen before of after procurement?