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# How an Innovative Grant Catalyzed Investment Capital to Bring Health Care to Vulnerable Populations

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The Atlantic Philanthropies wanted its final grants to have impact beyond its own lifecycle. So, it partnered with Arabella Advisors to devise a creative grant that will enable health care providers to serve low-income populations for years to come.

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## Introduction

**OVER 35 YEARS**, the Atlantic Philanthropies invested more than \$8 billion to advance opportunity and promote equity and dignity. In its final years, Atlantic concentrated on making grants that would have impact well beyond the foundation's life. This culminating work included a focus on health equity, with the goal of helping all people, no matter where they live or their socioeconomic status, access affordable, quality health care. In earlier years, the foundation supported grassroots organizations that helped win passage of the Affordable Care Act. But even with the law's enactment, many vulnerable communities in the United States still were underserved by traditional health care providers. To address this problem, Atlantic partnered with impact investing specialists at Arabella Advisors. In 2014, the foundation made an innovative grant to Vital Healthcare Capital (V-Cap), a community

development financial institution (CDFI). Atlantic's grant was designed to help V-Cap sustainably finance community-based health care providers who could fill the market gap and help solve the growing health care dilemma plaguing many US communities.

The story of Atlantic's high-risk, high-reward grant to V-Cap offers useful lessons to funders seeking ways to deploy catalytic capital and to use innovative financing mechanisms. Atlantic's grant provided "first-loss" capital—funding that acts as credit from a grant maker who can take the first losses on an investment. By being able to absorb the first loss, Atlantic enabled V-Cap to move quickly through the often-difficult startup phase and attract over \$11.5 million in additional investment, leaving it well positioned to deploy \$20 million to health care providers in underserved communities by the end of 2017.

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## Story of the Grant

Low-income and vulnerable communities across the United States typically lack adequate health care options, particularly access to primary care, which is key to reducing the incidence of chronic disease, hospitalization, and early death. Health care organizations serving low-income communities struggle to attract capital. That makes it extremely challenging for these organizations to properly serve the health care needs of community residents. In many cases, providers are forced to shut down or end up being acquired by entities not motivated by social impact that may not prioritize serving the same populations.

Atlantic partnered with Arabella Advisors' impact investing specialists to design and structure a catalytic grant that would help V-Cap expand its pool of available capital. Arabella initially conducted thorough financial and operational due diligence of V-Cap to

assess whether the institution could absorb grant funds and scale to deploy capital to health providers on a sustainable but accelerated timetable. Arabella also offered Atlantic the capacity to do due diligence on V-Cap's business structure, operations, and plans for growth. The assessment concluded that a grant that provided first-loss capital and operational support would be most effective.

Following due diligence, Arabella and Atlantic partnered to structure the schedule and terms of the disbursement. Atlantic awarded V-Cap an initial \$4 million for startup costs, with \$8.5 million more available to V-Cap if it met specific operational, performance, and business development terms. Arabella monitored V-Cap's progress against the disbursement terms summarized in the table below.

MILESTONE	CONTINGENT UPON V-CAP...	TIMING
Due diligence completed	No action required	August 2014
First \$4MM deployed	<ul style="list-style-type: none"> <li>■ Signing grant agreement</li> </ul>	January 2015
Additional \$2MM deployed	<ul style="list-style-type: none"> <li>■ Securing \$5MM in additional grants and/or investment commitments</li> <li>■ Developing an additional \$6MM in pipeline transactions</li> </ul>	April 2015
Additional \$2.5MM deployed	<ul style="list-style-type: none"> <li>■ Hiring a chief financial officer</li> <li>■ Forming an impact committee</li> <li>■ Securing \$2MM in additional grants and/or investment commitments</li> <li>■ Developing an additional \$10MM in pipeline transactions</li> </ul>	January 2016
Additional \$1.25MM deployed	<ul style="list-style-type: none"> <li>■ Securing \$2MM in additional grants and/or investment commitments</li> <li>■ Developing an additional \$5MM in pipeline transactions</li> </ul>	July 2016
Additional \$2.25MM deployed	<ul style="list-style-type: none"> <li>■ Securing \$2.5MM in matching grants and/or investment commitments for a customized financial product</li> <li>■ Completing subproduct pipeline development strategy</li> </ul>	October 2016

## Grant Outcomes and Lessons

In spite of some challenges faced during the first three years, V-Cap achieved the anticipated milestones. Now, it is well positioned to continue to grow in coming years to fill this critical market gap. Atlantic recently disbursed the last \$2.25 million to V-Cap, bringing its investment to a close. The grant requirements, while stringent, incented and rewarded V-Cap for achieving financial and operational milestones that are critical for any financial intermediary in the startup phase. The CEO of V-Cap, Steve Weingarten, characterized the Atlantic grant as “formative” and “catalytic,” and said he believed the grant “made [V-Cap] viable in a way that otherwise wouldn’t have been possible.”

We believe the story of Atlantic’s V-Cap grant offers useful lessons to funders who want to improve access to health care for vulnerable populations by deploying a sizable amount of capital to address market gaps and build capacity in high-potential startup organizations. Here are several considerations for funders interested in making similarly innovative catalytic investments:

**FUNDER CAPACITY:** The time spent conducting thorough diligence and structuring a thoughtful but rigorous grant disbursement schedule added to the cost of this grant. Monitoring the grant also required significant time and expertise. Funders should determine their internal capacity for conducting due diligence, monitoring, and triggered disbursement; their time horizon; and their risk tolerance when deciding whether this type of investment is right for them.

**NATURE OF DUE DILIGENCE:** The due diligence Arabella conducted prior to designing the grant went well beyond what’s required for typical grant making, encompassing elements more common to the

## V-CAP'S INVESTMENTS IN COMMUNITY HEALTH

Since accomplishing all the grant milestones, V-Cap has closed four investments in community health providers, which will equip these providers with the capital to serve lower-income communities. V-Cap’s financing focuses on organizations that serve vulnerable populations with complex medical issues. These include a health center in Staten Island working to lower rates of infant mortality and improve maternal health; a Los Angeles health center developing a best-practice center for early identification and treatment of autism and developmental disabilities; and a provider at the forefront of response to the opioid crisis in the Bronx that provides a comprehensive, whole-person model of care combining addiction, mental health, and primary care services. V-Cap has also established a low-interest loan program supporting primary care in Colorado; among the transactions in process are multiple investments in rural health centers, including two on the underserved Western Slope of Colorado.

diligence process for a financial investment. Activities included closely analyzing V-Cap's operating procedures, financial position, and market reputation. The due diligence enabled Atlantic to more confidently enter into a higher-risk grant agreement with V-Cap and to structure a well-informed disbursement schedule. In addition, Atlantic made Arabella's initial diligence report available to other funders to potentially streamline their due diligence and decrease the burden on V-Cap, which was rapidly scaling to achieve the disbursement goals. Arabella's deep diligence helped to make V-Cap a less risky proposition to other funders, and allowed V-Cap to attract more funding with fewer duplicated efforts. Funders should consider making their due diligence public as a tool to encourage co-investment.

**SCALE:** Because the time and capacity required at the start and throughout the entire disbursement schedule are significant, an intensive structuring process is best for entities that can work at scale. This approach is not recommended for making a grant to a smaller regional entity that would not be able to attract and deploy enough capital to impact a large number of people, scale by attracting traditional capital after proof of concept, or create new models of innovation in a specific sector. Even when working with a scalable, national grantee, this level of effort may be beyond the internal capacity of funders. We recommend, instead, taking a disciplined investment approach and engaging internal expertise, such as the CFO, CIO, or investment team, or by hiring external consultants.

**Arabella Advisors** helps foundations, philanthropists, and investors who are serious about impact achieve the greatest good with their resources. We help you imagine what's possible, design the best strategy, learn what works best, and do the work necessary to make your vision a reality.

**The Atlantic Philanthropies** made investments in people and places to create opportunity and promote greater fairness and equity for all. Over 35 years, it invested billions to address deeply rooted problems via "big bet" grants designed to produce lasting results.

#### **FLEXIBILITY AND OBJECTIVITY IN GRANTEE**

**MONITORING:** Conditional grant structures must be flexible and informed by deep due diligence, knowledge of current market forces, and input from the grantee. At the conclusion of this grant, all parties agreed that the milestones were appropriate and helped move V-Cap in the right direction. Still, V-Cap did not achieve several milestones on time, threatening the disbursal of grant funds. To resolve that, Atlantic leaned on Arabella to coordinate with V-Cap and propose changes to the schedule along the way. It was critical to partner with the grantee to allow it to inform the milestones from the outset, and to continue that partnership through changing and dynamic circumstances during monitoring and disbursement.

#### **What's next?**

The Atlantic V-Cap grant has shown that it is possible for a small CDFI serving vulnerable populations to scale quickly and sustainably. While obtaining capital can be difficult for organizations that serve vulnerable populations in sectors such as health care, housing, and education, V-Cap was able to grow from a small organization to one with a \$30 million pool of capital in just three years. Whatever the next few years bring—including likely cuts to federal safety-net programs—funders should investigate market-based solutions, which are generally more sustainable than traditional grants because they have revenue streams that can support the ongoing operations of the organization. We encourage funders to take smart risks, including with innovative financing vehicles, so that limited philanthropic dollars can effect sustained change for those who need it most.