



# Introducing Pay for Success

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Third Sector Capital Partners, Inc.

Boston & San Francisco | (617) 912-8957 | [info@thirdsectorcap.org](mailto:info@thirdsectorcap.org) | [www.thirdsectorcap.org](http://www.thirdsectorcap.org)

# Definitions

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## Pay for Success



**Performance-based contracting** within the social sector where government pays only if results are achieved.

## Social Impact Finance\*



**Financing that bridges timing gap** between government payments and upfront capital needed to run PFS programs.

\*Social Impact Bonds (SIBs) are a type of SIF

# Key Players in a PFS Deal

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## Government

- Initiates contract and identifies intermediary and/or provider(s)
- End payer for successful outcomes

## Intermediary

- Negotiates deal construction, identifies service providers and raises capital
- May also be contract holder and service project manager

## Service Provider(s)

- Delivers services
- Receives complete cost coverage; may receive performance payments

## Investors

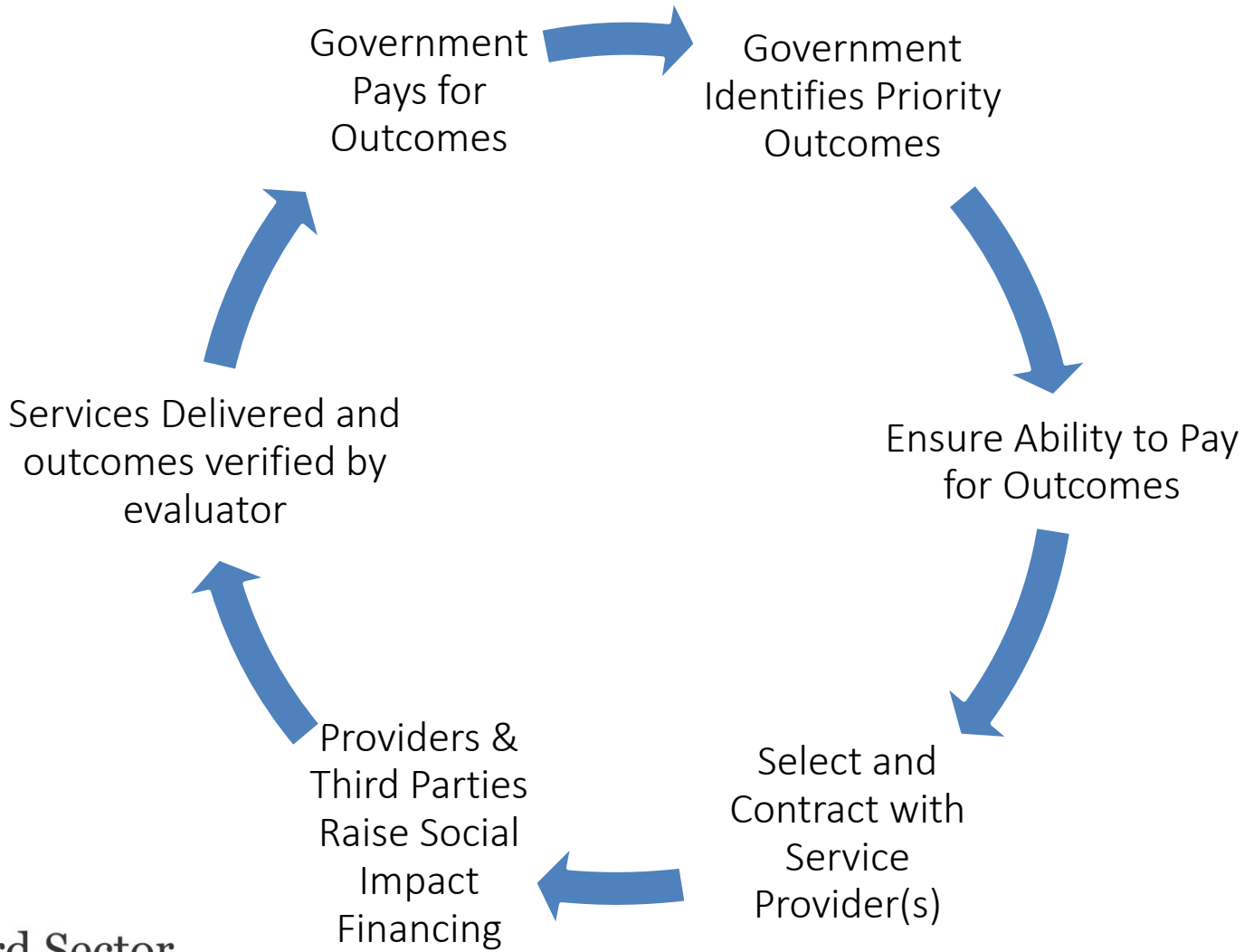
- Provide working capital to intermediary/providers
- May lose capital if project unsuccessful or be re-paid with government success payments

## Evaluator

- Supports rigorous evaluation design; measures progress towards outcomes based on contract requirements

# PFS Process Flow

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# PFS National Activity

## Launched Projects

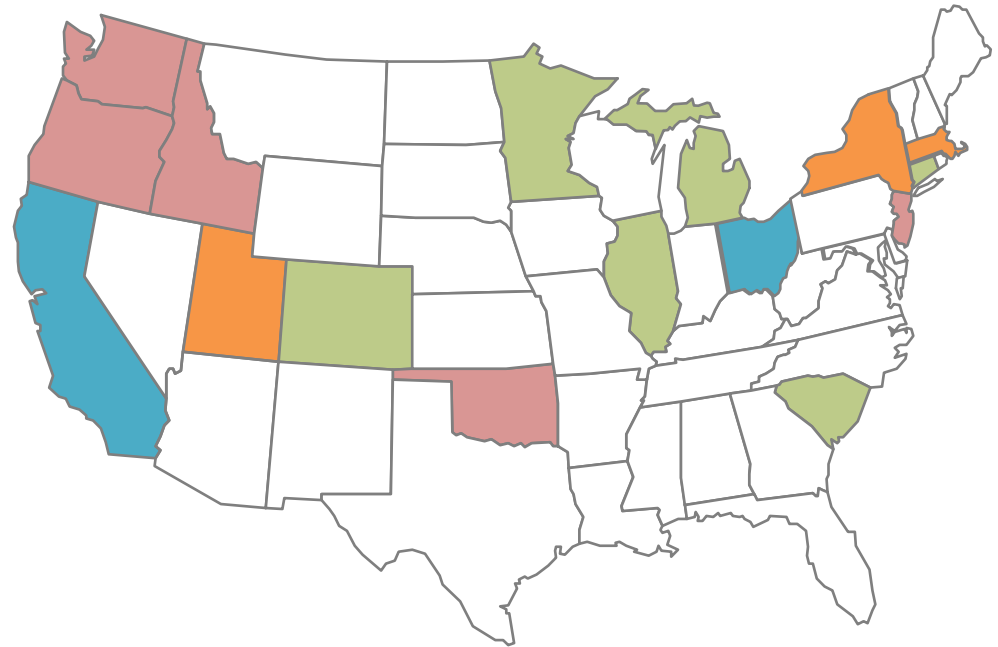
- Massachusetts – *Juvenile Justice*
- New York – *Justice/Workforce Development*
- New York City – *Juvenile Justice*
- Salt Lake City, UT – *Early Education*

## Active Deal Construction

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

## Active Government Procurement

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



## Other Government Action

- Pending Legislation – Idaho; Los Angeles County, CA; New Jersey; Oklahoma; Oregon; Washington
- Procurement Expected – Ohio, Pima County, AZ
- Federal Interest – Treasury Department; Department of Labor; Department of Justice; Social Innovation Fund

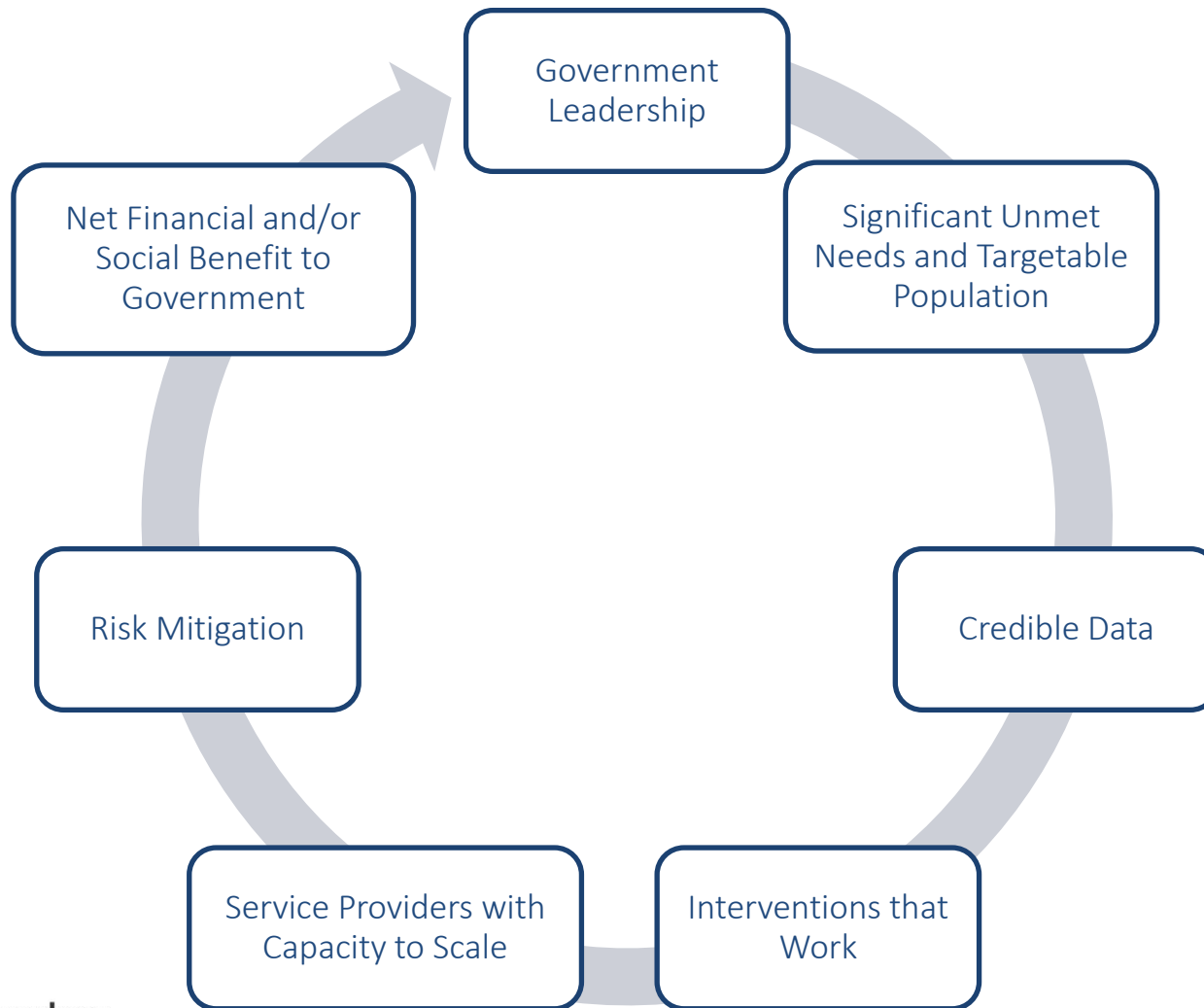
# Why Should a Government Consider PFS/SIF?

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- ✓ Can shift nonperformance risk from government to investors
- ✓ Focuses on outcomes-based contracts versus cost-reimbursement initiatives
- ✓ Independent evaluation creates transparency for all parties
- ✓ Attracts new forms of capital to the social sector for scaling
- ✓ Increases awareness of opportunity costs across multiple government agencies
- ✓ Increases data sharing and mining across agencies
- ✓ Creates opportunities to reinvest in successful programs and replicate over time

# When Does PFS Make Sense?

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# Areas of PFS Applications

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PFS areas of application may include:

- Community-based interventions that prevent institutionalization, e.g.
  - **Foster Care, Juvenile Justice, and Mental Health**
- Health-based interventions that result in Medicaid savings, e.g.
  - **Home Visitation**
- Education-based interventions that promote grade progression, retention, and school completion, e.g.
  - **Universal Pre-school**
- Home-based interventions to address homelessness, e.g.
  - **Supportive Housing**
- Workforce-based interventions, e.g.
  - **Job Readiness**

*The success of any PFS project is contingent upon the ability of a selected service provider and intervention to meet pre-determined outcome targets.*



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Case Study:  
Massachusetts Juvenile Justice PFS Initiative

# Massachusetts Juvenile Justice PFS Initiative:

## Project Overview

### Target Population

929 at-risk young men in Chelsea, Springfield and Boston aged 17-23

### Intervention

Delivered by Roca, Inc.

- 2 years: Intensive engagement, case management and job/life skills training
- 2 years follow up: sustainable employment

### Timing

7 year project

### Project Intermediary

Third Sector Capital Partners, Inc.

### Capital Structure

\$18 million in upfront financing from commercial and philanthropic funders; \$3.3 million in deferred service fees from provider

### Project Budget

\$27 million in maximum success payments from Commonwealth of Massachusetts

### Success Payments

Based on:

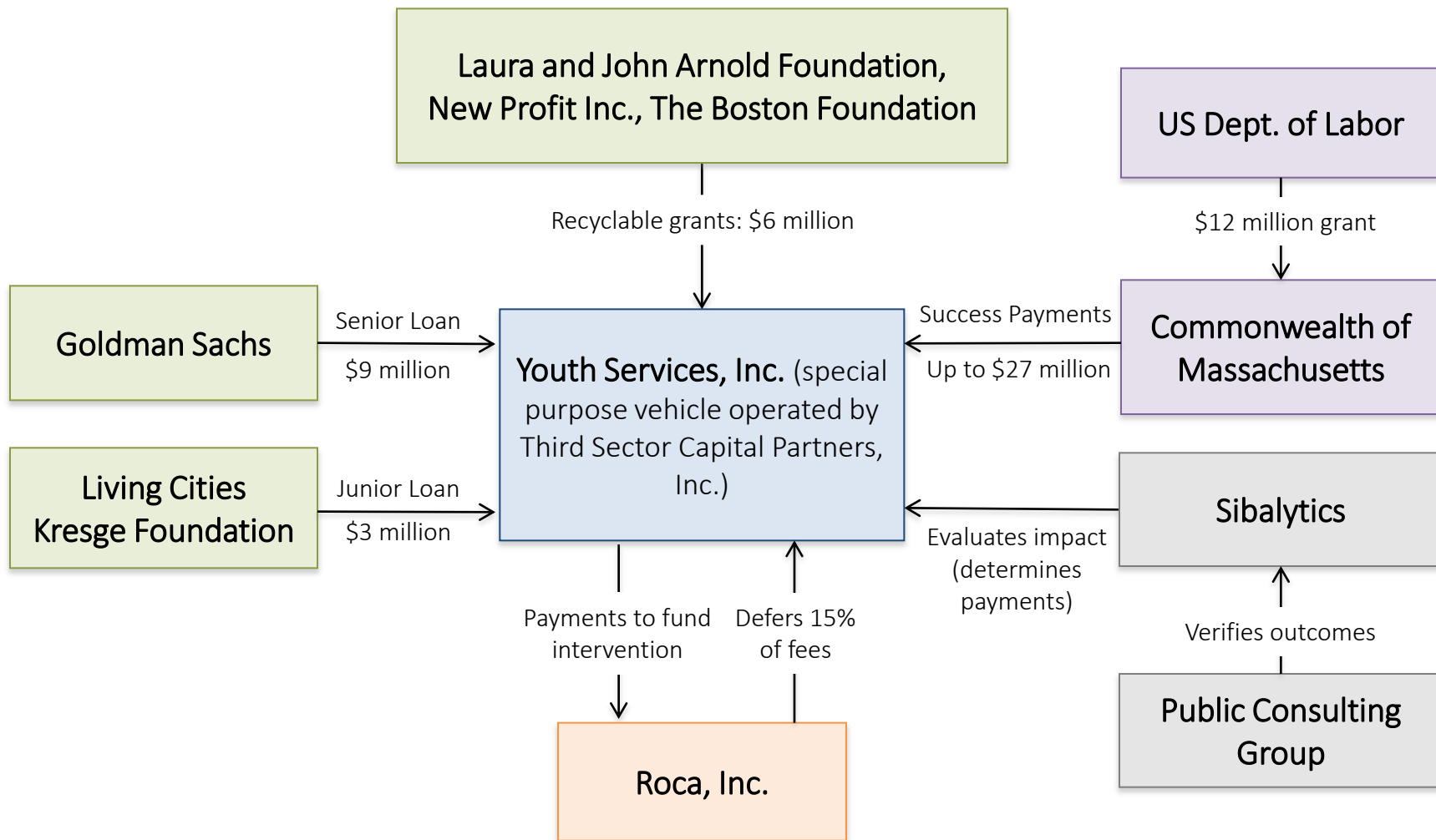
- Decreases in days of incarceration
- Increases in job readiness
- Increases in employment

### Evaluation Methodology

Independently conducted randomized control trial confirmed by validator

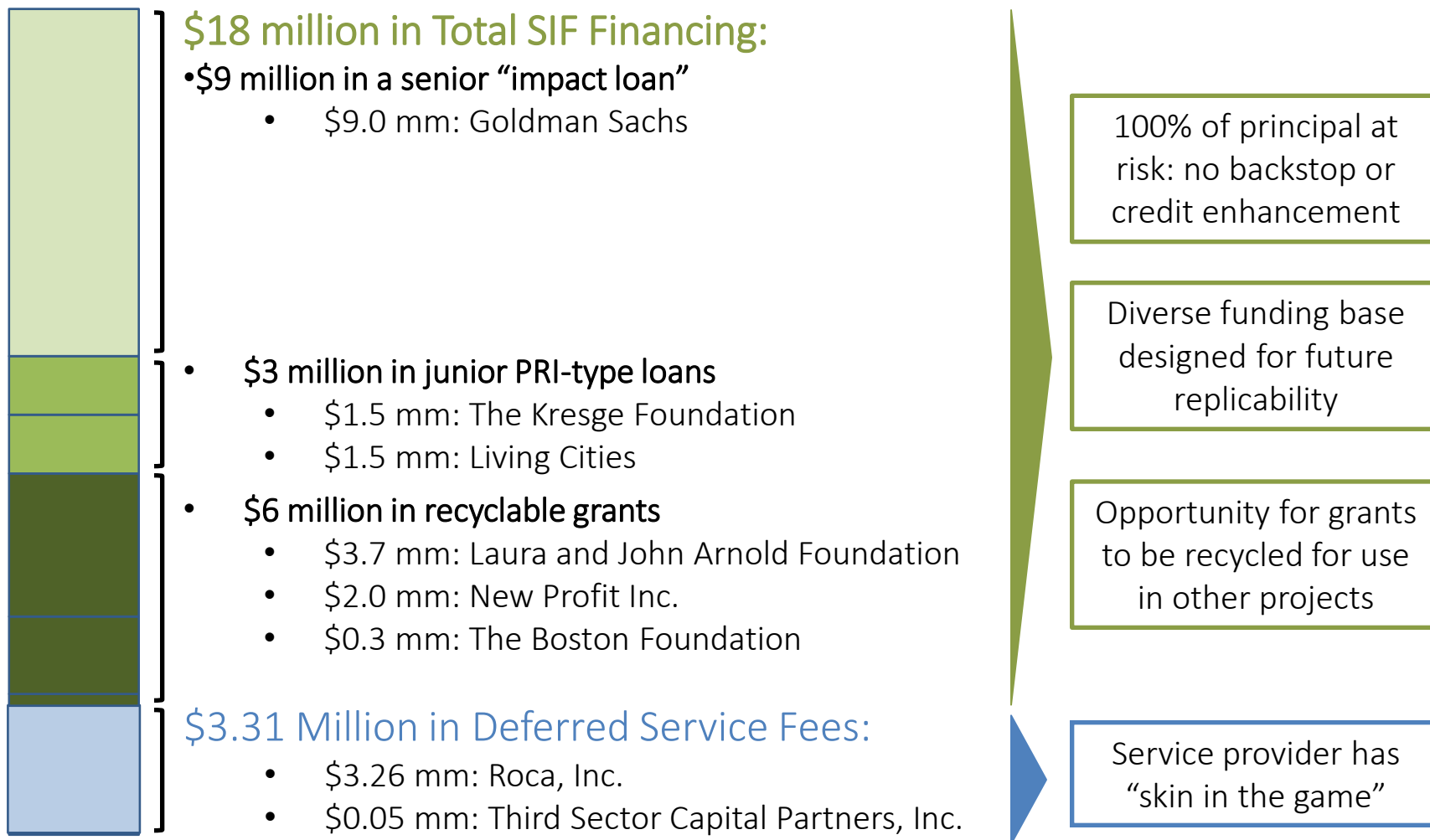
# Massachusetts Juvenile Justice PFS Initiative

## Deal Structure



# Massachusetts Juvenile Justice PFS Initiative

## Capital Stack



# Massachusetts Juvenile Justice PFS Initiative

## Success Payments

*\$27 million in success payments are paid out based on decreases in incarceration, increases in job readiness and increases in employment*

### Target Impact:

**40% decrease in days of incarceration**

Senior Loan: Repaid principal and 5% base interest

Junior Loans: Repaid principal and 2% base interest

Roca and Third Sector: Paid deferred service fees

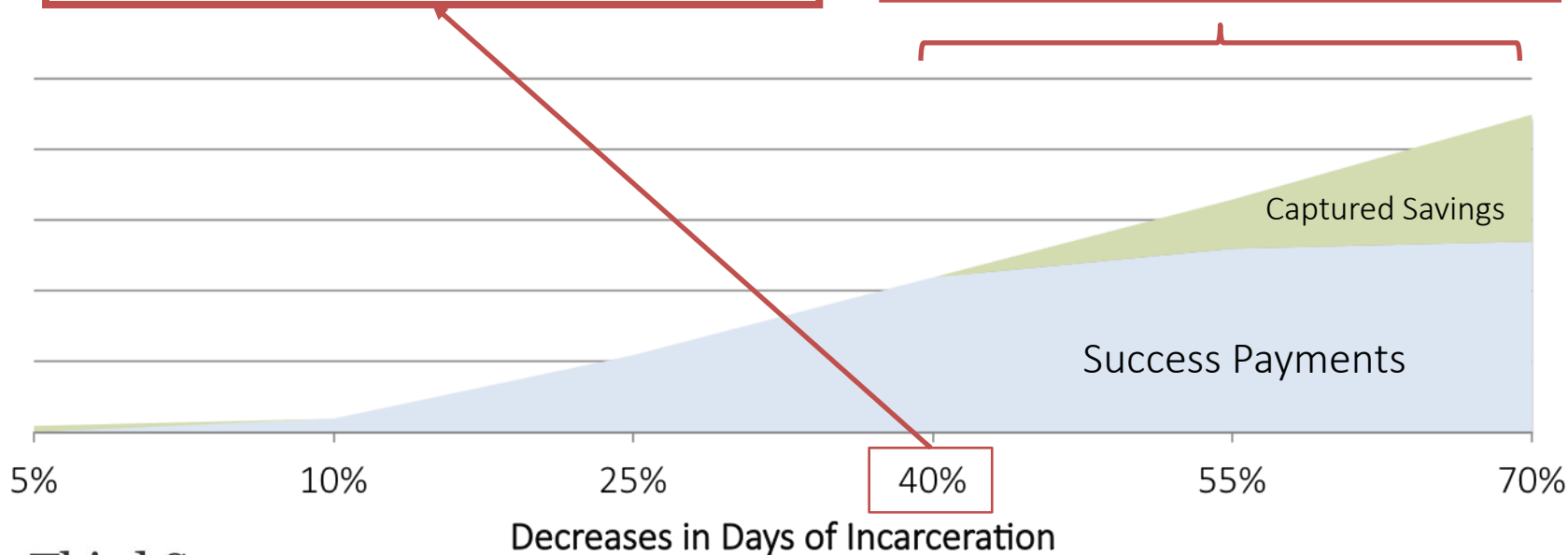
### Repayment at Higher Levels of Impact

Senior Loan: up to approximately \$1 million

Junior Loans: up to \$600,000 (\$300,000 each)

Roca: up to \$1 million

Grants: up to \$6 million for recycling



# Massachusetts Juvenile Justice PFS Initiative

## Project Features

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- Largest financial investment in a PFS project to-date
- Service provider has “skin in the game”
- 100% of funder principal at risk
- Project costs incorporated into financing, including intermediary, evaluation and audit costs
- Randomized control trial
- Commonwealth pledges full faith and credit
- Grants can be recycled at higher levels of impact