



Introducing Pay for Success

April 2, 2014

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Definitions

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

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

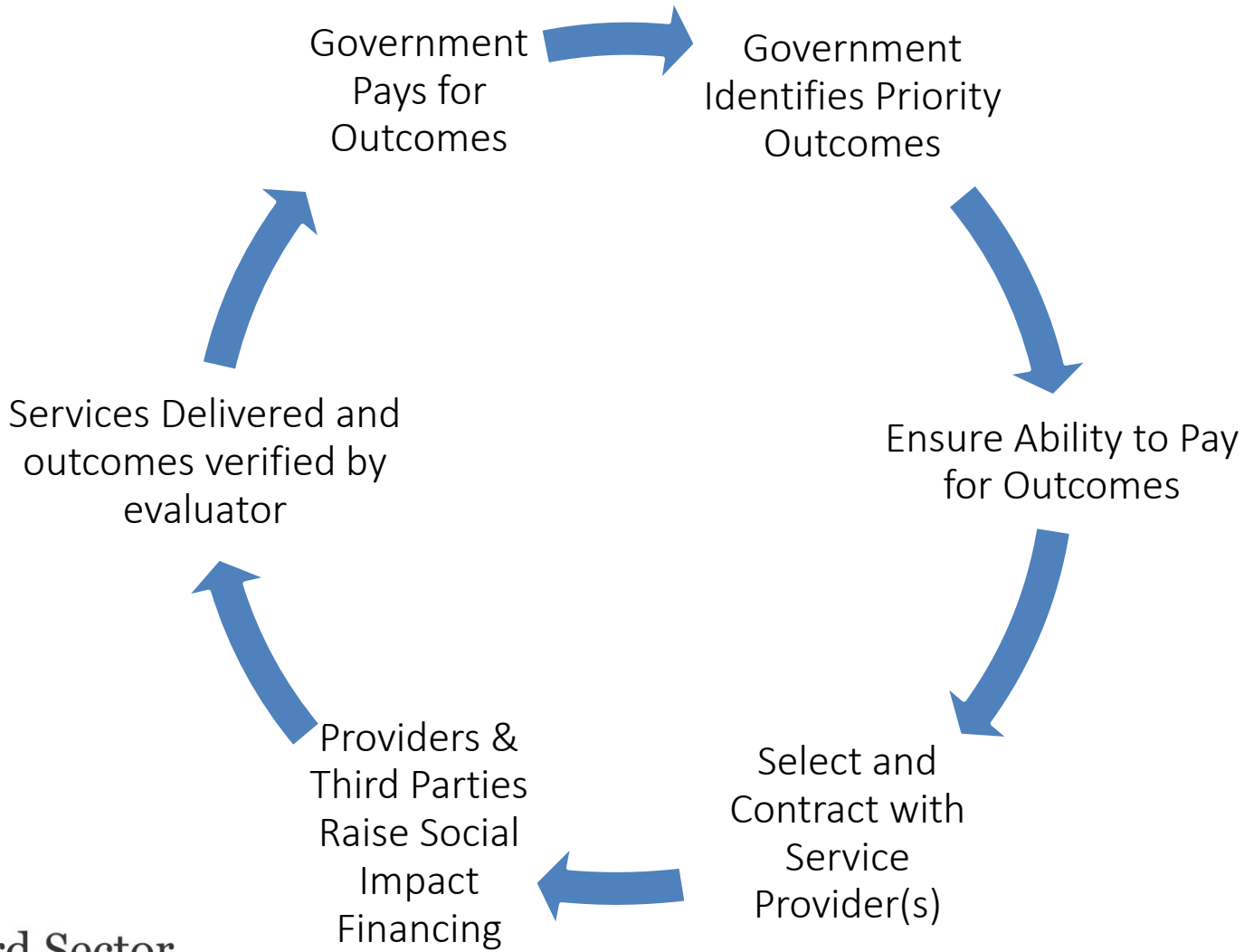
Investors

- 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



PFS National Activity

Launched Projects

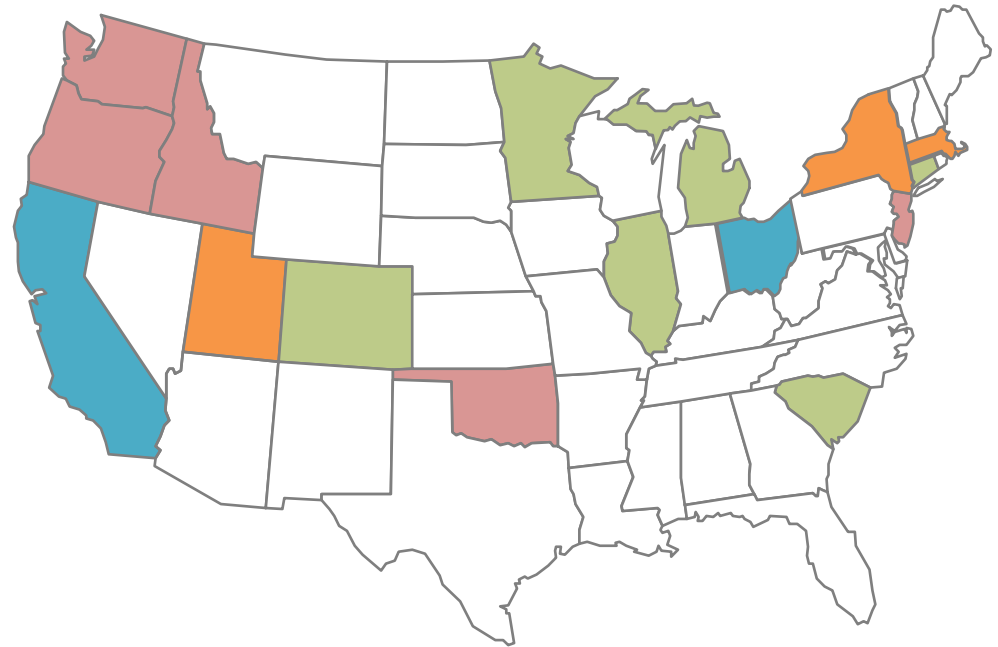
- Massachusetts – *Juvenile Justice*
- New York – *Justice/Workforce Development*
- New York City – *Juvenile Justice*
- Salt Lake City, UT – *Early Education*

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



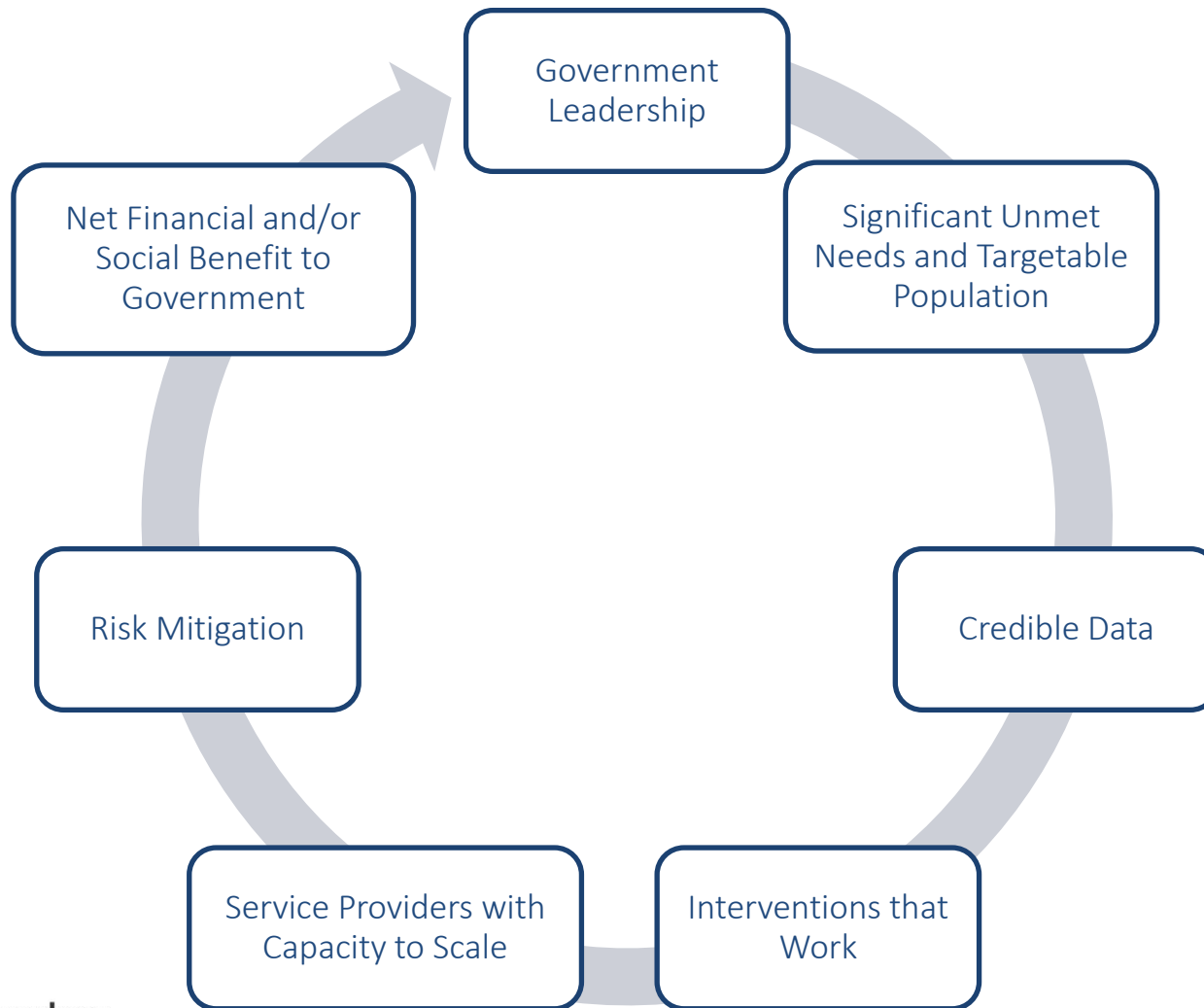
Other Government Action

- 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?

- ✓ 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?



Areas of PFS Applications

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.

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:

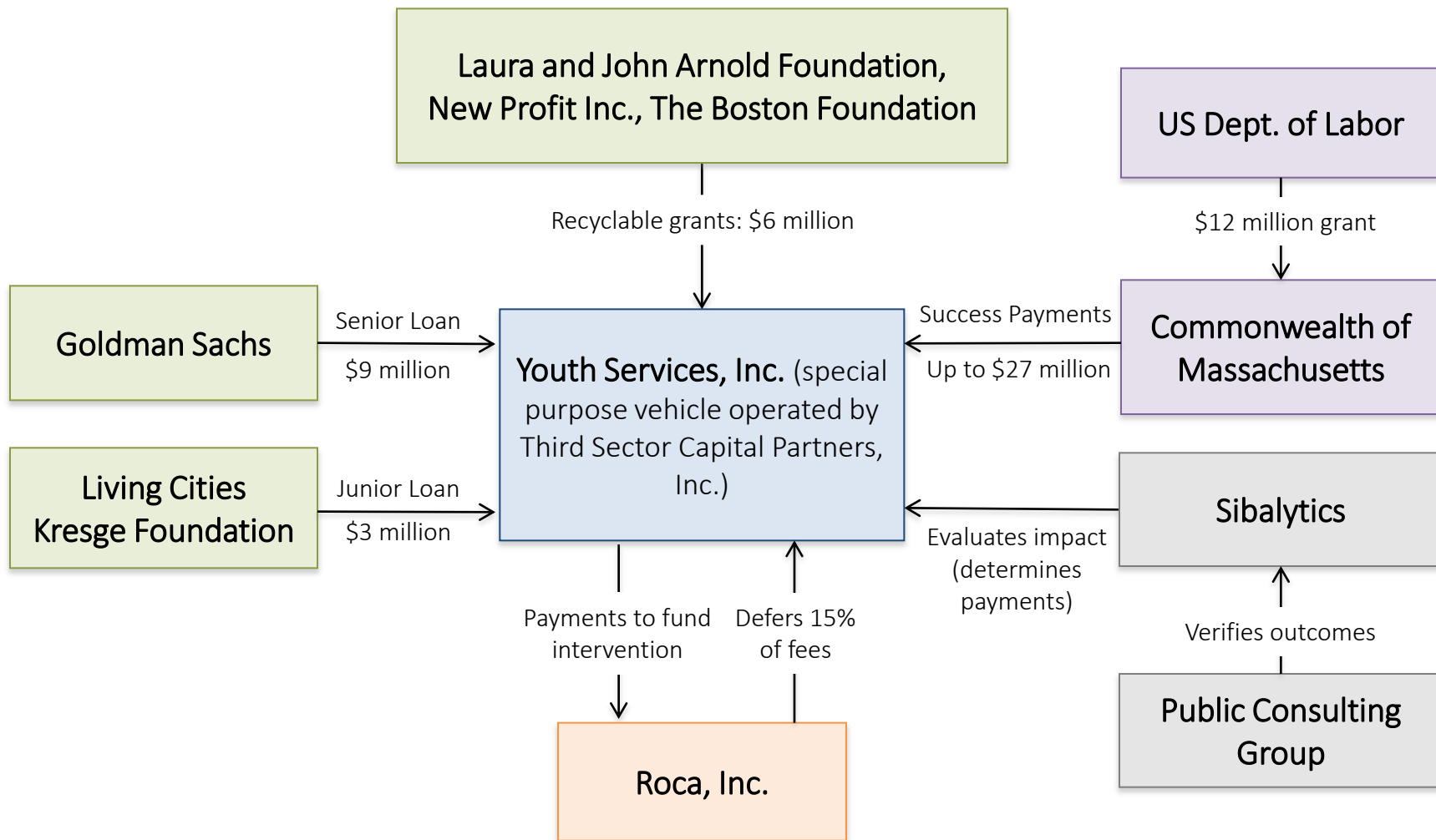
- Decreases in days of incarceration
- Increases in job readiness
- Increases in employment

Evaluation Methodology

Independently conducted randomized control trial confirmed by validator

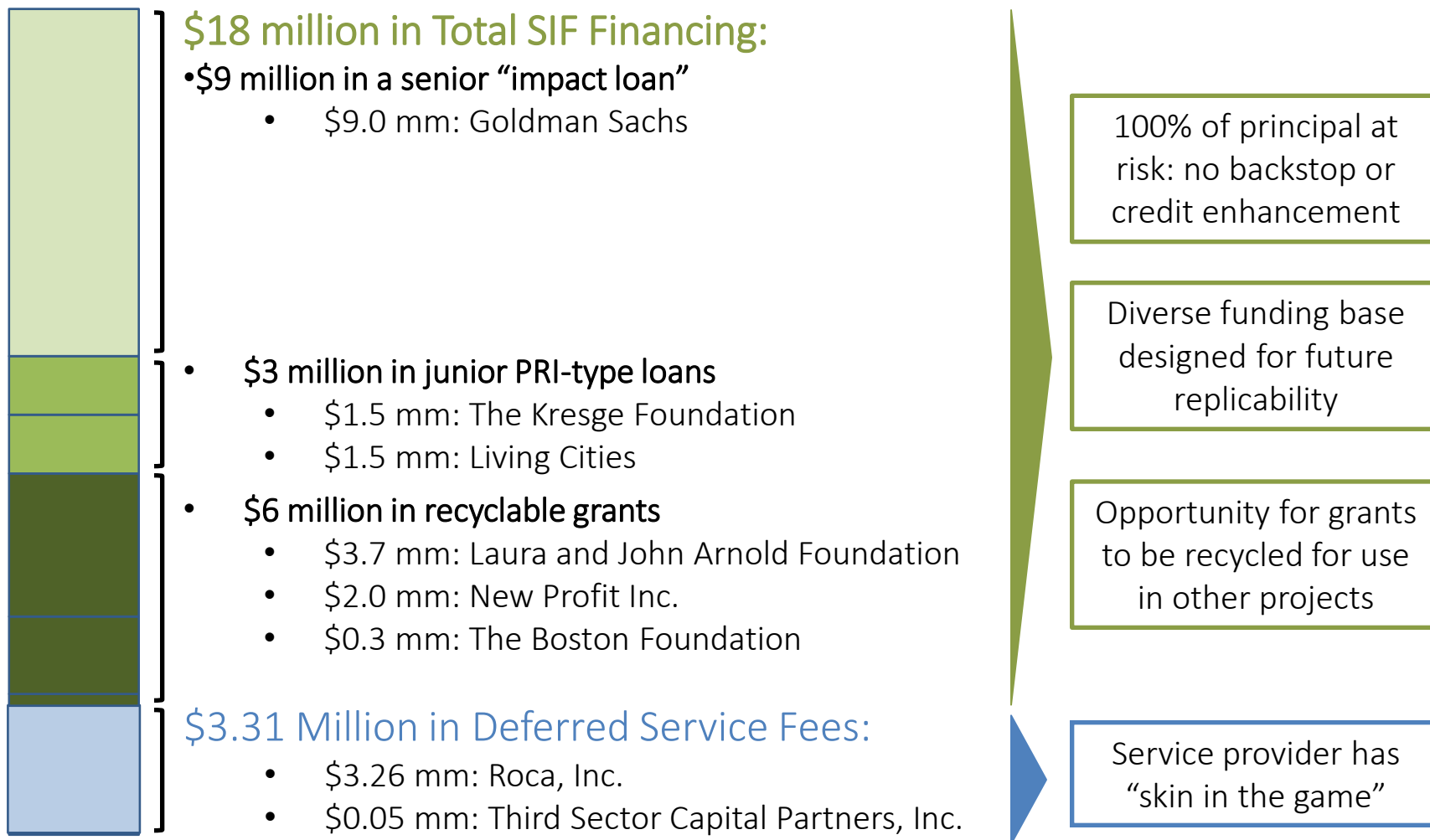
Massachusetts Juvenile Justice PFS Initiative

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

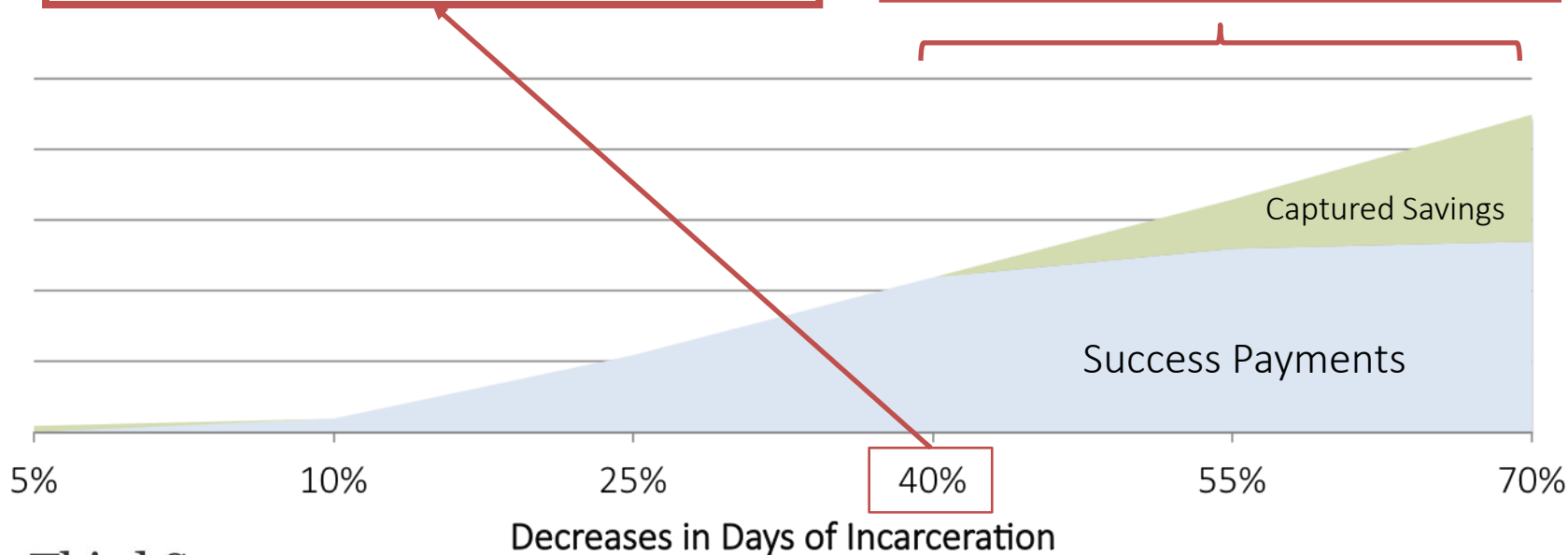
Repayment at Higher Levels of Impact

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

- 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