Pay for Success and Social Innovation Financing

NCSL Early Learning Fellows
May 2013
Our Mission

Accelerate America’s transition to a performance-driven social sector
Fund What Works

Evolve What Works
What is Pay For Success?

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

**Social Innovation Finance**
Financing that bridges timing gap between government payments and upfront capital needed to run PFS programs
How Pay for Success Works

- **Raise Working Capital**: $22 MM
- **Deliver Services**: Roca
- **Receive Govt Success Payments**: $27 MM *if* Bed Days are Reduced
- **Replenish Working Capital**: Pay Off Loans, Recycle
National PFS Developments

Pilots:
- Massachusetts
- New York City

Procurements:
- Massachusetts
- New York
- Cuyahoga County
- Minnesota

Federal Solicitations:
- DOL
- Second Chance
- ACYF

Explorations:
- South Carolina
- Colorado
- Utah
- New Jersey
- Maryland
- Connecticut
- Santa Clara County
- LA County

Third Sector
Accelerating America’s Transition to a Performance-Driven Social Sector
Key Characteristics of PFS

- Cashable Fiscal Savings for Government
- Government Leadership
- Significant Unmet Needs & Targetable Populations
- Safeguards
- Scalable Service Providers
- Credible Data
- Interventions that Work

Third Sector capital partners
## Promising PFS Intervention Areas

<table>
<thead>
<tr>
<th>Social Challenge</th>
<th>Potential Interventions</th>
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<tbody>
<tr>
<td>Homelessness (family or individual)</td>
<td>Permanent Supportive Housing</td>
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<tr>
<td>Child Welfare/Foster Care</td>
<td>Redirection from Out-of-Home Placement</td>
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<td>Re-entry/Recidivism</td>
<td>Community Based Alternatives to Incarcerations</td>
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<tr>
<td>Kindergarten Readiness/ Early Childhood Education</td>
<td>Universal Pre-K Interventions; Home visiting</td>
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<tr>
<td>Mental &amp; Behavioral Health</td>
<td>Community Based Clinical Interventions</td>
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<tr>
<td>Workforce Development/ Employment</td>
<td>Apprenticeship Programs</td>
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Existing PFS Pilots: Massachusetts Juvenile Justice
Commonwealth Announces a Request for Information

Commonwealth Announces Two PFS Pilots in Homelessness and Juvenile Justice

MA Homelessness Pilot Deal Construction Begins

January 2012  May  August  Sept.- April 2013  May  Summer- 2020

Commonwealth Announces Request for Responses for PFS Pilots in 1) Youth & 2) Homelessness

MA Juvenile Justice Pilot Deal Construction

MA Juvenile Justice Project Launch and Post-Closing
4,000 Young Men at High Risk of Incarceration

65% Percent who will be incarcerated at least once within five years of release.

$47,500 Estimated annual cost per prisoner to the Commonwealth

2.3 years Average time spent in correctional facilities

$280 million Total incarceration expenses incurred by the Commonwealth
Roca: Breaking the Cycle of Incarceration

Roca’s Intervention Model

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<th>2 Years: Intensive Services</th>
<th>2 Years: Follow Up</th>
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<tbody>
<tr>
<td>Engagement</td>
<td>Sustainable Employment</td>
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<tr>
<td>Behavioral Change</td>
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Roca has an impressive record

*Assessments of impact based on comparison of similar populations, not randomized control studies*
Massachusetts Proposed Pay for Success/Social Innovation Financing Project

- $22 million raised from philanthropy and bank loans*
- Ongoing randomized control trial
- State issues $25+ million of PFS rewards
- Bank loans repaid
  Philanthropic surpluses available to re-invest

* An additional $3.6 million is raised by Roca to cover potential risk of nonperformance
**Some philanthropists may elect to recover their grants
$22 million in loans and philanthropy committed for Roca scaling & operations

July 2013

MA begins PFS success payments

July 2017

• Debt fully repaid
• Grants can reinvest in sustainable PFS recidivism project

July 2020

SUSTAINED SOCIAL IMPACT

Ongoing program measurement
Why PFS Matters
Why PFS Makes Sense Now

Factors Reinventing Procurement

Harnessing Administrative Data for Low-Cost, Rigorous Evaluation

Establishing Shared Metrics that Enable Comparison

Building an Ongoing Connection Between Money and Impact

Unleashing Innovation

Factors that Will Lead to Large Scale and Permanent Reform

Wide Spread Interest Among Government Champions

Economic Benefits of Increasing Impact

Ready Sources of Working Capital

Third Sector capital partners

Accelerating America’s Transition to a Performance-Driven Social Sector
Contact Information

Third Sector Capital Partners

George Overholser, CEO
goverholser@thirdsectorcap.org