BRINGING PAY FOR SUCCESS
FINANCING TO SOUTH CAROLINA: RESULTS OF A FEASIBILITY STUDY

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Institute for Child Success

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The Duke Endowment
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South Carolina Department of Health and Human Services
Outcomes for South Carolina Youth

SC ranked 45th in overall child well-being

**Economic Well-Being**
- Children in poverty
- Children with a high housing cost burden
- Children with parents lacking secure employment
- Teens not in school and not working

**Health**
- Low-birth-weight babies
- Child and teen deaths/100,000
- Children without health insurance
- Teens who abuse alcohol or drugs

**Education**
- Children not attending preschool
- Eighth graders not proficient in math
- Fourth graders not proficient in reading
- High school students not graduating on time

**Family & Community**
- Children in single-parent families
- Children living in high-poverty areas
- Children in families where the household head lacks a high school diploma
- Teen births per 1,000

Source: KIDS COUNT Databook, 2013
Home Visiting Programs in SC

- Nurse-Family Partnership
- Healthy Families America
- Parent Child Home Program
- Parents as Teachers
- Early Head Start
- Early Steps to School Success
- Healthy Start
- Healthy Steps
- Family Check-Up
Proven Outcomes of NFP

• Fewer preterm births
• Fewer injury-related visits to the emergency room
• Reductions in child abuse and neglect
• Children more ready for kindergarten
• Fewer closely spaced 2nd births → lower risk
• More economically independent mothers
• Less youth crime
Government Savings* More Than Cover Cost

- Cost of NFP = $7,754
- Government saves $19,120 over 18 years
- Medicaid saves $14,245
- Savings shared by state and federal governments

*Savings" refers to government costs avoided. Source: Miller, Cost Savings of Nurse-Family Partnership in South Carolina, April 2013, p. 1
Unmet Need for NFP in SC

Source: * 2011 Data; Michael G. Smith, SC DHEC, Bureau of MCH
** NFP State Nurse Consultant, South Carolina DHEC
Potential NFP Expansion Strategy

Expand three current locations:

- Greenville
- Richland
- Charleston

Add new location(s):

- Orangeburg?
- Florence?
## Expected New NFP Clients by Site

<table>
<thead>
<tr>
<th>Region</th>
<th>First Births Paid by Medicaid*</th>
<th>Number Expected to Enroll in NFP per Year</th>
<th>Current Capacity**</th>
<th>Number of New Clients from Expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenville</td>
<td>1,548</td>
<td>387</td>
<td>94</td>
<td>293</td>
</tr>
<tr>
<td>Richland</td>
<td>1,793</td>
<td>448</td>
<td>79</td>
<td>369</td>
</tr>
<tr>
<td>Charleston</td>
<td>1,352</td>
<td>338</td>
<td>95</td>
<td>243</td>
</tr>
<tr>
<td>Orangeburg</td>
<td>477</td>
<td>119</td>
<td>-</td>
<td>119</td>
</tr>
<tr>
<td>Florence</td>
<td>1,153</td>
<td>288</td>
<td>-</td>
<td>288</td>
</tr>
</tbody>
</table>

*2009-2011 Averaged data; Michael G. Smith, SC DHEC, Bureau of MCH
**2012 Data; NFP State Nurse Consultant, South Carolina DHEC

* x 25%

Source: *2009-2011 Averaged data; Michael G. Smith, SC DHEC, Bureau of MCH

**2012 Data; NFP State Nurse Consultant, South Carolina DHEC
# Estimated Costs and Savings

<table>
<thead>
<tr>
<th>Number of New Clients</th>
<th>2,750</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Cost of NFP per Family*</td>
<td>$ 7,754</td>
</tr>
<tr>
<td>Cost Over Length of Program</td>
<td>$ 21.3 million</td>
</tr>
<tr>
<td>Net Government Savings</td>
<td>$ 31.3 million</td>
</tr>
</tbody>
</table>

*Source: Average cost for full 2+ years of program services; Miller, Cost Savings of Nurse-Family Partnership in South Carolina, April 2013
Proposal: Base PFS Contract on Health Outcomes

- Health outcomes happen relatively quickly
  - At birth/in first 2 years
  - Can do 4- or 6-year deal
- Government interest in using Medicaid dollars more efficiently

Most promising health outcomes

- Reduce preterm births
- Reduce ER visits for injuries in first 2 years
- Improve spacing of second birth to lower risk
Expected Preterm Birth Reduction by Site

Assuming NFP reduces preterm births by 27.4%*

<table>
<thead>
<tr>
<th>Region</th>
<th>Current Rate</th>
<th>Post-NFP Expansion Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenville</td>
<td>11.2%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Richland</td>
<td>11.1%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Charleston</td>
<td>10.9%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Orangeburg</td>
<td>9.7%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Florence</td>
<td>13.8%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

* Source: Miller, Cost Savings of Nurse-Family Partnership in South Carolina, April 2013
Possible Financing Structures

• Several possibilities for mixing private, philanthropic & government financing to create a viable deal
• Tolerance for risk, required returns vary by funder type
• Government may need to make some non-outcome-based payments to limit down-side risk (i.e. risk that funders lose everything if outcome not achieved)
• The two largest intermediary organizations have prepared proposed structures to consider in Phase 2
### Illustrative Term Sheet

<table>
<thead>
<tr>
<th><strong>Investment Required</strong></th>
<th>$24 million ($21.3 m for program + $2.7 m for intermediary and evaluation)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Term of Financing</strong></td>
<td>6 Years</td>
</tr>
<tr>
<td><strong>Total Lifetime Government Savings</strong> ¹</td>
<td>$52.6 million</td>
</tr>
<tr>
<td><strong>Government Payout</strong></td>
<td>Up to $30 million</td>
</tr>
<tr>
<td><strong>Commercial Investment</strong></td>
<td>$12 million</td>
</tr>
<tr>
<td><strong>Philanthropic Investment</strong></td>
<td>$12 million (first loss position)</td>
</tr>
<tr>
<td><strong>Investor IRR/Rate of Return</strong></td>
<td>6.0%-10% ²</td>
</tr>
<tr>
<td><strong>Philanthropic IRR/Rate of Return</strong></td>
<td>0%-4% ²</td>
</tr>
<tr>
<td><strong>Outcomes metrics</strong></td>
<td>Reduction in pre-term births (illustrative)</td>
</tr>
<tr>
<td><strong>Evaluation Methodology</strong></td>
<td>TBD</td>
</tr>
<tr>
<td><strong>Service Provider</strong></td>
<td>Nurse-Family Partnership Implementation Agencies</td>
</tr>
<tr>
<td><strong>Individuals Served</strong></td>
<td>2,750 low-income, first time mothers and their families in South Carolina</td>
</tr>
<tr>
<td><strong>Intervention Model</strong></td>
<td>Nurse home visitation during pregnancy and after birth up to age 2</td>
</tr>
</tbody>
</table>

¹ Represents federal and state savings. Source: Miller, Cost Savings of Nurse-Family Partnership in South Carolina, April 2013, p 1

² Investment return dependent on various assumptions, including capital drawdown schedule and timing of investor returns.
Early Childhood PFS Challenges

• Early childhood programs have multiple benefits that yield savings to multiple government agencies.

• Benefits take time to accrue.

• High-stakes single outcomes are risky.
Getting Started

• Which outcomes are you confident the program will achieve?

• What savings/benefits do those outcomes produce? To which agencies?

• What will scaling look like? How many people will be served? How much will it cost?

• Do the benefits/savings exceed the costs?

• Is there a government agency (or agencies) willing to pay for the outcomes?
Conclusion

Pay for Success is a *feasible* and promising way to improve outcomes for South Carolina children.

Analysis shows PFS could be used to scale up Nurse-Family Partnership; it also may be appropriate for other early childhood interventions.

South Carolina should pursue Pay for Success financing for early childhood programs.
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