

## Pay For Success

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**Presented by:**

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# NFF as Trusted Advisor – 30+ Years Linking Money to Mission



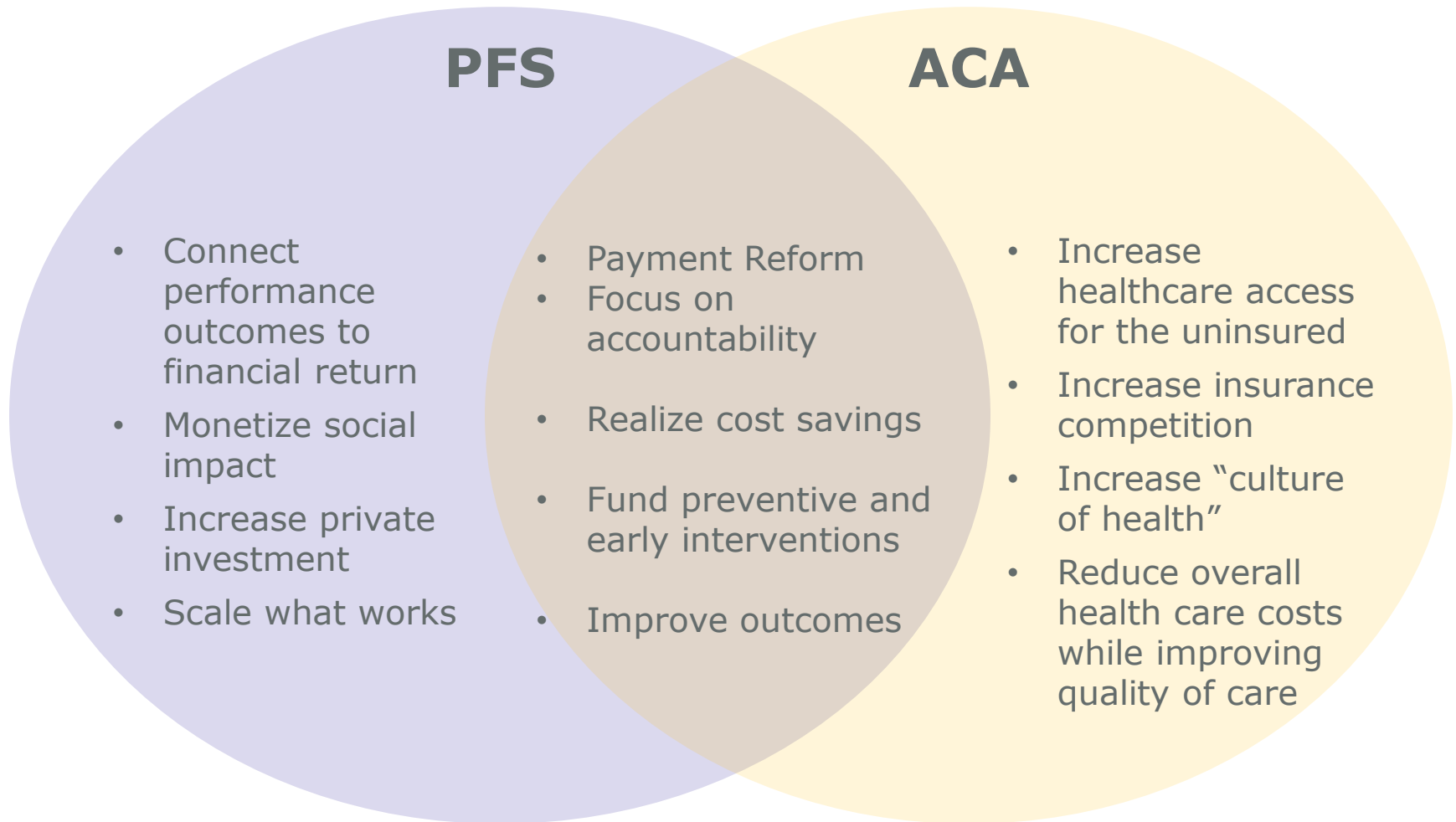
<b>Access to Capital</b>	<b>Strategic Financial Analysis, Management &amp; Planning Services</b>
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Field Development Capital Aggregation Philanthropic Advisory Work Provider Readiness Trainings Complete “Stacked” Capital Structured Finance	Studies of the Nonprofit Economy Advocacy on Funder Policies and Practices Publishing, Expert Commentary, Keynotes, Workshops & Panels PFS Learning Hub

# NFF & PFS: Knowledge Integrator & Market Facilitator



- **Pay for Success Learning Hub ([www.PayforSuccess.org](http://www.PayforSuccess.org)) (2010-)**
- **Pay for Success Education and Field Building (2013)**
  - 100 events
  - 25 states
- **Pay for Success Readiness Boot-Camps (2013)**
- **California Pay for Success Initiative (2014-)**
  - 7 leaders aiming to launch projects this year
- **Federal Social Innovation Fund PFS Transaction Structuring Program (2014-)**
  - Support at least 12 projects across the US
- **Pay for Success Investor (2014-)**
  - Department of Treasury's CDFI Fund \$1.1MM award

# Notable Intersections: Healthcare Reform Efforts & PFS



# Seven U.S Projects Announced & Launched; Over 40 in Development



- New York City (\$9.6mm): **Reducing recidivism** at Riker's Island through cognitive behavioral therapy program (2012)
- Salt Lake City, Utah (\$7mm): High quality **preschool** program to reduce special education costs for up to 3,500 kids (2013)
- New York State (\$13.5mm): **Reducing recidivism & increasing employment** for 2,000 formerly incarcerated (2013)
- Massachusetts (\$18m): **Reducing recidivism & increasing employment** for 900+ at risk young men (2014)
- The City of Chicago (\$17M): Increase the provision of **pre-kindergarten** to up to 2,600 children (2014)
- Cuyahoga County, Ohio (\$4M): **Reconnect foster children** with caregivers in stable, affordable **housing** (2014)
- Massachusetts (\$3.5M): Reduce chronic individual **homelessness** for up to 800 individuals over 5 years using supportive housing (2014)
- **Fresno, CA:** *Asthma demonstration project; NOT a transaction*

- Social Innovation Fund - \$12 million for feasibility & deal construction efforts
- Department of Labor - \$20+ million awarded to MA and NYS & recent reauthorization of WIA to include up to 10% for pay for performance efforts
- Department of Justice - Second Chance Act planning and implementation grants
- Department of Treasury \$300 million Incentive Fund (pending legislation)
- HUD/DOJ- \$5 million competition for projects geared toward providing permanent supportive housing to homeless and formerly incarcerated individuals
- Department of Health and Human Services – study looking at leveraging entitlement program dollars in PFS projects

## Feasibility:

- Harvard SIB Lab
- Green & Healthy Homes Initiative (Healthcare)
- Corporation for Supportive Housing
- Third Sector Capital Partners
- Institute for Child Studies (Early Childhood)
- National Council on Crime & Delinquency (Juvenile Justice & Racial Disparities)
- University of Utah Policy Lab (Mountain States Focus)

\*NFF SIF program for sub-grants for later stage transaction structuring support

# Healthcare PFS Projects On the Horizon



## ■ Asthma Reduction/Prevention

- ✓ Fresno Demonstration Project
- ✓ Alameda County
- ✓ Baltimore/John Hopkins + GHHI Sites

## ■ Substance Abuse Prevention

- ✓ CT (Families in Child welfare system)
- ✓ Oklahoma (Women)

## ■ Mental Health

- ✓ Santa Clara County
- ✓ National/Veterans (Employment)

## ■ Maternal/Fetal Health (Nurse Visiting Programs)

- ✓ New York Michigan, California counties, Salt Lake County, South Carolina

## ■ Supportive Housing for Chronically Homeless, Disabled, or Mental Illness

- ✓ MA, Denver, MN, NM, NY, WA, Camden, San Diego, Austin

## ■ Teen Pregnancy & Diabetes Prevention



# Characteristics of Successful Pay for Success Programs\*

1. **Social needs** that are *unmet, high-priority* and *large-scale*
2. **Target populations** that are *well-defined* and can be *measured separately*
3. **Preventive interventions** that are highly *likely to achieve targeted impact goals*
4. **Proven service providers** that are *prepared to scale* with quality
5. **Effective programs** that can demonstrate *fiscal savings, efficiencies or sufficient societal benefit for government/payors*
6. **Safeguards** to protect the *well-being of populations served*
7. **Government leadership** at *state and local level*
8. **Administrative data and systems** that are *credible* and *readily available* in a cost effective means

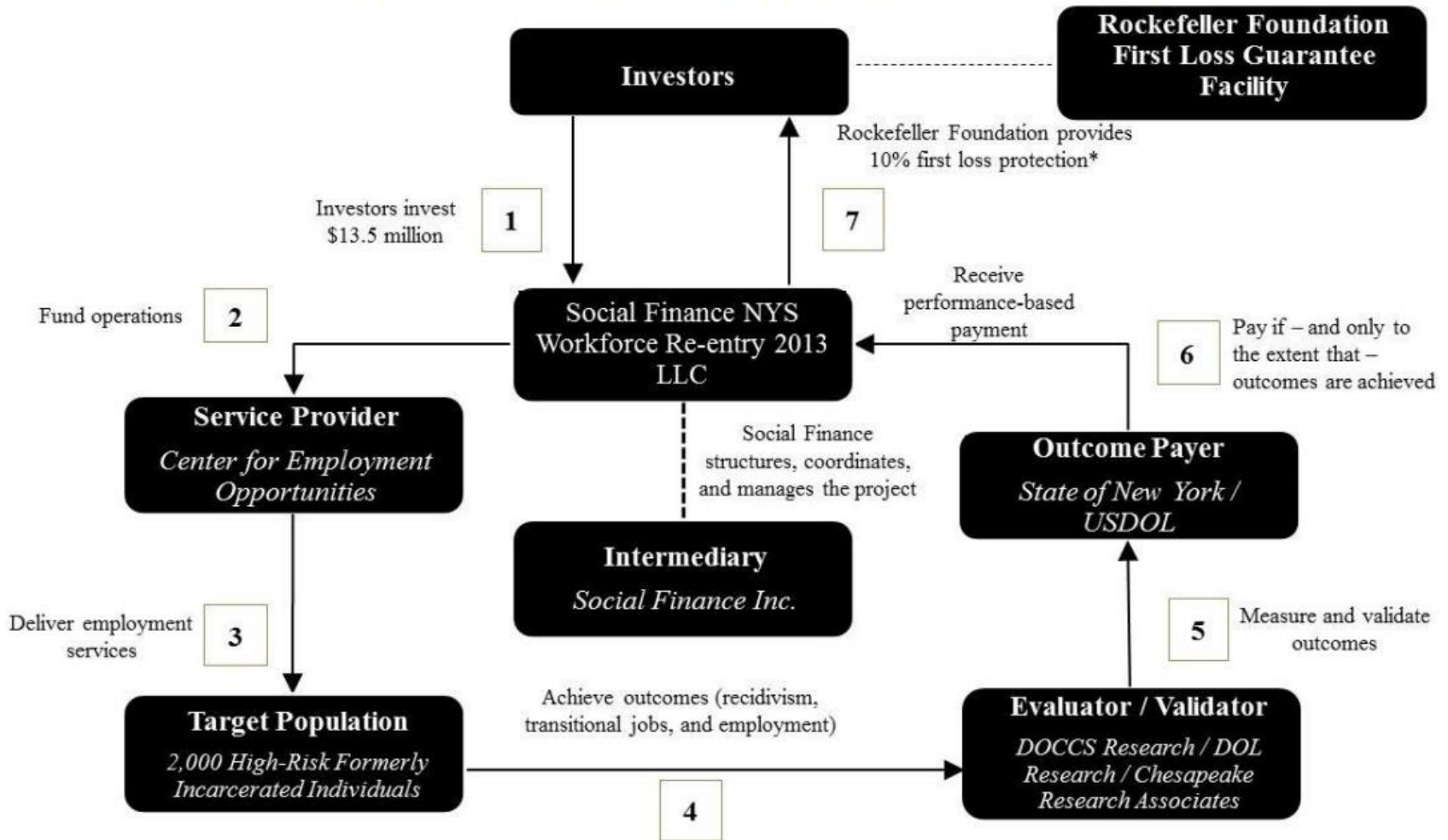
# NY State Recidivism and Workforce Development Project



- **Outcomes:** Must reduce recidivism by at least 8% and/or increase employment by at least 5%
- **Intervention:** Training/preparing 2,000 formerly incarcerated individuals under parole supervision for employment (scale up of existing program) over 5.5 years
- **Partners:** Center for Employment Opportunities (service provider), Social Finance (intermediary), NYS DOCCS (evaluator), Chesapeake Research Associates (validator)
- **Payor:** New York State (NYS also received grant from USDOL)
- **Investment:** \$13.2M from Bank of America Merrill Lynch via private investors, protected by a \$1.3M first loss guarantee from the Rockefeller Foundation
- **Payout:** \$23.5M total payout possible

# NY State Recidivism and Workforce Development Project

**Figure 1. New York State Pay for Success / SIB Model**



# General PFS Lessons Learned (to date)

## Local context matters

- Initial champions will vary (state/county/federal, providers investors, etc.)
- Capability of providers vary
- Local foundations may be instrumental

## Catalysts drive timing

- Innovation, collaboration, and navigating the political process take time
- Data Sharing, RFPs and contracting is time consuming
- Incentive required to get through pre-transaction

## Stakeholder support crucial throughout

- Targeted technical expertise required
  - Modeling, structuring, facilitation/negotiation
- Communication and engagement

## Government essential but is not enough

- Requires capable project technical assistance providers, strong service providers and evaluators, and engaged funders/ investors

# Thank You! To Stay Connected...

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# Overlapping Stages of Development

<b>Stage 1: Exploration</b>	<b>Stage 2: Feasibility Assessment</b>	<b>Stage 3: Transaction Structuring</b>	<b>Stage 4: Project Implementation</b>
<ul style="list-style-type: none"> <li>▪ General stakeholder engagement</li> <li>▪ Initial ideas for suitable PFS projects are being discussed, considered, prioritized</li> <li>▪ Government/ Payors have expressed interest in testing PFS approaches</li> </ul>	<ul style="list-style-type: none"> <li>▪ Intervention and provider assessment and scoping</li> <li>▪ Economic analysis of cost-benefit, ROI</li> <li>▪ Procurement plan</li> <li>▪ Identification and analysis of target population(s)</li> <li>▪ Risk mitigation strategy</li> <li>▪ Identification of evaluator and preliminary evaluation design</li> <li>▪ Commitment of government/payor</li> </ul>	<ul style="list-style-type: none"> <li>▪ Development of plan and timeline for program delivery and evaluation</li> <li>▪ Definition of key transaction terms &amp; refining economic analysis</li> <li>▪ Negotiation of contracts and financing agreements (MOUs, loan documents)</li> <li>▪ Financing structure design and capital raise</li> </ul>	<ul style="list-style-type: none"> <li>▪ Ramp Up Phase for operationalizing project</li> <li>▪ Ongoing project operations</li> <li>▪ Ongoing project monitoring and stakeholder reporting</li> <li>▪ Ongoing evaluation (data collection, analysis, and reporting)</li> <li>▪ Payments as per contract and investor agreements</li> <li>▪ Learnings are shared</li> </ul>