Pay For Success

Presented by:

Nima Krodel, Director, Nonprofit Finance Fund

May 2015
### NFF as Trusted Advisor – 30+ Years Linking Money to Mission

<table>
<thead>
<tr>
<th>Access to Capital</th>
<th>Strategic Financial Analysis, Management &amp; Planning Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans and Lines of Credit</td>
<td>Financial Diagnostics, Program Economic and Scenario Modeling, Capitalization Planning</td>
</tr>
<tr>
<td>New Market Tax Credits</td>
<td>Business Model Analysis, Modeling &amp; Repositioning</td>
</tr>
<tr>
<td>PRI Services</td>
<td>Strategic Collaboration Planning</td>
</tr>
<tr>
<td>Pooled Financing Programs</td>
<td>Facility and Reserve Planning</td>
</tr>
<tr>
<td>Growth Capital Services</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Impact Investing</th>
<th>Thought Leadership &amp; Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Field Development</td>
<td>Studies of the Nonprofit Economy</td>
</tr>
<tr>
<td>Capital Aggregation</td>
<td>Advocacy on Funder Policies and Practices</td>
</tr>
<tr>
<td>Philanthropic Advisory Work</td>
<td>Publishing, Expert Commentary, Keynotes, Workshops &amp; Panels</td>
</tr>
<tr>
<td>Provider Readiness Trainings</td>
<td></td>
</tr>
<tr>
<td>Complete “Stacked” Capital</td>
<td>PFS Learning Hub</td>
</tr>
<tr>
<td>Structured Finance</td>
<td></td>
</tr>
</tbody>
</table>
NFF & PFS: Knowledge Integrator & Market Facilitator

- Pay for Success Learning Hub (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

PFS
- Connect performance outcomes to financial return
- Monetize social impact
- Increase private investment
- Scale what works

ACA
- Increase healthcare access for the uninsured
- Increase insurance competition
- Increase “culture of health”
- Reduce overall health care costs while improving quality of care

Payment Reform
- Focus on accountability
- Realize cost savings
- Fund preventive and early interventions
- Improve outcomes
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
Catalytic Federal Government Activity

- 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
Social Innovation Fund Opportunities

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

*Characteristics are as presented by: Third Sector Capital Partners*
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
Figure 1. New York State Pay for Success / SIB Model

1. Investors invest $13.5 million

2. Fund operations

3. Deliver employment services

4. Target Population: 2,000 High-Risk Formerly Incarcerated Individuals

5. Measure and validate outcomes

6. Pay if – and only to the extent that – outcomes are achieved

7. Rockefeller Foundation provides 10% first loss protection

Social Finance NYS Workforce Re-entry 2013 LLC

Intermediary Social Finance Inc.

Service Provider Center for Employment Opportunities

Outcome Payer State of New York / USDOL

Evaluator / Validator DOCCS Research / DOL Research / Chesapeake Research Associates
General PFS Lessons Learned (to date)

- Initial champions will vary (state/county/federal, providers investors, etc.)
- Capability of providers vary
- Local foundations may be instrumental
- Innovation, collaboration, and navigating the political process take time
- Data Sharing, RFPs and contracting is time consuming
- Incentive required to get through pre-transaction
- Targeted technical expertise required
  - Modeling, structuring, facilitation/negotiation
  - Communication and engagement
- Requires capable project technical assistance providers, strong service providers and evaluators, and engaged funders/ investors

Local context matters

Catalysts drive timing

Stakeholder support crucial throughout

Government essential but is not enough
Thank You!
To Stay Connected...

Learn More
nonprofitfinancefund.org; payforsuccess.org

Twitter
twitter.com/nff_news

Facebook
facebook.com/nonprofitfinancefund

Our Blog
philanthropy.com/blogs/money-and-mission

Sign Up
nonprofitfinancefund.org/sign-up

RSS
nonprofitfinancefund.org/news/feed

Get in Touch!
Nima Krodel
nkrodel@nff.org
415-215-9148
## Overlapping Stages of Development

<table>
<thead>
<tr>
<th>Stage 1: Exploration</th>
<th>Stage 2: Feasibility Assessment</th>
<th>Stage 3: Transaction Structuring</th>
<th>Stage 4: Project Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>General stakeholder engagement</td>
<td>Intervention and provider assessment and scoping</td>
<td>Development of plan and timeline for program delivery and evaluation</td>
<td>Ramp Up Phase for operationalizing project</td>
</tr>
<tr>
<td>Initial ideas for suitable PFS projects are being discussed, considered, prioritized</td>
<td>Economic analysis of cost-benefit, ROI</td>
<td>Definition of key transaction terms &amp; refining economic analysis</td>
<td>Ongoing project operations</td>
</tr>
<tr>
<td>Government/Payors have expressed interest in testing PFS approaches</td>
<td>Procurement plan</td>
<td>Negotiation of contracts and financing agreements (MOUs, loan documents)</td>
<td>Ongoing project monitoring and stakeholder reporting</td>
</tr>
<tr>
<td></td>
<td>Identification and analysis of target population(s)</td>
<td>Financing structure design and capital raise</td>
<td>Ongoing evaluation (data collection, analysis, and reporting)</td>
</tr>
<tr>
<td></td>
<td>Risk mitigation strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Identification of evaluator and preliminary evaluation design</td>
<td></td>
<td>Payments as per contract and investor agreements</td>
</tr>
<tr>
<td></td>
<td>Commitment of government/payor</td>
<td></td>
<td>Learnings are shared</td>
</tr>
</tbody>
</table>