

Pay for Success in the U.S.

Summaries of Financed Projects

February 2015



INSTITUTE *for* CHILD SUCCESS

Pay for Success financing, also called “Social Impact Bonds,” can bring new resources, new partners and a new focus on outcomes to early childhood services and other important issues. Today, there are more than 50 Pay for Success projects in development in the U.S. As the field grows, the Institute for Child Success and Living Cities are committed to learning what works and how PFS might contribute to our efforts as we work to open source social change and improve outcomes for our youngest children. This chart presents parties, financing, evaluation, timeframe and expected impact for the five Pay for Success transactions that have been implemented in the United States so far. We look to you to hear where we got it right, where we got it wrong and how to make this more useful for the diverse set of stakeholders in the emerging outcome-based social service contracting and Pay for Success fields.

A special thanks to leaders in the field who contributed to the final project at Social Finance US, Third Sector Capital Partners, Utah Granite School District, Voices for Utah Children, IFF, Chicago Public Schools, Goldman Sachs, New York City Mayor’s Office and Center for Employment Opportunities.

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Chicago Child-Parent Center Initiative		Updated: 1-20-15
Policy Area	Education / Early Childhood	
Policy Problem	Research shows that children who receive high-quality early education are more likely to succeed in school and less likely to need special education services.	
Jurisdiction (Implementation Sites)	Chicago public elementary schools (initially 6, increasing to 8)	
Who is Paying for the Outcomes?	<ul style="list-style-type: none"> • Chicago Public Schools (CPS) • City of Chicago 	
Organization(s) Delivering Services	Chicago Public Schools	
Intervention	Child-Parent Center (CPC) preschool model: Half and full day preschool education to three- and four-year olds as well as comprehensive family services (PFS transaction funds the program for 4-year-olds)	
Approximate Program Cost per Participant		
Intermediary: Coordinator & Borrower	IFF (Metropolitan Family Services will provide quality assurance support)	
Program Evaluator	SRI International	
Validator	None	
Outcome Metric(s)	<ul style="list-style-type: none"> • Increase kindergarten readiness • Decrease special education services • Increase third grade literacy 	
Evaluation Design	Quasi-Experimental: comparison group comprised of children who enter kindergarten who have never enrolled in a preschool program	
Target Population (criteria and size)	2,618 4-year-old Chicago Public School children eligible for free or reduced lunch: Year 1 (374), Year 2 (782), Year 3 (782) Year 4 (680)	
Size of Investment	\$16.9 million	
Total Payments Possible	\$34 million	

Term / Timeframe (intervention and evaluation)	<p>17 years:</p> <p>Years 1-4: CPS will enroll CPC participants, each enrolled for one year</p> <ul style="list-style-type: none"> Kindergarten readiness will be measured once for each cohort at the end of preschool Special education services will be measured annually through 6th grade for each cohort 3rd grade literacy will be measured once for each cohort in 3rd grade <p>Payments will be made on special education savings annually through 12th grade. Senior lenders will receive payouts first, through 2022. Subordinate lender gets payouts after 2022 for additional special education savings until the final cohort completes 12th grade.</p>
Investors: Deal Structure / Capital Stack (annual return if available)	<ul style="list-style-type: none"> Senior Debt: \$7.5 million Goldman Sachs Social Impact Fund Senior Debt: \$5.5 million Northern Trust Subordinate Debt: \$3.9 million J.B. and M.K. Pritzker Family Foundation Finnegan Family Foundation (funding evaluation)
Payment Terms - Risk Sharing	<p>Risk shifted to private sector</p>
Payment Terms - Details on Payment per Outcome, Minimum Improvement Required, etc.	<p>Decrease in special education: \$9,100/student annually compounding at an annual rate of 1.0% for each student who avoids special education after attending the CPC program</p> <p>Increase in kindergarten readiness: \$2,900 for each student that is prepared for kindergarten after attending the CPC program</p> <p>Increase in the third grade literacy: \$750 for each student that scores above the national average on the nationally administered third grade reading test</p>
Date Announced	<p>10/7/14</p>
Implementation Start	<p>December 2014</p>
Interim Outcome Dates	<p>Annually beginning fall 2016</p>
Legislation for Appropriation Risk	<p>No</p>

Other Notes

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Massachusetts Recidivism Reduction and Employment

Updated: 1-20-15

Policy Area	Criminal Justice, Employment
Policy Problem	Currently in Massachusetts, 64% of young male ex-offenders reoffend within five years, and historically, only 35% of these young men are employed within a year of release. Among those employed, average annual earnings were only about \$5,000 one year after release.
Jurisdiction (implementation sites)	<ul style="list-style-type: none"> • Boston, MA • Chelsea, MA • Springfield, MA
Who is Paying for the Outcomes?	<p>The Commonwealth of Massachusetts will be the primary payor for a total of \$27 million.</p> <p>The U.S. Department of Labor also provided the Commonwealth with a Pay for Success grant of \$10,770,000 million and will pay for expanding the project, if successful, to an additional 390 participants.</p>
Organization(s) Delivering Services	Roca Inc.
Intervention	Roca's model, based on proven behavioral change theories, trains high-risk young men in job readiness, educational readiness, and life skills.
Approximate Program Cost per Participant	\$23,000 per person over 4 years
Intermediary: Coordinator & Borrower	Third Sector Capital Partners, Inc. through Youth Services, Inc.
Program Evaluator	Sibalytics LLC and The Urban Institute
Validator	Public Consulting Group
Outcome Metric(s)	(1) Reduce bed-days in incarceration. Secondary outcome metrics: (2) increase job readiness and (3) increase employment.
Evaluation Design	Randomized Controlled Trial
Target Population (criteria and size)	929 participants: Men, aged 17-24 on probation or parole, or incarcerated or exiting the juvenile justice system as high-risk according to the project's eligibility criteria
Size of Investment	\$21.3 million
Total Payments Possible (investment & possible success payments)	\$27 million (includes cost of intermediary and evaluation)

Term / Timeframe (intervention and evaluation)	7 years:															
	Years 1-4: Program enrollment Years 5-6: Final cohorts complete Roca’s programming Year 7: Final time for evaluation															
Investors: Deal Structure/ Capital Stack (annual return if available)	<ul style="list-style-type: none">• Senior Debt \$9 million - Goldman Sachs• Sub- Debt \$1.5 million -The Kresge Foundation• Sub-Debt \$1.5 million - Living Cities• Deferred Fees - \$3.26 million Roca Inc.• Deferred Fees - \$50,000 Third Sector Capital Partners, Inc.• Grant \$3.7 million - The Laura and John Arnold Foundation• Grant \$2 million - New Profit Inc.• Grant \$300,000 - The Boston Foundation															
	Risk shifted to private sector															
Payment Terms - Risk Sharing																
Payment Terms - Details on Payment per Outcome, Minimum Improvement Required, etc.	<table><tr><th>Decrease in Days of Incarceration</th><th>Incarceration-Based Success Payments</th></tr><tr><td>70.0%</td><td>\$ 27 million</td></tr><tr><td>55.0%</td><td>\$ 26 million</td></tr><tr><td>40.0%</td><td>\$ 22 million</td></tr><tr><td>25.0%</td><td>\$ 11 million</td></tr><tr><td>10.0%</td><td>\$ 2 million</td></tr><tr><td>5.0%</td><td>\$0</td></tr></table>	Decrease in Days of Incarceration	Incarceration-Based Success Payments	70.0%	\$ 27 million	55.0%	\$ 26 million	40.0%	\$ 22 million	25.0%	\$ 11 million	10.0%	\$ 2 million	5.0%	\$0	<p>Increase in Job Readiness Payment Terms:</p> <p>Government will also make success payments to increase job readiness, to be paid at \$789 for each participant in each quarter that a Roca participant engages with a Roca youth worker nine or more times.</p> <p>Gains in Employment Payment Terms:</p> <p>Government will also make success payments to increase gains in employment, to be paid at \$750 for each participant in each quarter that a Roca participant is employed as compared to similar young men who are not in the program.</p>
	Decrease in Days of Incarceration	Incarceration-Based Success Payments														
70.0%	\$ 27 million															
55.0%	\$ 26 million															
40.0%	\$ 22 million															
25.0%	\$ 11 million															
10.0%	\$ 2 million															
5.0%	\$0															
Payment Terms - Payment Period(s)	<p>Decrease in Incarceration Payment Period:</p> <p>Within 45 calendar days after the beginning of Quarters 17, 19, 21 and 23 & within 45 calendar days after the beginning of Quarter 25 at Wind-Up.</p> <p>Increase in Job Readiness Payment Period:</p> <p>Beginning of Quarter 7, and every two Quarters thereafter through Wind-Up.</p> <p>Increase in Gains in Employment Payment Period:</p> <p>Within 45 calendar days after the beginning of Quarters 17, 19, 21 and 23 & within 45 calendar days after the beginning of Quarter 25 at Wind-Up.</p>															
	<p>Deferred Fees</p> <p>\$3.26mm - Roca \$50k - Third Sector Capital Partners, Inc.</p>															
Date Announced	1/29/14															

Implementation Start	October 2014
Interim Outcome Dates	Interim outcomes will be available in Quarter 18 (beginning 1/1/19), 19, 21, 23 and 25
Legislation for Appropriation Risk	Yes: In 2012, the Massachusetts Legislature authorized the Secretary of Administration and Finance to enter into PFS contracts, with up to \$50 million in success payments backed by the full faith and credit of the Commonwealth. This legislative act also requires the Governor to seek an annual appropriation into the fund.
Other Notes	Tracking, but not tied to payment: educational outcomes for young men at risk as re-offenders (high school graduation rates, GED completion, enrollment in post-secondary education).

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New York City Rikers Island Recidivism Reduction Initiative Updated: 1-20-15

Policy Area	Criminal Justice
Policy Problem	50% of youth return to jail within one year.
Jurisdiction (implementation sites)	New York City, NY
Who is Paying for the Outcomes?	NYC Department of Correction
Organization(s) Delivering Services	Osborne Association, Friends of Island Academy
Intervention	The ABLE (Adolescent Behavioral Learning Experience) program uses Moral Reconciliation Therapy, a cognitive behavioral therapy intervention
Approximate Program Cost per Participant	\$800 per year
Intermediary: Coordinator & Borrower	MDRC
Program Evaluator	Vera Institute of Justice
Validator	None
Outcome Metric(s)	Reduce # of “reentry bed-days” (days in jail after youth initially released from jail)
Evaluation Design	Quasi-Experimental: The Vera Institute of Justice will compare the recidivism bed days for a cohort of 16-18 year-olds entering DOC custody while the ABLE program is operating (the program group) to a cohort entering DOC custody prior to the start of the ABLE program (the comparison group) and will control for extraneous factors.
Target Population (criteria and size)	All 16–18-year-olds entering the NYC jail on Rikers Island with a length of stay of more than 4 days. (Estimated at 3,000 per year)
Size of Investment	\$9.6 million (\$2.4 million per year)
Total Payments Possible (investment and possible success payments)	\$11.7 million (does not include cost of intermediary and evaluation)
Term / Timeframe (intervention and evaluation)	4 Years (including program delivery and evaluation; evaluation is based on first year cohort with 2-year follow-up). Balloon payment.

Investors: Deal structure/ Capital Stack (annual return if available)	<ul style="list-style-type: none"> • Senior Debt \$9.6 million Goldman Sachs • Guarantee - \$7.2 million Bloomberg Philanthropies <p>Note: Evaluation and intermediary funded separately by Bloomberg Philanthropies via the Mayor's Fund to Advance NYC</p>	
Payment Terms - Risk Sharing Structure	Risk shifted to private sector	
Payment Terms - Details on Payment per Outcome, Minimum Improvement Required, etc.	Reduction in Reincarceration Rate	City Payment to MDRC
	≥20.0%	\$11,712,000
	≥16.0%	\$10,944,000
	≥13.0%	\$10,368,000
	≥12.5%	\$10,272,000
	≥12.0%	\$10,176,000
	≥11.0%	\$10,080,000
	≥10.0%	\$9,600,000
	≥8.5%	\$4,800,000
Date Announced	Aug. 2012	
Implementation Start	Feb. 2013 (after pilot period)	
Interim Outcome Dates	Summer 2015 (Year 1 results)	
	Summer 2016 (Year 2 results)	
Legislation for Appropriation Risk	No	

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New York State Recidivism Reduction and Employment Initiative

Updated: 1-20-15

Policy Area	Criminal Justice, Employment
Policy Problem	Incarcerated individuals face challenges seeking employment, often leading to recidivism. In NYS 22,000 individuals return home from prison annually and 51-71% cannot find employment. 44% return to prison, compared to 23% with full time employment and 29% with part time employment.
Jurisdiction (implementation sites)	Rochester, NY New York City, NY
Who is paying for the outcomes?	US Department of Labor (Phase 1) NYS Department of Labor (Phase 2—\$12mm)
Organization(s) Delivering Services	Center for Employment Opportunities
Intervention	CEO's transitional employment model
Approximate Program Cost per Participant	\$6,750
Intermediary: Coordinator & Issuer	Social Finance Inc.; Issuing entity is Social Finance NYS Workforce Re-entry LLC 2013
Program Evaluator	NYS Dept. of Corrections and Community Supervision (DOCCS) Research and NYS Dept. of Labor Research
Validator	Chesapeake Research Associates
Outcome Metric(s)	<ul style="list-style-type: none"> • Reduced days in jail or prison after released • Indication of positive earnings in the fourth quarter following release from prison • Number of members who start a CEO transitional job during the relevant observation period
Evaluation Design	Randomized Controlled Trial
Target Population (criteria and size)	2,000 participants targeting recently released people on Parole with high risk of returning to incarceration who have high employment needs
Size of Investment	\$13.5 million
Total Payments Possible (investment and possible success payments)	\$23.5 million (includes cost of intermediary and evaluation)

Term / Timeframe (intervention and evaluation)	5.5 Years: Phase I: Years 1-2 service delivery; Years 3-4 Observation, measurement & payment Phase II: Year 2-4 service delivery; Years 4-5.5: Observation, measurement & payment		
Investors: Deal structure/ Capital Stack (annual return if available)	<ul style="list-style-type: none"> Equity issuance of \$13.5 million purchased by 44 individual entities (foundations, family foundations including Robin Hood, Pershing Square Capital Foundation, Lawrence Summers, the Sorenson Foundation, Laura and John Arnold Foundation, Living Cities). Bank of America Merrill Lynch served as placement agent. Guarantee/first loss position - \$1.32 million Rockefeller Foundation 		
Payment Terms - Risk Sharing Structure	Risk shifted to private sector		
Payment Terms - Details on Payment per Outcome, Minimum Improvement Required, etc.	Outcome <i>Employment:</i> Percentage point difference between treatment and control group members with positive earnings in the fourth quarter following release from prison.	Threshold 5 percentage point increase	Price per Outcome <i>Phase I:</i> \$6,000 per person <i>Phase II:</i> \$6,360 per person
	<i>Recidivism:</i> Difference between treatment and control group in average number of days incarcerated per person during the observation period.	36.8 days reduction	<i>Phase I:</i> \$85 per day <i>Phase II:</i> \$90.1 per day
	<i>Transitional Jobs:</i> Number of treatment group members who start a CEO transitional job during the observation period.		<i>Phase I:</i> \$3,120 per person <i>Phase II:</i> \$3,307 per person
Date Announced	Dec. 20, 2013		
Implementation Start	December 2013		
Interim Outcome Dates	Early 2017 (Phase 1 payment calculated)		
Legislation for Appropriation Risk	No		

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Utah High Quality Pre-School Initiative

Updated: 1-20-15

Policy Area	Education / Early Childhood
Policy Problem	Research shows that children who receive high-quality early education are more likely to succeed in school and less likely to need special education services.
Jurisdiction (implementation sites)	Salt Lake County, UT (Granite School District) Park City, UT
Who is paying for the outcomes?	United Way of Salt Lake, Salt Lake County (first year proof of concept cohort) State of Utah
Organization(s) Delivering Services	Granite School District, Park City School District, Guadalupe School, YMCA of Northern Utah, Children's Express, Lit'l Scholars
Intervention	High-Quality Preschool Program, developed by Granite School District. This program serves 3- and 4-year-olds and lasts 1 or 2 years.
Approximate Program Cost per Participant	
Intermediary: Coordinator & Borrower	United Way of Salt Lake (with Park City Community Foundation for first year proof of concept cohort)
Program Evaluator	Utah State University's Early Intervention Research Institute
Validator	School Readiness Board
Outcome Metric(s)	Decrease in utilization of special education services among children who score at or below 70 on PPVT at beginning of preschool. Students who score 70 or below at the beginning of pre-school are tracked through 6th grade to determine whether they receive special education services at any point during the year. They are also given a post-test by an outside evaluator at the end of preschool
Evaluation Design	The PPVT cutoff point of a standard score of 70 or lower was based on normative data (only 3% of children score this low) and research supporting the relation of the PPVT with later school and special education outcomes. This link between low PPVT scores and later special education placement was supported by educators and with staff in national educational organizations. Comparisons of children participating in an evidence-based preschool program with matched children who did not receive the preschool program supported this link. Using this approach, a contemporaneous control group is not necessary.
Target Population (criteria and size)	4 cohorts of 3- and 4-year-old children eligible for free lunch (2,600 total). The PFS program pays for preschool for children who meet these criteria but outcomes are tracked and payment is made only for those children who score 70 or below on the PPVT.
Size of Investment	\$7 million
Total Payments Possible (investment and return)	

Term / Timeframe (intervention and evaluation)	8-9 years for each cohort; 12 years for all 4 cohorts. Intervention is 1 or 2 school years (depending on whether the child entered at age 3 or 4). Students are tracked through 6th grade. Analysis after each school year and final report 4 months after the last cohort completes.
Investors: Deal Structure/ Capital Stack (annual return if available)	<ul style="list-style-type: none"> •Senior Debt - \$4.6 million, Goldman Sachs (5%) •Subordinate Debt - \$2.4 million, JB Pritzker (5%)
Payment Terms - Risk Sharing Structure	100% of risk is shifted in that no payment is made unless children achieve the specified outcome. However, there is no threshold that must be reached for the investors to receive payment; payment is made for each child who achieves the outcome.
Payment Terms - Details on Payment per Outcome, Payment Period	<p>Success payments equal to 95% of the avoided special education costs per year from K through 6th grade (for the first year proof of concept cohort this equals \$2,470);</p> <p>\$1,040 “success fee” per child per year for special ed avoided after principle and interest paid.</p>
Date Announced	June 13, 2013
Implementation Start	September 2013
Interim Outcome Dates	Summer 2015 & after every school year thereafter
Legislation for Appropriation Risk	Yes, HB96, effective September 2014
Other Notes	Students will not be denied any services because of this initiative. Teachers/program staff do not know whether individual children are in the program.



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