August 2, 2012

THE CITY OF NEW YORK
OFFICE OF THE MAYOR
NEW YORK, NY 10007

Bloomberg Philanthropies

Goldman Sachs

mdrc

FACT SHEET: The NYC ABLE Project for Incarcerated Youth

America's First Social Impact Bond

- The City of New York, Bloomberg Philanthropies, Goldman Sachs and MDRC today announced the nation's first social impact bond.

- This innovative model brings in new private financing for preventive services, especially important in these times of constrained government spending. It aims to unlock a new pool of funding – commercial investment – for evidence-based social services interventions in New York City and throughout the country.

- Launched with the Department of Correction as part of the Young Men's Initiative, the Adolescent Behavioral Learning Experience (ABLE) Program aims to reduce the reincarceration rate among adolescents at Rikers Island through an evidenced-based intervention that focuses on improving personal responsibility and decision-making.

- The financing for this project was inspired by the social impact bond model first employed in Peterborough Prison in the UK.

- In this approach, there is no upfront cost to the taxpayer, instead:
  - **Goldman Sachs** funds the project's delivery and operations through a $9.6 million loan to MDRC;
  - **Bloomberg Philanthropies** provides a $7.2 million grant to MDRC to guarantee a portion of the loan, reducing the lender's risk;
  - **MDRC** through a contract with the City oversees the day-to-day implementation of the project, manages the Osborne Association and Friends of Island Academy – the non-profit service providers who deliver the intervention – and is responsible for any payments to the private investor;
  - **The Vera Institute of Justice**, an independent evaluator, determines whether the project achieves the targeted reductions in reincarceration;
  - **The Department of Correction** pays MDRC based on reduced re-admissions and the associated cost savings.

- If improved outcomes are not achieved, New York City government is not required to pay MDRC, thereby transferring the risk of funding to the private sector and ensuring accountability for taxpayer money. In addition, the City has no responsibility for payments to the private investor, which falls solely on MDRC.

- The ABLE Program has the potential to generate substantial long-term savings for the City and taxpayers. Based on its agreement with MDRC, Goldman Sachs receives its capital back only if the re-admission rate – measured by total jail days avoided – is reduced by 10% or more. Should the reduction exceed 11%, Goldman Sachs will also receive a financial return that is consistent with typical community development lending.

- The potential for City savings associated with the reductions in re-admission are significant and exceed the possible associated payments to MDRC, which it passes on as a return to the investor *(see chart below)*:

Reduction in Re-Incarceration Rate	City Payment to MDRC ($)	Projected Long-Term City Net Savings ($)*
≥20.0%	$11,712,000	$20,500,000
≥16.0%	$10,944,000	$11,700,000
≥13.0%	$10,368,000	$7,200,000
≥12.5%	$10,272,000	$6,400,000
≥12.0%	$10,176,000	$5,600,000
≥11.0%	$10,080,000	$1,700,000
≥10.0% *(breakeven)*	$9,600,000	$ ≥ 1,000,000
≥8.5%	$4,800,000	$ ≥ 1,000,000

** Savings after repayment and continued funding for program delivery.*

- Funds remaining in the guarantee fund at the end of the intervention will remain at MDRC to facilitate future social impact investments in New York City.

Candid. Philanthropy News Digest

Program Fails But Social Impact Bond Experiment Succeeds

August 2, 2015

Although it failed to produce the desired results, the nation's first social impact bond worked the way it was supposed to, attracting private capital to an effort to reduce juvenile recidivism in New York City and shifting the cost of the program to investors when the program failed to deliver, the ***New York Times*** reports.

Launched in 2012 by social policy research organization **MDRC** and the **Osborne Association**, a leading prison reform organization, and financed by a $7.2 million investment from Goldman Sachs — with a $6 million guarantee from **Bloomberg**

Philanthropies — the Adolescent Behavioral Learning Experience (ABLE) program aimed to reduce recidivism among 16- to 18-year-olds at the city's Rikers Island facility by at least 10 percent using an evidence-based intervention focused on improving social skills, personal responsibility, and decision making. Under the terms of the SIB agreement, the city agreed to pay Goldman back only if the program met its target, which would have enabled the jail to close a section and save taxpayer money. If recidivism rates fell below the threshold target, Goldman would have made a profit on its investment and the city would have received a share of the savings.

According to the *Times*, the program ran into trouble from the outset when wardens at Rikers had difficulty separating teenagers who were selected to participate in the program from teens in the control group. Subsequently, the program's budget was cut after the teenage population at the jail fell below the level stipulated in the contract. Three years into the four-year experiment, an **evaluation** conducted by the **Vera Institute of Justice** found that the program did not lead to any statistically significant reduction in juvenile recidivism, leading the city to pull the plug and walk away without spending a dime of taxpayer money. "These vehicles are structured in such a unique way that they carry very little risk for the government," said Kristin Misner-Gutierrez, director of social services in the Office of the Deputy Mayor for Health and Human Services, who was involved in the development of the "pay-for-success" program.

To date, seven social impact bonds have been set up in the United States; Goldman has been involved in four, including the Rikers experiment and a $17 million pre-K program for disadvantaged children in Chicago. "We continue to be enthusiastic about ,ing capital this way," said Andrea Phillips, a vice president in the firm's Urban Investment Group.

At the same time, social impact bonds carry potential drawbacks. MDRC president Gordon Berlin told the *Times* that designing social policy around measurable results and narrow incentive mechanisms to attract private-sector funds could result in reduced funding for harder-to-measure efforts and a scaling back of much-needed services. "If the government objective is to save money, it limits the use of programs like these to things that are very expensive, like prison beds, hospital beds, foster care beds. The choice of projects might be affected."

Nonprofits are starved for funding and governments have little money to finance innovation," said Berlin. "Maybe people are loading a little bit more on this than they should."

Eduardo Porter. "Wall St. Money Meets Social Policy at Rikers Island." New York Times 07/28/2015.

Subjects
Public Affairs; Philanthropy / Voluntarism

People:
Kristin Misner-Gutierrez; Andrea Phillips; Gordon Berlin

Organizations
Bloomberg Philanthropies; Vera Institute Of Justice; Goldman Sachs; MDRC; Osborne Association

Locations

13

Public, Private, Nonprofit Partnership

A Case Study of Social Impact Bonds

CHRIS ELLIS, SOCIAL INNOVATION STRATEGIST, FOURTH ECONOMY CONSULTING, AND FORMER PARTNERSHIP DIRECTOR FOR EARLY LEARNING OUTCOMES, UNITED WAY OF SALT LAKE

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JOHN ROMAN, PHD, SENIOR FELLOW, NORC AT THE UNIVERSITY OF CHICAGO, AND FORMER SENIOR FELLOW, URBAN INSTITUTE

Can the delivery of quality social services create returns for private investors? Social impact bonds are trying to answer that question. Incubated in the United Kingdom in 2010 as a way of financing programs to reduce recidivism among offenders, social impact bonds have been scaled to 15 countries, across 60 projects by June 2016. The first social impact bond in the United States was executed in August 2012.

Social impact bonds—a financial tool in which private investment dollars lend capital to finance the expansion of human, health, and social service programs that work—tap into core aspects of building a Culture of Health for all Americans. They require a new type of relationships among private investors, government agencies, social service providers, and evaluators. They rest on the provision of high-quality social programs delivered at enough scale to make a broad impact. They are not quick fixes; they rely instead on solid commitment of multiple actors over time.

Three panelists representing an investment firm, an umbrella social services agency, and an evaluation organization explored how Salt Lake City used a social impact bond to expand access to high-quality early childhood education.

Social Impact Bonds: What They Are and How They Work

A social impact bond is not a bond. It is a working capital loan against the proceeds of a pay-for-success contract."—Andrea Phillips

Social impact bonds—also known as pay-for-success financings or outcomes-based financings—have emerged as a tool for government to fund what works and improve outcomes for disadvantaged communities. In a social impact bond, private investment firms provide upfront working capital to help finance the expansion of a social service to a community. Investors are repaid only if the program achieves outcomes specified in the contract. Social impact bonds rest on the belief that prevention and early intervention programs yield both human and financial benefits—they are a triple-win for governments, service providers, and communities.

Investors provide the necessary working capital to bridge the gap between the time when services are provided and the time when the savings that generate repayment are realized. They also take on the risk of impact (i.e., the chance that the social intervention may not produce results in the community).

"Impact investments aim to generate financial returns while simultaneously driving towards a very intentional social impact," says Andrea Phillips. "These social impact bond opportunities are underwritten as any other loan would be, with additional attention paid to social impact."

Essential actors in a social impact bond relationship are:

- A government agency wanting to address a significant social issue such as homelessness, recidivism, or early childhood development
- A private investor willing to front funds for an intervention to address the issue
- An intermediary organization able to sign the loan agreement, contract with service providers, oversee the initiative, and repay the investor
- One or more community-based organizations with proven interventions and the capacity to deliver the services
- An evaluator prepared to conduct a rigorous study of service outcomes and impacts.

This arrangement among multiple stakeholders aligns incentives and holds everyone accountable for results. Government agencies, service providers, and evaluators come together, with the shared goal of achieving broader impact than each could achieve on its own. Impact investments like these have more typically been utilized to finance brick-and-mortar projects that revitalize communities such as local health centers and mixed-income housing. For example, Goldman Sachs has committed more than $5 billion in impact investments such as these since 2001.

Sharing Risk

A core feature of social impact bonds is shared risk, or "pay for success." This notion of risk is new and at times unusual for social service and government agencies whose historical contractual relationships have been and are still generally based on reimbursement for services rendered.

Standard fee-for-service contracts may reduce risk, but they have limitations. They usually pay based on activity measures such as number of people served and types of services provided. While these measures are essential for active program management, they provide little information about whether the ultimate outcomes are achieved and do not directly address the quality of the services delivered.

When there is a large gap between the time during which a service is delivered and the time when government savings or future benefits are accrued from the provision of effective services, an outcomes-based contract may be helpful. For instance, savings and/or future benefits from improved preventive health care, stable housing, or reduced recidivism are usually not available until long after the costs of delivering these services have been incurred.

"Most service providers don't have the financial wherewithal to take on all the risk of these pay-for-success contracts," says Phillips. "That's what the financial markets do all the time."

Paying for Outcomes and Impacts

When payment is contingent on performance, all stakeholders develop a laser-like focus on the outcomes and impacts. Defining expected targeted outcomes—performance metrics to be attained—and anticipated impacts—changes in behaviors or circumstances to be realized—entails both cooperation and innovation among government, private investors, intermediary agencies, and evaluators.

Considerations include: How long should investors wait for outcomes and impacts? What is a fair interest rate? What are reasonable outcomes and impacts to expect from service providers? How will we know if those have been achieved?

"There is room for negotiation in there," says Phillips. "The expected returns on these deals for the senior investor have been mid-to-high single digits. The terms of these deals and the appetite for typical investors is probably five to eight years."

To offset the full burden of risk, many impact investors seek a level of "de-risking" or credit enhancement in each investment. Typical of other investments, these credit enhancements may include a partial principal guarantee from a philanthropic organization or a secondary investor with more risk appetite.

Theory Meets Practice: Social Impact Bonds in Salt Lake City

Studies and experience have shown that high-quality early childhood education programs lead to improved academic and emotional development, and that these benefits last. Giving a child a solid foundation early in life also saves money in later remedial, special education, and other costs.

Context: A Preschool Program in the Right Place at the Right Time

In the early 2000s, the Granite School District in Salt Lake City sought to expand its Utah High Quality Preschool Program. A request for federal funds for this purpose was approved and the ensuing program enhancements resulted in strong outcomes for all children, but especially for the low-income children who attended the program.

"We followed those kids when they were in third and fourth grade, and found that the achievement gap between these low-income kids and their more affluent peers was effectively closed," says Chris Ellis.

The school district brought to the partnership table, therefore, a program with a solid track record of documented success over a period of years and a desire to expand its reach by recruiting more children. The United Way brought a consortium of business, government, evaluation, and nonprofit leaders with a history of working together for the Salt Lake community. Goldman Sachs and J. B. Pritzker brought money and a willingness to risk it on investments in children.

Enter Social Impact Bonds

Discussions with Goldman Sachs began in 2010, which is the first year social impact bonds appeared on the policy and financing horizon in the United States. According to Phillips, "The first thing we asked was 'How do we know that you are going to achieve the impacts you need to achieve that will allow the contract to repay us?' Achieving these goals drives both the social impact and repayment of the loan."

The team on the ground in Salt Lake City had answers. They were able to produce several years of outcome data from evaluations of the preschool program, describe and share its curriculum, and offer detailed projections about expansion plans. Importantly, the team also demonstrated a shared vision and cohesive management and leadership capacity.

By June 2013, officials at United Way of Salt Lake had negotiated $7 million in private-sector loans, to be repaid with interest from savings realized by reduced costs of special education services attributed to the Utah High Quality Preschool Program.

With the start of the 2013-14 school year, Utah's "Pay-for-Success" program became the country's first social impact bond for early childhood services. It financed an expansion of the Utah High Quality Preschool Program to serve 3,500 new children recruited in five cohorts. There were no upfront costs to taxpayers.

Key actors at the outset of Pay-for-Success were:

- Government: State and county officials
- Investors: Goldman Sachs (the primary investor, $4.6 million loan); J. B. Pritzker (secondary investor, $2.4 million loan)
- Intermediary: United Way of Salt Lake
- Service provider: Granite School District
- Evaluator: Utah State University

Chris Ellis recalls, "We saw this as an opportunity to further our collective impact work. We played the backbone role, helping facilitate and align partnerships at schools, at system levels and with other preschool providers."

In the 2013–14 school year, 595 low-income children entered the preschool program. All 595 children were screened using the Peabody Picture Vocabulary Test. Some 110 were identified through screening as likely to require special education services while in grade school.

Evaluators from Utah State University are tracking these 110 children through sixth grade to determine whether they utilize special education services, and for how long. No one from the preschool program, the United Way, or Goldman Sachs knows which children are being tracked.

Following the Money

By 2015, early findings from the evaluator suggested that the preschool program and the Pay-for-Success financing strategy were working. Of the 110 children identified as likely to need special education in grade school, only one went on to use those services in kindergarten.

With that milestone, investors were due their first repayment, the first such payment for a social impact bond in the United States. Through formulas used to determine the cost of special education services avoided, savings were determined to be $281,550 in the first year, or $2,607 per child[1] for children served by the program during its first year. These savings generated a payment to investors of about $267,000.[2] If performance continues as expected, estimated savings to the State of Utah for the first cohort of children would exceed $1 million through 12th grade.[3]

Under the Pay-for-Success contract with the State of Utah, investors receive 95 percent of state savings in special education costs until the investments are repaid with interest.[4] The base interest rate on the loan is 5 percent.[5] Thereafter, Goldman Sachs and Pritzker will receive "success fees" until the children complete sixth grade or until the return is 7.25 percent. Savings after that time will accrue to the state and school districts.[6] Chris Ellis recalled, "Once the rest of the partnerships were established, all we needed was an agency to repay the loan investment based on the success of the program for cohorts 2–5. We figured that the government made the most sense and securing their participation would be fairly straightforward. This, however, proved to be a complex process."

Initial efforts to pass state legislation to repay investors did not succeed. To keep Pay-for-Success on track, therefore, the board of directors of the United Way of Salt Lake set aside $1 million and Salt Lake County set aside $350,000 to repay investors for the first cohort of children.

In the next year, with passage of HB96: the Utah School Readiness Initiative in March 2014, the Utah State Legislature allocated funds for repayment of investor loans for the remaining four cohorts of children. The Act also allows a newly established School Readiness Board to enter into Pay-for-Success contracts with private investors on behalf of the state, and authorizes other expansions of early childhood education throughout the state. "We were expanding access to proven quality programs and through the legislation were able to change the conversation in Utah around early childhood education," said Ellis.

[1] *www.ssir.org/articles/entry/pay_for_success_is_working_in_utah*

[2] *www.sltrib.com/home/3032598-155/preschool-paying-off-for-goldman-sachs*

[3] *www.goldmansachs.com/what-we-do/investing-and-lending/impact-investing/case-studies/sib-slc-fact-sheet.pdf*

[4] *www.sltrib.com/home/3032598-155/preschool-paying-off-for-goldman-sachs*

[5] *www.hceconomics.uchicago.edu/sites/default/files/file_uploads/SIB-RBFFact_SheetUtahVersion.pdf*

[6] *www.hceconomics.uchicago.edu/sites/default/files/file_uploads/SIB-RBFFact_SheetUtahVersion.pdf*

Reflections

I think there is a little myopia about raising private capital to help government do the things it doesn't do, and one of the things I get asked is, "Why doesn't government just do these things?"—John Roman

The experience in Utah is encouraging, but social impact bonds are new and many questions remain unresolved.[7] Utah's experience illuminates these questions and raises other issues that warrant further exploration.

Why Has Uptake Been Slow?

As of March 2016, Goldman Sachs had executed four social impact bond investments. Executing the contract in Utah, which was especially well positioned to use this approach, took three years.

What is a reasonable time line for developing a social impact bond or outcomes-based financing? Will experience lead to shorter time lines? What accounts for a slow uptake in interest?

Government agencies and investment firms are cautious about doing business in such a fundamentally different way. Some point to government as a major source of bottleneck and others point to the investment firms.

John Roman holds that there are high-net-worth individuals, venture capitalists, and private investment firms "who are looking for investments like this and want to invest in good works." He asks why government agencies in particular seem reticent to get involved in these transactions. "We are talking about 100 percent reduction in their risk, and the government says 'No, thank you.'"

There are reasons for government hesitancy. City and county officials, those most likely to pursue social impact bonds, are not necessarily familiar with the language and intricacies of private investment. In addition, public entities responsible for repaying the loans must feel confident that the programs they propose are well developed and are backed by enough of the "right kind" of evidence.

Higher levels of government impose multiple regulatory and reporting requirements on city and county government agencies, and those requirements have to be considered. "The good news is there is a lot of work going on

[7] For example, some have challenged use of the Peabody Picture Vocabulary test as an appropriate method of screening children for special education needs. See *www.nytimes.com/2015/11/04/business/dealbook/did-goldman-make-the-grade.html?_r=0* for this discussion and *www.nytimes.com/2015/11/14/business/dealbook/why-social-impact-bonds-still-have-promise.html.*

in Washington to get the federal government to okay these types of structures," says Phillips.

Louise Cohen, MPH, CEO of the Primary Care Development Corporation and moderator of the panel, asked why investors weren't flocking to opportunities that purport to offer "high-digit" return on investments in proven social programs. In response, Andrea Phillips explained that "the deals are hard to do because they ask government and other stakeholders to do business in a new way. But with 60 deals done globally, we believe we are on the cusp of seeing more standardization and simplification. I'm cautiously optimistic that these efficiencies will lead to real growth of this nascent market."

How Much Evidence Is Enough Evidence?

Investors seeking reassurance that they will be repaid understandably favor programs with long track records of outcomes and impacts. But how much evidence is enough? How often do proven programs have to re-prove their effectiveness? Are investors open to financing less mature programs that show promise? Those questions have not been answered.

Cohen argues that government agencies use evidence-based interventions that yield strong outcomes "all the time." The bigger challenge, she maintains, is scaling an innovative approach that evidence has shown to work in a "boutique" setting. How seriously would private investors consider investing in one of these programs without needing a new randomized controlled trial?

Phillips suggests an alternative to asking investors to support these younger but promising interventions. "I do think that is a great role for philanthropy, as an angel investor in the early stages of innovation."

At the other end of the evidence spectrum, some programs—Nurse-Family Partnership for one—have decades of solid evidence behind them demonstrating their long-term impacts and cost savings. Do they need yet more evidence to establish their value? Perhaps the evaluation should examine the financing mechanism rather than the intervention.

"From where we sit as investors, we are looking for a contract that clearly defines the outcomes we expect and how we will know if we got there," says Phillips. "Investors will look at prior evaluations and historical data to assess the likelihood of achieving the agreed-upon outcomes."

There is not a simple or single way to address these challenges. Decisions about whether to propose or finance a program for a social impact bond require shared confidence that at some future date there will be consensus about whether the intervention unfolded as it was supposed to and whether it achieved the intended outcomes.

Arriving at that shared confidence may entail negotiating an acceptable middle ground. The city of Chicago, for example, aimed to use its social impact bond to increase high school graduation rates, but investors wanted a more immediate repayment trigger. The city, the school district, and the investors ultimately agreed on three benchmarks—kindergarten readiness, third-grade reading, and decreased rates of special education usage—which, taken together, would be strong enough indicators of future high school graduation.

In the case of Utah's preschool program, it was not hard for all partners to agree on the big goal—keeping young children in Utah on track at school. The question then became how to measure progress to reach consensus on whether that happened.

How Big Is Big Enough? What Is Adequate Scale?

What does it mean to go to scale? Salt Lake City's Pay-for-Success, for example, increased participation in quality preschool programs, eliminated the 400-child waiting list for early childhood services in Salt Lake, and allowed new children to be recruited. It also expanded from the Granite School District to one additional district, two private providers, a charter school, and one nonprofit organization. Is that a reasonable expectation for one social impact bond? Does this expansion "count" as scale?

Roman believes that, with good data, there are ways to answer those questions. He characterizes social impact bonds as "forcing mechanisms" that promote both scaling and quality improvement. Within evaluations of stable programs trying to expand their reach, "there also tends to be a component that examines, 'Are we implementing with fidelity?' and 'Are there subgroups for whom this works better?'."

Ellis took a broad perspective. He noted that the social impact bond had prompted the first expansion of early education services, which in turn prompted state legislation in Utah that added yet more capacity and provided a stable source of funding over time. Importantly, this experience also engendered significant changes in how stakeholders talk about early childhood education.

"We have seen that new grants are improving quality around the state. I don't know if social impact bonds alone are going to be the strategy that allows us to meet the commitment we have to all children, but the bonds have been able to catalyze more conversations about early childhood education," he said. "The providers are not talking only about programmatic-level outcomes. They are also talking about how what they are doing aligns with the broader atmosphere around early childhood education."

Can the System Be Gamed?

Is there potential for manipulating an intervention to skew results? Are there protections against paying or otherwise coercing people to engage in a desired behavior, thereby falsely suggesting that the social intervention reached its intended outcomes?

Roman notes that, while "there is a lot of pressure for me to put my finger on the dial toward a particular outcome," the partnership structure of social impact bonds reduces the likelihood that will happen. The participation of multiple partners in intensive contract negotiations surfaces and clarifies the incentives that drive each partner to participate. This means the intervention takes on a collective nature. As Roman puts it, "This is the only place in governance where there is a collective understanding of other people's incentives, and if we want to scale the use of evidence, having that collective among all the partners is absolutely critical."

What Attributes of a Community Suggest Success?

Phillips noted several characteristics investors value in deciding whether to invest in community financing: a group of people capable of implementing the project, a system with capacity to scale, a management team with depth, and sound systems of performance management and professional development. "This is similar to what we consider with any type of investment. We are not trying to micromanage what is happening on the ground. We ask the service providers to explain to us what the core principles of the program are and how they have delivered the outcomes in the past. Then, they can have nimbleness around that."

Investors also look for reassurance as to the creditworthiness of the proposed contract. Two, three, or even five years down the road, will the government in fact repay the loan? The issue of future appropriation is not unique to social impact bonds but is a challenge faced in many government contracts. Particularly in this nascent phase of the social impact bond market, this is a risk that investors acknowledge and for which they have developed strategies such as legislative action, contractual language, and more.

Social impact bonds in the United States are little more than four years old. Only a handful of contracts have been executed, and, although it is too early to be certain whether this approach to growing and improving social services will endure, early results show strong signs of success. Within the context of building a Culture of Health, a strategy in which public, nonprofit, and private-sector partners collaborate and put their financial and programmatic assets on the table deserves a full and fair test.

Paying for success: The story of how Utah became a leader in social impact investing

02/08/2019

Author: Deseret News

Original Article

SALT LAKE CITY — A Utah preschool program that has helped hundreds of severely at-risk 4-year-olds avoid costly special education programs is making waves across the country.

And it didn't cost taxpayers a penny to pilot the program.

The Utah High Quality Preschool Program, which launched in 2013, uses a new model called "pay for success" in which private investors, mission-based organizations and the government team up to address social issues, such as criminal justice, health care access, graduation rates and youth employment.

In this model, the government doesn't pay for any social program that isn't successful. If there isn't a measurable impact, private investors take the financial hit — not taxpayers. If carefully measured data proves that the program was successful, only then does the government pay back investors.

Utah's program was the second in the nation — and the first addressing early child education — to employ the pay-for-success model, which was first explored in 2011. Now, around 83 pay-for-success programs have launched nationwide amid rising excitement about the model's potential to cut wasteful government spending while improving the quality of social services delivered.

It also laid the foundation for a piece of federal legislation that Congress passed in February 2018 that set aside $100 million in federal funds for state and local governments to implement

It's difficult to pin down exactly what the United States spends annually on social services, but a 2017 report from the Congressional Budget Office showed $1.2 trillion had been collected to fund social services. However, sometimes it can be difficult to tell if that money is being spent effectively or if real results are being achieved, said Jeremy Keele, former president and CEO of the Sorenson Impact Center, who was involved in implementing the preschool program.

On the other hand, the Utah preschool program has measurable results. Its pay-for-success component ran from 2013 to 2018, serving about 4,000 preschoolers in the Granite and Park City districts and four nonprofit or private preschools. To date, only 10 percent of the 454 preschoolers originally determined to be severely at risk for needing special education services have actually needed to access those services, saving the state of Utah $2.5 million. Before the program was instituted, 100 percent of those children would have been expected to access remedial services, said Bill Crim, the president and CEO of United Way of Salt Lake, the project facilitator. Goldman Sachs and the Pritzker Family Foundation were the private investors that backed the project.

As those kids continue through the public school system, Utah will ultimately see savings of $18 million in special education costs, Crim said. Because of the proven effectiveness of the program, the Utah Legislature decided in 2014 to take over funding after the initial five-year period, and another 1,200 preschoolers entered the state-funded program this past fall. The state has begun to repay investors, but even after all loans and interest are paid, it will still see overall savings of $10 million, Crim said.

Nevertheless, the program has faced criticism. Because the success rate was so high, concerns were initially raised that the program evaluation wasn't serious enough, said Janis Dubno, managing director of impact analytics and social innovation at Salt Lake City's Sorenson Impact Center, who constructed the financial model behind the preschool program.

In addition, some question the concept behind pay-for-success programs, wondering if it wouldn't make more sense for the government to just pay for the programs upfront, rather than retroactively pay back the loan plus interest, which is more expensive, Dubno said. Plus, these programs are "complicated and they can take a long time to put together," she added, which can discourage involvement.

However, pay-for-success programs represent "a paradigm shift in government," Keele said. "The whole notion is shifting to a social sector where your government and philanthropy and impact investors are paying on the basis of actual events achieved rather than services delivered. The implications of that are pretty powerful."

Powerful enough, in fact, to catch the attention of the White House.

Utah's impact

The act, and the pay-for-success programs its $100 million in federal funds could be used for, were hot topics at the Sorenson Impact Center's annual Winter Innovation Summit in Salt Lake City, which ran Feb. 6-8.

Audience members applaud a speaker during the Sorenson Impact Center's Winter Innovation Summit at the David Eccles School of Business at the University of Utah in Salt Lake City on Wednesday, Feb. 6, 2019. -Kristin Murphy, Deseret News

"SIPPRA became known colloquially as the Sorenson Act in Washington, D.C., because Jim Sorenson played such a big role in it," Keele said.

Sorenson, who founded the Sorenson Impact Center, has a lot to do with why Utah is considered a national thought leader in the fields of pay-for-success and impact investing.

Sorenson built a decadeslong career as an entrepreneur — he developed communication technology for the hard of hearing — and philanthropist, but soon realized he was "unsatisfied with traditional philanthropy. It seemed inefficient and lacked transparency and accountability. It didn't move the needle enough to solve the core intractable problems we see in the world today," he said.

In 2013, he entered the newly formed field of impact investing, or investing in businesses that help solve social problems in a sustainable, scalable way. That same year, he endowed the Sorenson Impact Lab at the University of Utah, which facilitates impact investing around the world.

Jim Sorenson, Sorenson Impact Foundation president, speaks during the Sorenson Impact Center's Winter Innovation Summit at the David Eccles School of Business at the University of Utah in Salt Lake City on Wednesday, Feb. 6, 2019. -Kristin Murphy, Deseret News

Soon after, he invested in the country's first pay-for-success program in New York, which was ultimately deemed unsuccessful, and became an advocate for Utah's preschool pay-for-success program. In 2014, the Sorenson Impact Center won a grant from the White House's Social Innovation Fund and used the money to help scale the center from one to two employees to more than 40, Keele said. This put the Sorenson Impact Center on the map in the world of pay-for-success and impact investing.

That same year, Sorenson became aware that new legislation was being proposed to create a federal fund for pay-for-success programs, and he got involved with the bill, helping answer questions about technicalities and feasibility. He also led several briefings to help legislators understand the ins and outs of pay-for-success programs.

Sorenson encouraged then-Sen. Orrin Hatch, R-Utah, to sponsor the bill in December 2014, and, in 2018, Hatch appointed Keele to serve as one of nine members on a federal then-Rep. John Delaney, D-Md., as his counterpoint in the House. It was passed in February 2018.

Rep. John Delaney, D-Md., speaks during the Sorenson Impact Center's Winter Innovation Summit at the David Eccles School of Business at the University of Utah in Salt Lake City on Wednesday, Feb. 6, 2019. -Kristin Murphy, Deseret News

The act is, as Delaney said at the Winter Innovation Summit, "a bipartisan solution."

It "brings together things each party has advocated for a long time," Delaney said. "Democrats want more investment against the great issues that we face in society. Republicans want a more conservative structure around the efficiency of these programs, more metrics, more opportunity for innovation. This notion is advancing ideas that each side cares about."

Of that $100 million in federal funds set aside by the act, $60 million will be available for projects once administrative and other fees are taken out, said Kathleen Victorino, chief of staff at the U.S. Treasury's Office of Financial Research.

"Of that $60 million, half is targeted for projects that have a direct benefit on children," Victorino added — something that can be traced in part back to Utah's trailblazing pay-for-success preschool program.

"Paying for prevention is more effective than paying for remediation. High quality preschool will save the government money in a wide range of areas, including health, education, juvenile and adult crime, and welfare dependency," Dubno said.

What's next?

Since the Utah High Quality Preschool Program, state and local entities have been involved with several other pay-for-success programs, said Fraser Nelson, managing director of field building at the Sorenson Impact Center.

Two Salt Lake County programs, called Homes Not Jails and REACH (Recovery, Engagement, Assessment, Career, Housing), just finished their first full year of implementation. The programs aim to help individuals who cycle in and out of homelessness and the criminal justice system by working with nonprofits The Road Home and First Step House. Another program under development, called Healthy Homes Salt Lake, seeks to improve the health of people affected by asthma living along the Wasatch Front.

Fraser Nelson, Sorenson Impact Center's strategic partnerships and communication managing director, speaks during the Sorenson Impact Center's Winter Innovation Summit at the David Eccles School of Business at the University of Utah in Salt Lake City on Wednesday, Feb. 6, 2019. -Kristin Murphy, Deseret News

"It'll be interesting to see how SIPPRA unfolds and begins to scale and how we can utilize this in making better decisions on how the government pays for social services in the future," he said.

It will also be illuminating to finally be able to track how many people are actually helped by these social programs, and how they can be adjusted to better serve communities in the future, Nelson said.

"It's one thing to waste people's money," Nelson said. "That's a tragedy, but it's not the biggest tragedy. The real tragedy is the harm we cause the people we purport to serve. We're promising something we don't deliver, which harms all of us. If we can help a person become the person they could always have been, that saves our community heartache and hardship."

METAFUND
IMPACT INVESTING

Program Aimed at Keeping Kids Out of Foster Care Expands Through Pay for Success Contract

Media Release

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OKLAHOMA CITY, OK — A program keeping children out of the foster care system and safely in their homes is expanding in Garfield, Cleveland and Comanche counties. The expansion was made possible due to a recently signed Pay for Success contract between the Oklahoma Department of Human Services and the Impact Accelerator, a subsidiary of Oklahoma-based non-profit, MetaFund.

Pay for Success, also known as a social impact bond, is a model for supporting public-private partnerships. Taxpayer dollars are only spent on successful outcomes while private philanthropy takes on the risk by providing upfront capital to implement evidence-based or promising interventions.

In this case, the program receiving funding is Intensive Safety Services (ISS). It is designed to keep children, who are at significant risk of removal due to abuse and/or neglect, safe in their home. The program provides in-home support to parents/caregivers from a Master's-level therapist to address the needs that led to the abuse or neglect. To keep the children from entering foster care, the parents must complete the services. DHS and therapists continually monitor the children's safety in the home.

The ISS program was started in Oklahoma County in 2015. It has since expanded and is operational statewide. Evaluators at the University of Oklahoma Health Sciences Center have evaluated the program and continue to measure its performance. Their evaluation shows that about 80 percent of the children served through the program have been able to remain safely in their homes while their parents/guardians completed their service plans. This compared to 30 percent for families receiving services as usual.

"Programs like ISS create positive generational impacts by reducing the level of trauma that children and families would otherwise experience through the removal process and strengthening protective factors that we believe are inherent in all families," said Dr. Deborah Shropshire, OKDHS Child Welfare Director. "Parenting is hard for all of us and we know, without a doubt, that families can be successful with the right supports. When we can keep children safely at home, it is ultimately better for children and families and builds skills that will pay dividends for generations to come."

In 2018, DHS signed a three-year Pay for Success contract with the Arnall Family Foundation to expand the program in Oklahoma County. That upfront private funding enabled an increase in the number of cases served and the program enjoyed continued success of keeping children out of foster care.

The most recent Pay for Success contract expands the program even farther by increasing the number of cases served in Garfield, Cleveland and Comanche counties. The majority of the funds for this expansion were again contributed by the Arnall Family Foundation and were combined with dollars from MetaFund through the Impact Accelerator. Up to $730,336 is being dedicated for the addition of ISS therapists and staff to enable the program to serve more families over the next 12 months. NorthCare is the contracted service provider for the ISS program providing the needed therapists.

"We are excited to enter into our second Pay for Success contract with the Department of Human Services to expand ISS which will help to strengthen families and keep children safely out of foster care," said Sue Ann Arnall, president of the Arnall Family Foundation. "While an 80% success rate is impressive, we know that every successful case represents a child who is able to remain safely with their parent and that is invaluable."

A case is deemed successful if the child/children whose family are receiving services are not placed in foster care at 12 months post ISS engagement. For each successful case that closes, DHS pays Impact Accelerator back a set amount until the original investment is repaid.

"MetaFund and our Impact Accelerator investors are uniquely positioned to support sustainable social impact. The ISS program fits one of our priorities, child well-being, perfectly. The program has shown it improves outcomes for the child and family, and it has the added bonus of avoiding cost to the taxpayer," said Ed Long, MetaFund's Chief Impact Officer.

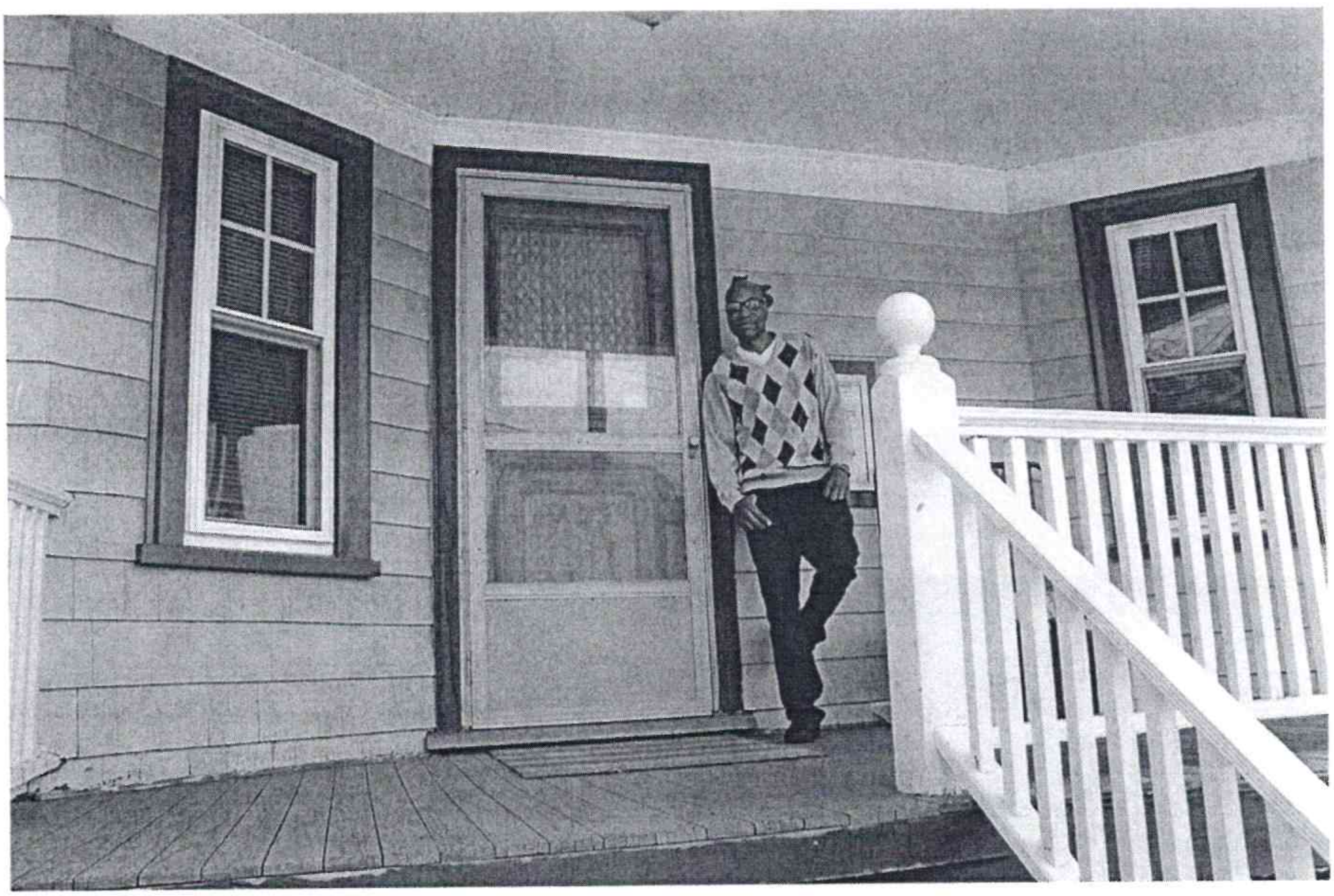
About MetaFund and Impact Accelerator

MetaFund is an Oklahoma-based 501(c)(3) nonprofit working with other nonprofits, the private sector, and government toward a just world free of poverty. MetaFund invests in creative solutions for under-resourced communities, with a primary focus on employment, housing, health, and child well-being. Impact Accelerator is a collaboration among MetaFund, Advanced Legacy Fund, Arnall Family Foundation, Inasmuch Foundation, and Potts Family Foundation. Visit: https://www.metafund.org.

About the Arnall Family Foundation

Established in 2015, the Arnall Family Foundation was founded by Sue Ann Arnall with the vision to create lasting, transformative improvements to the systems and programs that serve individuals and families involved in criminal justice and child welfare through results-driven investments. To learn more about the Arnall Family Foundation, visit www.arnallfamilyfoundation.org.

PAY FOR SUCCESS



The Pay for Success (PFS) initiative showcases the effectiveness of adopting a Housing First approach. PFS is a permanent supportive housing initiative that has housed more than 1,000 tenants since its launch in 2015. PFS integrates housing dollars with service dollars to keep people in housing and out of emergency shelters.

PFS program participants represent the most vulnerable in our community, particularly those who have disabling conditions and are at risk of high health care costs. In the six months prior to entering housing, PFS participants accumulated more than:

73,000 nights in shelter

4,500 days in the hospital

1,800 emergency room visits

1,400 nights in detox

850 ambulance calls

MHSA partners with the United Way of Massachusetts Bay and Merrimack Valley and Corporation of Supportive Housing (CSH) to serve as the intermediary between investors, providers and the Commonwealth, and to subcontract with homeless service providers for housing and support services. The innovative PFS initiative leverages a mix of philanthropic funding and private investor capital from United Way, Santander Bank and CSH to provide the upfront funding with supplemental public resources like subsidies. An independent evaluator, Root Cause, evaluates PFS regularly for its impact.

PFS was created with the objective to house 500 to 800 individuals experiencing homelessness over six years. In July 2020, after just five years, PFS successfully housed 1,000 people, including 248 Veterans. More than 80% of PFS tenants have been enrolled in the Community Support Program for People Experiencing Chronic Homelessness (CSPECH). CSPECH is recognized nationally as a model for funding the support services component of permanent supportive housing with Medicaid dollars.

Category: Partnerships • November 10, 2020

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hello family

PROJECT DESCRIPTION: The Hello Family Pay for Success (PFS) Project launched its ramp-up phase in the City of Spartanburg, South Carolina, on October 1, 2021, with expanded service delivery expected in early 2022. The project seeks to improve outcomes for young children and their families by providing a continuum of evidence-based services for all children born in the City of Spartanburg, from prenatal care through age five, and linking payment to actual improvements in families' lives. The Hello Family PFS Project sits within the broader envisioned Hello Family continuum of services, to form a comprehensive age 0-5 support structure for City families.

PROJECT PARTNERS:

- **Leadership Team:** City of Spartanburg, South Carolina, Mary Black Foundation, and Institute for Child Success.
- **Financial Support From:** City of Spartanburg, The Duke Endowment, Blue Cross Blue Shield of SC Foundation, Mary Black Foundation, Spartanburg Regional Healthcare System, South Carolina Department of Health and Environmental Control, South Carolina Department of Health and Human Services, Spartanburg School District 7, Spartanburg Academic Movement, South Carolina First Steps, ReGenesis Health Care, Spartanburg County Foundation, and an anonymous individual contributor.
- **Impact Investor:** The Community Outcomes Fund at Maycomb Capital
- **Service Providers (and intervention models):** BirthMatters (Community Doula), Spartanburg Regional Healthcare System (Family Connects), The Hope Center for Children (Triple P), Spartanburg County First Steps (Quality Counts).
- **Project Development and Transaction Structuring**: Sorenson Impact Center, David Eccles School of Business, University of Utah; Institute for Child Success, Nonprofit Finance Fund, Social Innovation Fund.
- **Additional Partners:** Urban Institute, Riley Institute at Furman University, Way to Wellville, Children's Trust of South Carolina, Spartanburg County Foundation, and Optus Bank.

SERVICES TO BE EXPANDED THROUGH THE PROJECT:

- **BirthMatters**. Community-based doulas educate and support low-income moms under age 25 from 24 weeks of pregnancy until each baby is 12 months old through home visits and other supports.
- **Family Connects (administered by Spartanburg Regional Health System).** Nurses visit moms and newborns in their homes regardless of income and assess families for potential risks and connect them with community resources.
- **Triple P, or Positive Parenting Program (administered by the Hope Center for Children)**. Community-level communications campaigns, along with individual sessions with families, equip caregivers with the skills and confidence they need to be self-sufficient in helping their children realize their potential.
- **Quality Counts (administered by Spartanburg County First Steps).** Professional development to help early care and learning centers and staff improve the quality and effectiveness of the services they provide.

OUTCOME TARGETS

- **Improving birth outcomes and early childhood health and development.** Specifically, we expect reductions in cesarean deliveries, NICU admissions, and low birth weight births. We also expect increased breastfeeding at birth.
- **Reducing avoidable ER visits.** Specifically, we expect reduced avoidable infant (0-6 months) emergency medical care utilization.
- **Reducing the incidences of child abuse and neglect.** Specifically, we expect reduced substantiated cases of child maltreatment.
- **Increasing school readiness.** Specifically, we expect increased Early Development Inventory scores measuring kindergarten readiness.

FAST FIGURES:

- Anticipated length of service delivery: 5 years
- Anticipated level of service over 5 years:
    1. **BirthMatters:** approximately 360 mothers
    2. **Family Connects:** approximately 1,100 families
    3. **Triple P:** caregivers of approximately 4,000 children under age 8
    4. **Quality Counts:** approximately 500 families

INNOVATIONS AND DISTINCTIONS:
In addition to serving families in the City of Spartanburg, Hello Family also provides a proof point for how other communities can accountably drive investment towards a continuum of evidence-based supports for young children and their families.

WHAT IS A PAY FOR SUCCESS (PFS) PROJECT? A PFS project is a public-private partnership that drives better results for communities by aligning government spending with positive, measurable outcomes. This structure transforms how government does business: moving from contracts that largely reimburse costs or pay a fee for services delivered, to outcomes-based contracts where government only pays as service providers achieve community responsive, pre-defined outcomes. An independent evaluator tracks and measures outcomes over time to determine the amount of "outcome payments" earned.

If government pays based on outcomes at a future date, service providers often need resources today to run their programs. To fill this working capital need, impact investors provide a social impact loan so that providers can deliver the intervention and cover other costs of the project. When outcomes are achieved, outcome payments are used to repay the social impact loan. If outcomes are not achieved as expected, full principal and interest may not be repaid.

In this way, the private sector, nonprofit service providers, and government can partner to focus squarely on the singular task of improving people's lives – tapping the resources of private markets and philanthropy for public good, allowing service providers to focus less on fundraising and more on mission, and aligning government funding with priority outcomes and real impact.

CONTACT: For more information, please contact Bryan Boroughs, Vice President and General Counsel, Institute for Child Success (bboroughs@instituteforchildsuccess.org). Last updated 02.28.2022.