

Capital for Communities

PAY FOR SUCCESS FINANCING

#PFSPhilly



FEDERAL RESERVE BANK OF PHILADELPHIA

Community Development Studies & Education

November 4th, 2015

National Museum of American Jewish History



AN INTRODUCTION TO PAY FOR SUCCESS

IAN GALLOWAY, FEDERAL RESERVE BANK OF SAN FRANCISCO

Capital for Communities
Federal Reserve Bank of Philadelphia
Wednesday, November 4, 2015

WHY IS THIS DIFFERENT?

PAYING FOR OUTCOMES



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EARLY CHILDHOOD EDUCATION

SALT LAKE COUNTY

595 low-income 3 and 4 year olds were enrolled in the **Utah High Quality Preschool Program** in 2013-14 and will have their academic progress tracked from K-6 grade.

Children participating in the program were given the Peabody Picture Vocabulary Test to determine how many, **absent high impact preschool**, would likely require special education services in the future.

110 children that tested **two standard deviations below average** were assigned to the “success payment” group.

EARLY CHILDHOOD EDUCATION SALT LAKE COUNTY

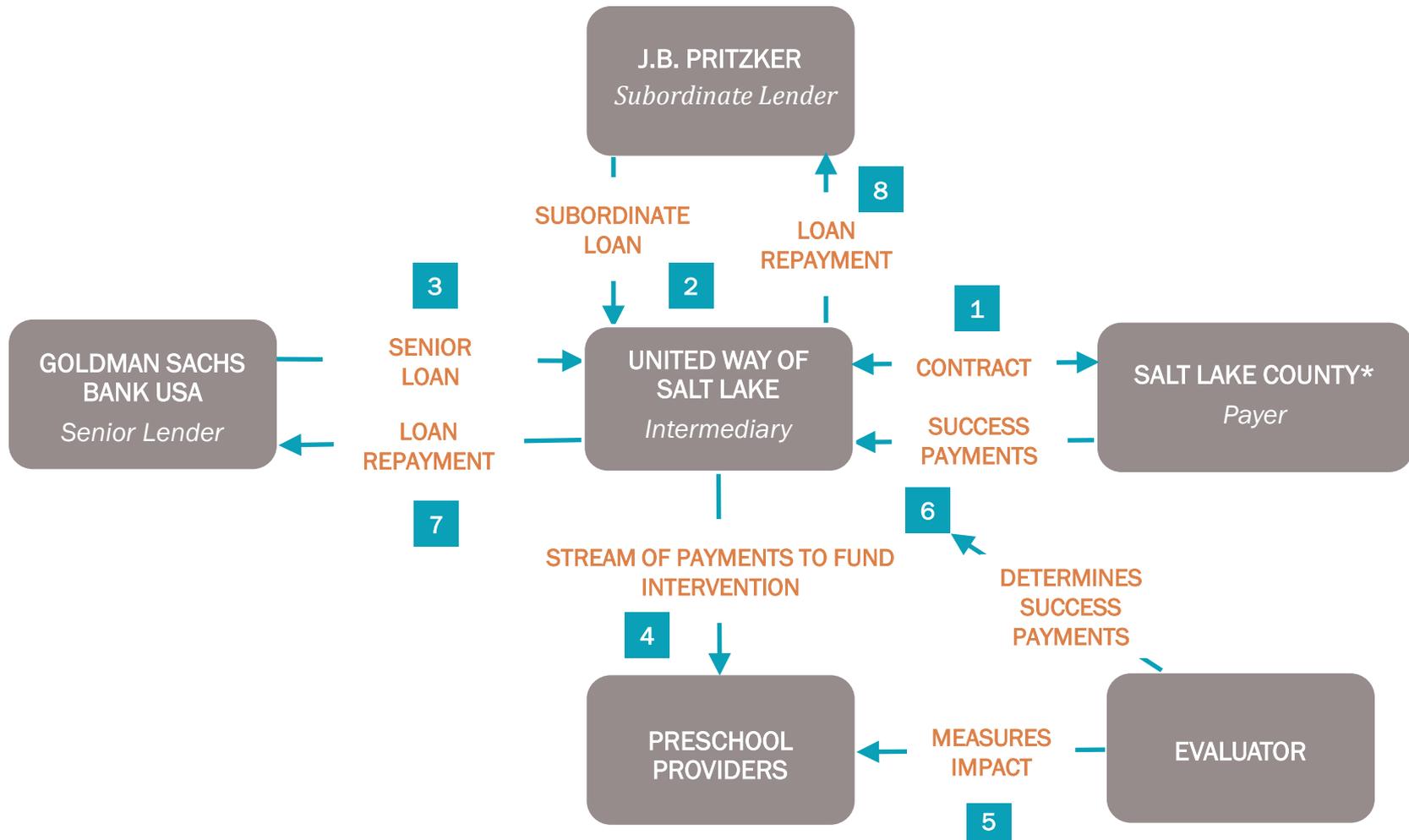
\$725,000 senior loan from Goldman Sachs.

\$375,000 subordinate loan from J.B. Pritzker (a high net worth investor).

United Way of Salt Lake oversees implementation of the project and manages investor repayments.

Every year of avoided special education generates a success payment of \$2,470/child plus 5% interest to Goldman Sachs and J.B. Pritzker until senior and subordinate debt is fully repaid (\$1,040/child thereafter through sixth grade).

EARLY CHILDHOOD EDUCATION SALT LAKE COUNTY



*The United Way of Salt Lake was also an end payer for this initial cohort

PAY FOR SUCCESS

NEW AND UNPROVEN

New York City – Recidivism reduction at Rikers Island Prison (Aug 2012)

Salt Lake County – Special education avoidance (June 2013)

New York State – Recidivism reduction and labor force reentry (Dec 2013)

Massachusetts – Prison avoidance and employment support for at-risk young men (Jan 2014)

Chicago – Special education avoidance (Oct 2014)

Massachusetts – Supportive housing for the chronically homeless (Dec 2014)

Cuyahoga County – Foster care avoidance (Dec 2014)

Santa Clara County – Supportive housing for the chronically homeless (July 2015)

PAY FOR SUCCESS

PICKING UP STEAM

\$300 million bi-partisan bill for technical assistance and success payments pending in Congress

\$11.2 million disbursed by the White House Social Innovation Fund for deal preparation and construction

\$5 million grant to the Nonprofit Finance Fund from the James Irvine Foundation to support five projects in California

\$8.4 million grant to the Urban Institute from the Laura and John Arnold Foundation to support projects across the country

FREQUENTLY ASKED QUESTIONS

Why doesn't government pay for proven programs directly?

Will this privatize the social safety net?

What about fraud and abuse?

How can small nonprofits compete in this market?

Will good projects go unfunded in favor of those with the most "bankable" cash savings?

Where does this go next?

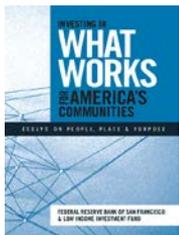
ADDITIONAL RESOURCES & CONTACT INFORMATION



Health Affairs (November 2014)
healthaffairs.org



Community Development Investment Review (April 2013)
frbsf.org/community-development



**Investing in What Works for America's Communities
(September 2012)**
whatworksforamerica.org

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#PFSP Philly



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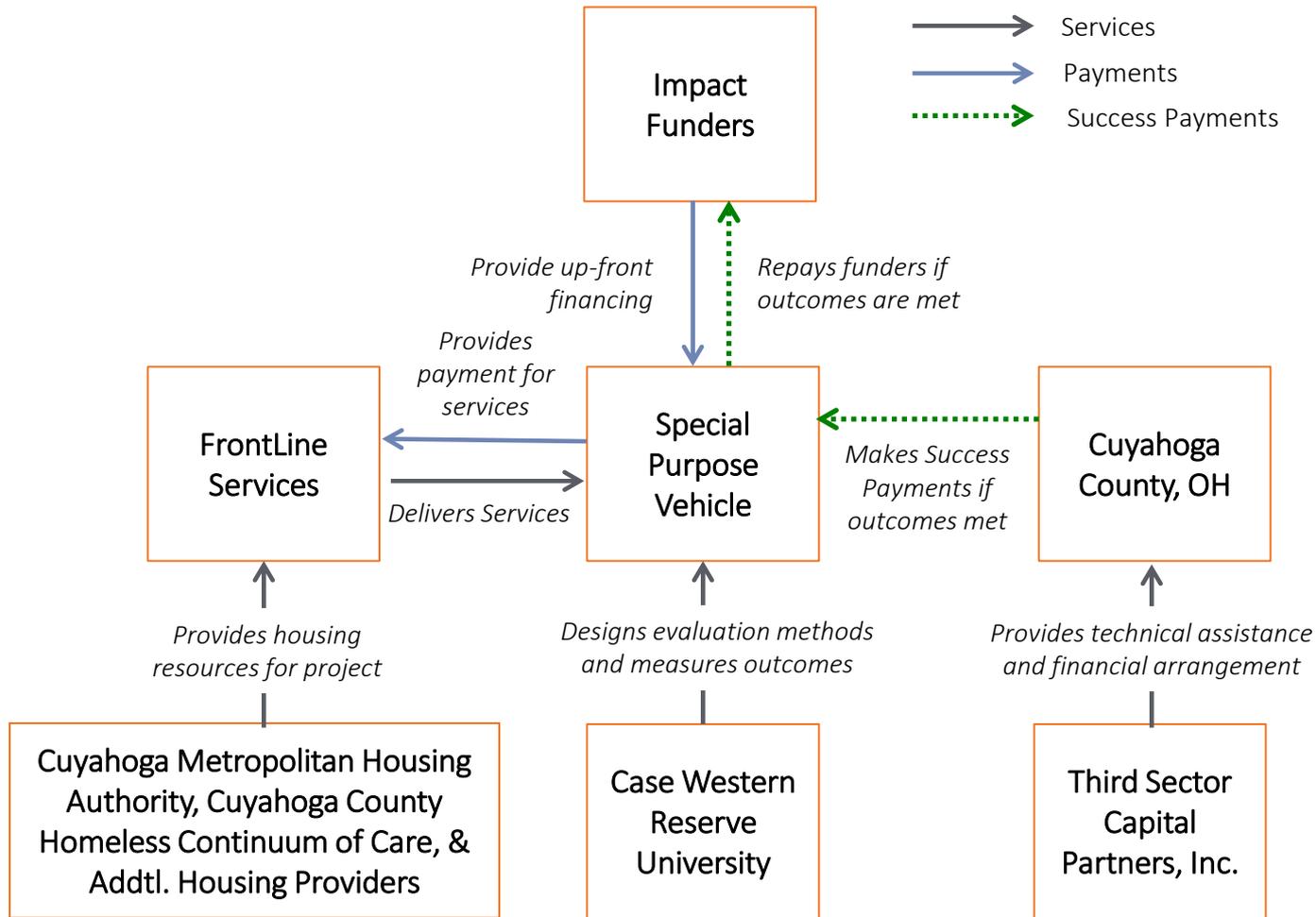
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Who are the players in this PFS Project?

The PFS Structure and Roles



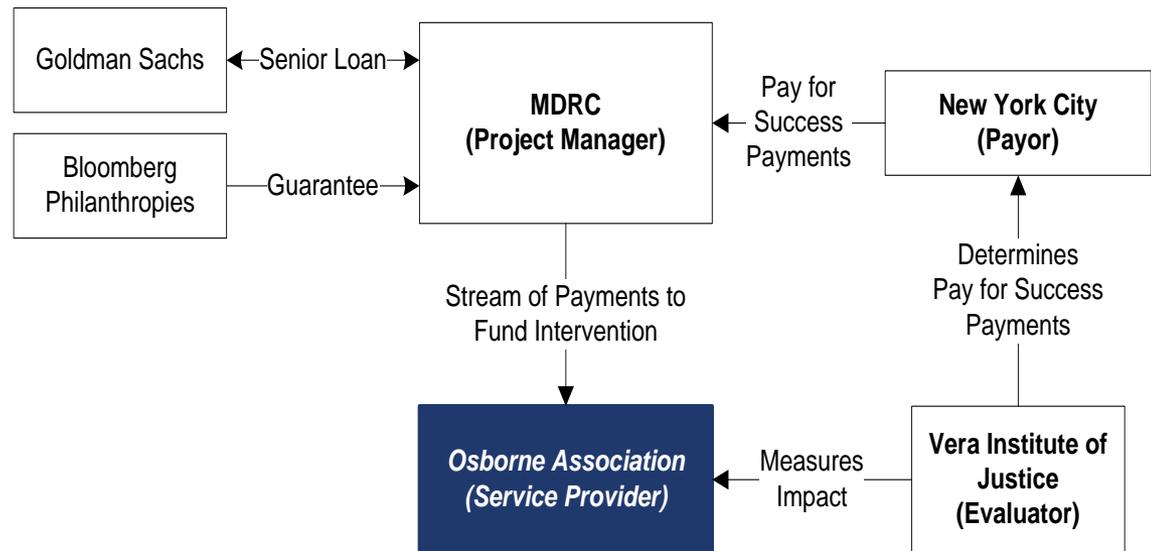
Rikers Island Juvenile Justice Social Impact Bond



The City of New York, Bloomberg Philanthropies, Goldman Sachs, and MDRC launched the first social impact bond in the US in 2012 to expand a program designed to reduce recidivism among 16 - 18 year olds incarcerated on Rikers Island, the New York City jail.

Investment Overview

- Proceeds were used to finance the expansion of a Cognitive Behavioral Therapy intervention that taught skills such as anger management and conflict resolution
- Repayment of the loan was based on decreases in recidivism
- Year 1 results showed no statistically significant impact; thus, the program ended in August 2015



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