



The Massachusetts Juvenile Justice PFS Initiative

PROJECT BRIEF

LETTER FROM OUR CEO

June 2014

In January of this year, we launched the Massachusetts Juvenile Justice Pay for Success Initiative, the fourth Pay for Success project implemented in the United States and the largest Social Impact Financing raised to-date. We marked the launch with an event at Roca, where Governor Deval Patrick and Roca's CEO Molly Baldwin spoke alongside other project stakeholders.

The star of the show, however, was Ralph Bonanno, a Roca youth. Ralph had been arrested five times and was on a common path for high-risk young men: cycling through street crime and the prison system with no way out. Assigned to Roca after one stint in prison, Ralph initially ignored his case worker. Through her persistence, Ralph began attending Roca's programming and slowly realized that life could be different. "Roca helped me believe that I deserved better in life," he told us all, and that sentiment was echoed throughout the launch event. "We are saying to these young men, 'We will not leave you behind'," announced Molly Baldwin. Roca's simple tactics of persistent outreach, therapy and workforce development lead to an inspirational effect: helping young men transform their own lives. Roca has been doing this for 25 years, delivering change and impact in Chelsea and Springfield, Massachusetts. Pay for Success helps to scale this programming to more high-risk young men like Ralph across Massachusetts. We believe that Pay for Success is an innovative and particularly effective tool to scale transformational services like Roca's across the country.

This idea has been catching fire across the country. The growth of Pay for Success in the past few years has been explosive, but we are well aware that the excitement around the theory far exceeds the actual practice of implementing these projects on the ground. A constant refrain is that while everyone is excited by the innovative ideas behind Pay for Success and social impact bonds, confusion and misunderstanding grow when thinking about the practicalities of developing and implementing these projects.

In order to help practitioners realistically understand the nuts and bolts of putting these projects together, we are excited and proud to share two documents about the Massachusetts Pay for Success Initiative. The Project Brief takes a deep dive into the mechanics and structure of the Massachusetts' PFS contract, including practical innovations that could be replicated in other projects and key insights. In our Lessons Learned publication, we highlight five key lessons for all stakeholders interested in PFS, ranging from practical issues like development funding to thinking about stakeholders' roles in contract negotiations. These insights are not high-level or meant to be discussed theoretically: they are intended to provide practical insight for everyone interested in developing a PFS project. We hope the dissemination of these publications will help all parties develop PFS projects better.

In these early days of Pay for Success, we expect a prolonged phase of refining and streamlining project development. It is critically important, however, to not only streamline project development but to develop these projects thoughtfully and with great care to the precedent they set for the future. We hope that these publications play a small part in building the field so that these projects become replicable, effective and truly transform lives like Ralph's.

Many thanks to the Rockefeller Foundation and the Laura and John Arnold Foundation, both of whom have generously supported these publications and our larger mission of accelerating America's transition to a performance-driven social sector.

Best,



George Overholser
Co-Founder and CEO, Third Sector Capital Partners

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Written by Sithara Kodali, John Grossman and George Overholser

THE OPPORTUNITY

As we discuss extensively in our previous case study, “[Preparing for Pay for Success Opportunities](#),” each year, approximately 4,000 high-risk young men “age out” of the juvenile justice system or are released from probation in Massachusetts. 64% of these men will be incarcerated at least once within five years of release, with an average prison stay of 2.4 years for reoffenders. All told, this population of young men cost the Commonwealth of Massachusetts more than \$280 million annually.

Roca, Inc. (Roca) is a nonprofit that has delivered an evidence-based high-impact intervention to these young men in the Chelsea and Springfield, Massachusetts areas for 25 years. Roca’s model is based on proven behavioral change theories and trains high-risk young men in job readiness, educational readiness, and life skills. The four-year “Roca Model,” which consists of two years of intensive engagement and two years of follow-up, includes four basic elements: relentless outreach to young men by Roca staff; intensive case management; life skills, educational, prevocational, and employment programming; and connection to work opportunities with community partners. Roca helps young men change their behaviors while learning how to go to work, beginning with subsidized employment opportunities and transitioning when ready into full-time positions with employer partners. In a study of recidivism rates in Massachusetts, Roca was shown to reduce three-year incarceration rates by 33% among the high-risk young men they serve. In addition to the intervention’s impact with a high-risk target population, Roca’s organizational commitment to data-driven decision-making and rigorous outcome measurement made it an ideal candidate for a Pay for Success (PFS) project.



Source: *Living Cities*

<http://www.livingcities.org/related/downloads/?id=17>

THE VEHICLE: PAY FOR SUCCESS



PAY FOR SUCCESS

Performance-based contracting within the social sector where government pays only if results are achieved.



SOCIAL IMPACT FINANCE*

Financing (loans or grants) that bridges timing gap between government payments and upfront capital needed to run PFS programs

* Social Impact Bonds (SIBs) are type of SIF

PFS and Social Impact Financing (SIF) have emerged as mechanisms for scaling effective social interventions by changing the way that government allocates and invests its resources. Funders provide the initial working capital and the government agrees to make payments to the project, and therefore funders, only when outcomes are achieved. By focusing on results and outcomes and funding only what works, this type of performance-based contracting reduces risk for government and institutes a rigorous feedback loop for social services.

THE MASSACHUSETTS JUVENILE JUSTICE PFS INITIATIVE

DEVELOPMENT AND TIMELINE

In May 2011, Massachusetts issued a broad Request for Information (RFI) to identify “the areas of government activity where success-based-contracting strategies have the potential to improve outcomes and/or reduce costs.” Among the respondents to this solicitation were Third Sector Capital Partners, Inc. (Third Sector), in partnership with New Profit Inc., and Roca. Third Sector is a nonprofit advisory firm that works with government, service providers, and funders to develop and launch PFS projects and had been providing technical assistance to Roca. In January 2012, the Commonwealth released a more detailed Request for Responses (RFR), seeking to identify potential partner organizations that might “execute . . . pay-for-success contracts targeted at supporting youth aging out of the juvenile corrections and probation systems so as to assist them in making successful transitions to adulthood.” On August 1, 2012, the Commonwealth announced its selection of Third Sector as the PFS intermediary, in partnership with New Profit, and Roca as the lead service provider, for a project aimed at reducing recidivism rates among youth. The Massachusetts Juvenile Justice PFS initiative (MAJJ PFS project) officially launched on January 29, 2014.

JUNE 2011	Third Sector (in partnership with New Profit) and Roca submit responses to the Commonwealth of Massachusetts’ Request for Information on PFS.
JANUARY 2012	The Commonwealth issues Requests for Responses on PFS Project to intermediary organizations and to service providers.
MARCH 2012	Third Sector (in partnership with New Profit) and Roca respond to the Commonwealth’s Request for Responses as an intermediary and service provider, respectively.
AUGUST 2012	The Commonwealth names Third Sector and Roca as the successful bidders in the procurements for intermediary and service provider, respectively. The Commonwealth passes legislation authorizing PFS contracting and backing obligations with its full faith and credit.
OCTOBER 2012	Third Sector develops a preliminary information memorandum for prospective funders. The Commonwealth, Roca and Third Sector clarify the contingent payment structure and identify avoided bed-days (rather than reduced recidivism) as an outcome metric.
NOVEMBER 2012	Third Sector, with assistance from Roca, begins reaching out to foundations for early expressions of interest or verbal pledges.
DECEMBER 2012	The Commonwealth formally applies to the Department of Labor (DOL) for grant funding. The submission requires technical details and letters of intent/interest from New Profit (for a \$1 to \$2 million grant) and from debt funders, including Goldman Sachs.

FEBRUARY 2013	The Commonwealth and Third Sector negotiate a Memorandum of Understanding, enabling Third Sector to negotiate for the project, as well as a clear method of payment for Third Sector's provision of intermediary services. The first draft of the PFS contract is circulated to all parties.
APRIL 2013	The Commonwealth issues a Letter of Intent to contract with Third Sector and Roca. Living Cities holds a convening for financial institution, philanthropic and program-related investment stakeholders where Third Sector and Roca present the MAJJ PFS project. This directly leads to funding commitments from Living Cities and the Kresge Foundation.
MAY 2013	A majority of funders have made contingent financial commitments.
JUNE-AUGUST 2013	Financial structure is further refined, including agreements on funding disbursement, paying for success, and distribution of success payments.
SEPTEMBER 2013	Most funders receive approval from their respective investment committees. Concurrently, the DOL announces nearly \$12 million in supplemental funding for the MAJJ PFS project.
NOVEMBER-DECEMBER 2013	Additional agreements are negotiated, including the fiscal services and management agreements, as the financial model and loan agreements are refined.
JANUARY 2014	Publicity protocols are negotiated and enacted; loan and grant agreements are finalized; final contracts are signed; the MAJJ PFS project launches on January 29, 2014.

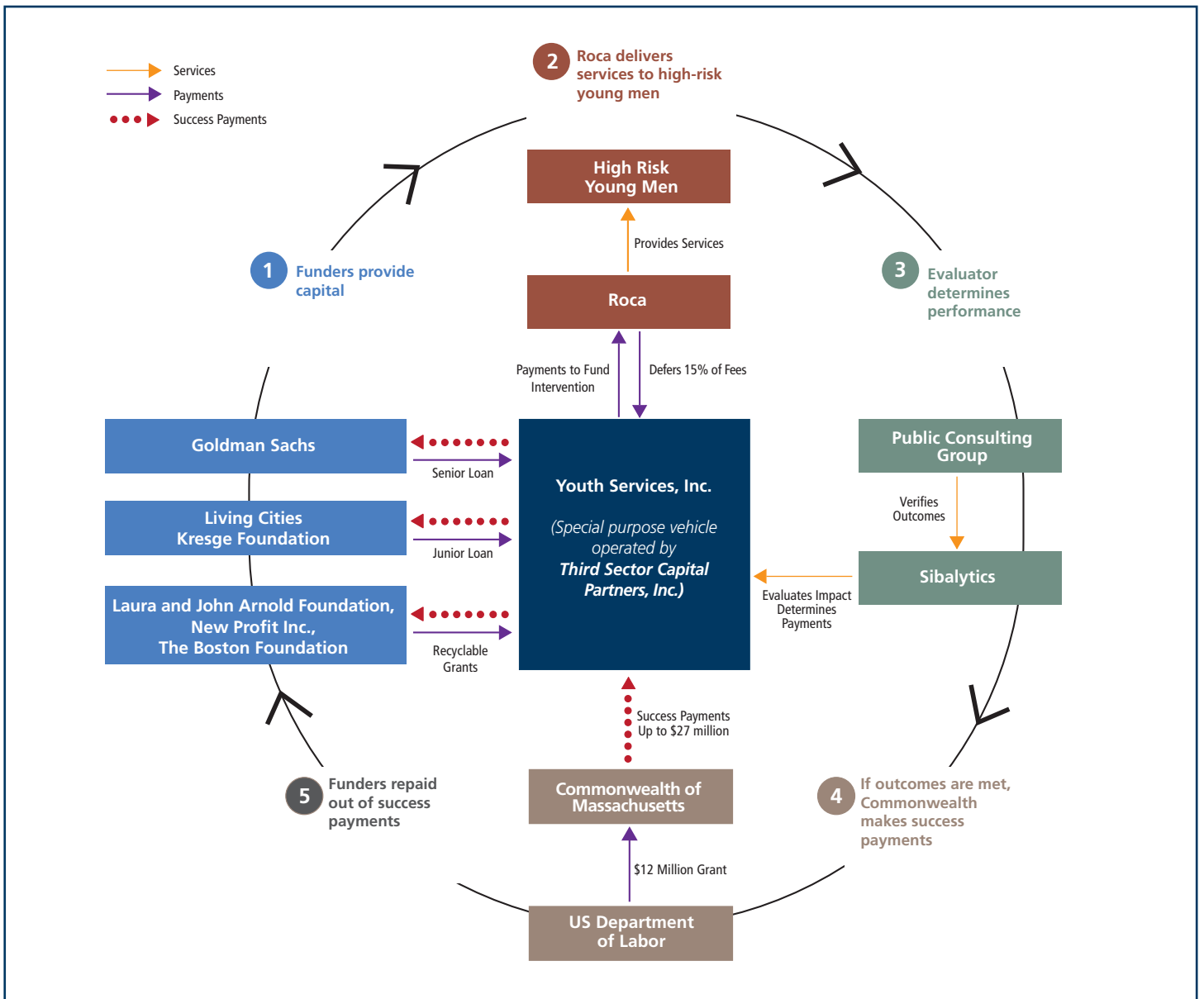
OVERVIEW

In 2012, the Massachusetts Legislature created the Social Innovation Financing Trust Fund and 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. The MAJJ PFS project will scale Roca's programming to reach approximately 929 high-risk young men aged 17 to 23 in the Commonwealth's probation system or exiting the juvenile justice system. The seven-year project will then measure Roca's impact on decreases in days of incarceration and increases in employment as measured against a control group through a randomized controlled trial evaluation, as well as increases in job readiness. As detailed below, funders including foundations, commercial lenders, Roca itself and Third Sector provided \$21.3 million in operating capital to fund the project; the Commonwealth will pay funders up to \$27 million in success payments to the project depending on the outcomes from the randomized controlled trial. After covering costs, the project intermediary will then distribute any success payments from the Commonwealth to funders.¹

¹ The PFS contract has been published by the Commonwealth and can be read here: <http://www.mass.gov/anf/docs/anf/final-pay-for-success-contract-executed-1-7-2013.pdf>

As project intermediary for this initiative, Third Sector arranged project funding and is responsible for overseeing project implementation, and -- through a special purpose vehicle created for the project -- distributing funding to Roca and managing repayment to funders. New Profit, a national venture philanthropy fund and social innovation organization, will provide additional management support. Third Sector is deferring 15% of its management fees; it will only be paid that portion of its fees if contractual results are achieved.

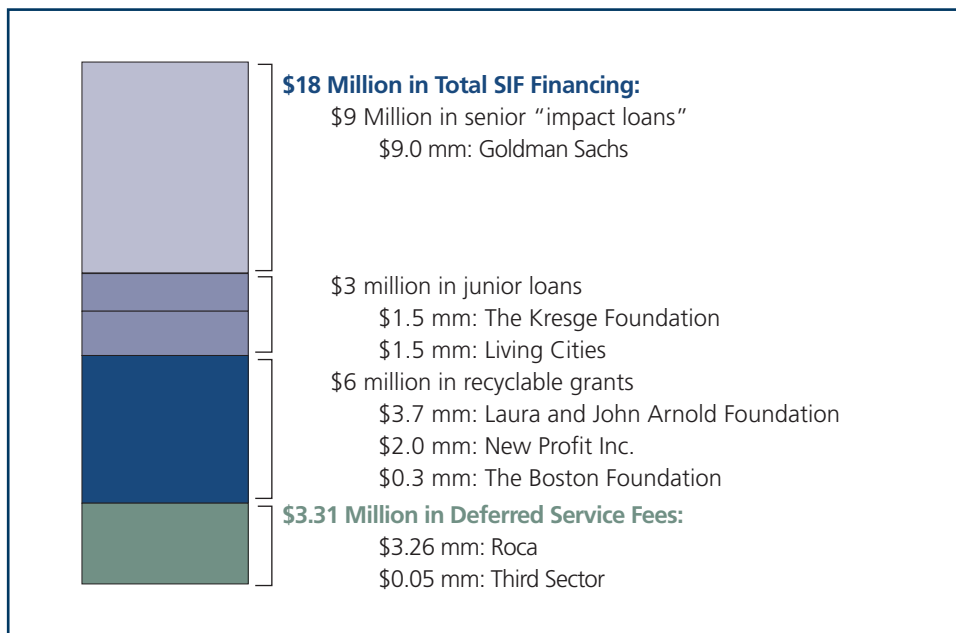
THE MASSACHUSETTS JUVENILE JUSTICE PAY FOR SUCCESS INITIATIVE STRUCTURE



FINANCING STRUCTURE

The final project required \$21.3 million in financing and deferred service fees. As seen in the diagram below, Goldman Sachs provided \$9 million in senior loan financing through its Social Impact Fund, the Kresge Foundation and Living Cities together provided \$3 million (\$1.5 million each) in junior loan financing, and Laura and John Arnold Foundation, New Profit, and The Boston Foundation together provided \$6 million in grants (\$3.7 million from Laura and John Arnold Foundation, \$2 million from New Profit, and \$300,000 from The Boston Foundation). In addition to upfront financing, Roca and Third Sector are deferring a portion of their service fees and will only be reimbursed through the Commonwealth's success payments.

THE MAJJ PFS PROJECT CAPITAL STACK



"Skin in the Game": The Provider's Perspective

While one purpose of PFS is to shift risk from service providers and government to funders, a service provider's financial stake reassures funders that may be skittish about the nascent PFS field. Perhaps more important than the financial risk, however, is the reputational risk Roca is taking. The organization expects to face real consequences if it fails to perform. As Molly Baldwin, founder and CEO of Roca, puts it, "We are betting the house on this project."

INNOVATIONS: FINANCING STRUCTURE

FEATURE	DETAILS	WHY?
Principal 100% At-Risk	While the philanthropic grants provide a buffer of “first-loss capital,” all lenders’ principal is at risk. Philanthropic grants do not provide a principal protection guarantee.	Provides a financing structure that more closely mimics the structure of traditional project finance deals. As the SIF sector evolves, we expect deals to increasingly resemble traditional financing structures.
Diverse Funding Base	The capital stack for the MAJJ PFS project features senior and junior loans, as well as recyclable grants and deferred service fees from the intermediary and service provider.	To move beyond the single-lender approach to SIF, a conscious effort was made to diversify the capital stack to attract various modes of investment for the SIF sector.
Recyclable Grants	At higher levels of impact, PFS payments could be large enough to repay the grants. However, grant funders elected instead to utilize this “upside” to reinvest in Roca and fund continued PFS efforts.	To create a form of philanthropy that bridges the gap between program-related investments and traditional grants. As a potential future reinvestment, these grants also compensate the service provider for the considerable risks it takes in this project.
“Skin in the Game”	Roca, the service provider (as well as Third Sector as project manager), defers a portion of its service payments to be reimbursed only through the Commonwealth’s success payments upon demonstration of impact.	While not appropriate for every SIF project, a service provider taking a financial stake in the project as a demonstration of its commitment and confidence in its performance can attract further investment.

The Role of Philanthropy in PFS

Philanthropies play a vital catalytic role in building the PFS sector by providing “demonstration” grant funding for projects. As George Overholser, founder and CEO of Third Sector, noted, “As it matures towards self-sufficiency, the PFS/SIF industry must first go through a period of philanthropic subsidies.”

Compared to traditional grant making, the advantages to philanthropies of funding PFS projects are significant. First, philanthropies benefit from co-funding leverage from commercial lenders. Second, if successful, PFS projects allow for a 100% or greater recycling of the grant towards continued service provision. Even in the event that hoped for outcomes are not achieved, PFS projects have a further advantage over traditional grant making: philanthropies can utilize PFS projects’ built-in rigorous impact evaluation to inform their future grant-making activities.

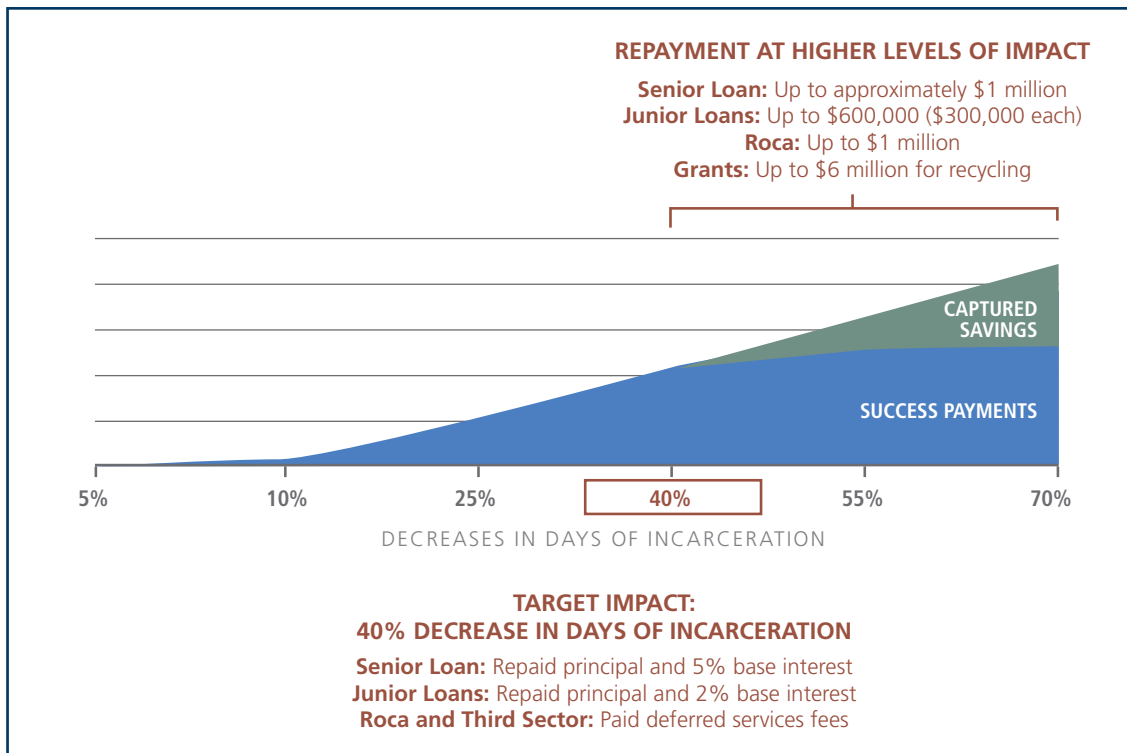
REPAYMENT STRUCTURE

The Commonwealth’s \$27 million in total success payments are paid out based on three outcome measures: decreases in days of incarceration, increases in job readiness and increases in quarters of employment. Success payments will be made to the project between the second and seventh years of the project. Funds will be disbursed to the funders from the project if a statistically valid impact is shown as early as quarter 17, with payments continuing until quarter 25.

On an ongoing basis, the senior loan will be paid 5% base annual interest and the junior loans will be paid 2% base annual interest. Repayment of principal is made on a prioritized basis: the senior loan is repaid first, followed by the junior loan, and then Roca’s and Third Sector’s deferred payments. Once loan repayment and deferred payments have been made, all remaining project balances are made available to pay success fees to lenders, Roca and Third Sector and to recycle grant funds.

Payments for decreases in incarceration represent the majority of the success payments and are based on a graduated payment schedule where the Commonwealth pays increasing amounts for each day that program participants avoid incarceration as compared to a randomly selected control group of similar young men who are not in the program. The payment schedule is based on associated savings to the Commonwealth as shown below.

THE MAJJ PFS PROJECT REPAYMENT STRUCTURE



Payments for increases in job readiness are \$789 for each Roca participant that engages with a Roca youth worker nine or more times within a quarter, with each engagement helping young men address barriers to employment and move toward economic independence. A maximum of \$4.1 million in PFS payments will be made towards job readiness. Payments for increases in employment are \$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.

INNOVATIONS: REPAYMENT SCHEDULE

FEATURE	DETAILS	WHY?
Statistically Significant Payouts	The Commonwealth will not make any success payments until the project shows that it has reduced incarceration by at least 5.2% (compared to the historic baseline). Additionally, until the wind-up in Quarter 25, the Commonwealth will hold back a percentage of the success fees.	By holding off on making payments until a statistically significant reduction in incarceration is shown, the Commonwealth maximizes the likelihood that it is paying for actual outcomes and not a “false positive” due to chance. The hold-back similarly assures that the Commonwealth does not overpay for early indications of success that do not prove to be real outcomes.
Smooth Payout Schedule	The Commonwealth follows a smooth payout schedule for each day of incarceration avoided, rather than the prior “all or nothing” model of making payouts based on the percent of participants who avoid incarcerations entirely.	Paying for each avoided day of incarceration accounts for the Roca Model’s expectation of relapse and focus on reducing overall time in incarceration. Paying for each avoided day of incarceration also allows for a more granular measurement of outcomes for payment, which is more attractive for funders from a risk perspective than the “all or nothing” model.
Payouts Reflect Full Savings	For lower levels of impact, the payout schedule only reflects the marginal cost of avoided days in incarceration. But as impact increases, the payment per avoided day of incarceration grows to reflect the Commonwealth’s average cost. This savings projection was based on a probabilistic model built by the Harvard Kennedy School’s Social Impact Bond Lab.	This model appropriately avoids making payments based on full average cost structure unless enough incarceration days are avoided for the Commonwealth to reduce fixed costs such as shutting down or avoiding construction of new incarceration facilities.
A \$27 Million Cap on Total PFS Payments	The global cap of \$27 million in success payments will allow the Commonwealth to cover all project costs and thereafter capture 100% of all additional cost savings.	The disproportionate capture of upside by the Commonwealth is in compensation for its sharing 100% of savings at lower levels of lower impact.

The Larger Goal of PFS: A “Feedback Loop” for Social Services

A rigorous impact evaluation is essential to any PFS project in order to ensure that the observed impact can be directly attributed to the intervention, not to other environmental or extrinsic factors. Ultimately, a PFS project seeks to incorporate this “feedback loop” of rigorous evaluation into governmental procurement processes, so that government can rigorously understand what is working in social services on an ongoing basis. As we discuss in “[The Real Revolution of Pay for Success](#)”, rather than funding what may have worked in the past, or funding programs without examining achieved levels of impact, the PFS feedback loop creates a dynamic that recognizes and rewards the social benefits of ongoing innovation.

INTERVENTION IMPACT EVALUATION

The MAJJ PFS project incorporates a randomized controlled trial (RCT) to measure the impact of the Roca intervention. Considered the gold standard of rigorous evaluation, the RCT randomizes young men eligible for the Roca intervention into a treatment group, which will be referred to Roca on an “intent to treat” basis, and a control group, which will not be referred. By randomizing referrals to Roca, the RCT cancels out the other characteristics and environmental factors that could be influencing the young men’s outcomes apart from Roca’s intervention. Effectively, the RCT will answer the key question of impact: what would have happened to these young men if they had not been enrolled in Roca’s program? Through randomization, outcomes such as decreases in days of incarceration can be directly attributed to Roca’s program’s effect on these high-risk young men. Sibalytics LLC, an independent evaluation firm, will implement and monitor the results of the RCT, with Public Consulting Group serving as an independent validator assessing the evaluation methodology and verifying outcomes. Innovations in the evaluation design for the Massachusetts Juvenile Justice PFS project include:

INNOVATIONS: EVALUATION DESIGN

FEATURE	DETAILS	WHY?
No Denial of Service	While young men are randomized for referrals to Roca, if young men who are not referred by the project find their way to Roca, they will not be denied services. In order to help compensate for potential treatment group “contamination,” the project will serve a larger number of young men than would have been needed in a “denial of service” evaluation design.	This allows for a rigorous impact evaluation of Roca’s services while addressing the practical and ethical concerns associated with refusing treatment to a randomly selected group of young men.
Back-Up Evaluation Plan: Difference-in-Differences	To the extent that randomization proves infeasible in practice, a back-up evaluation plan will utilize a difference-in-differences approach that will compare outcomes in cities with Roca’s services to matched cities where Roca does not provide services.	The difference-in-differences approach provides a rigorous alternative form of evaluation to address concerns that implementation problems or contamination of the treatment group renders the original randomized controlled trial evaluation inconclusive.

PROJECT STRUCTURE AND GOVERNANCE

The overall project structure employed the creation of a separate nonprofit, called Youth Services, Inc., to house the project and act as a hub for all contracts. In some PFS models, the government contracts solely with this intermediary project company (sometimes called a Special Purpose Vehicle or “SPV”), that then exercises independent discretion as to which services and service providers will be employed to achieve targeted social outcomes. This vision of PFS project construction involves a series of relatively simple collection of bilateral agreements between project parties, for example a government/SPV agreement, an SPV/provider agreement, a separate SPV/funders agreement and several smaller agreements between the SPV and the evaluator, auditor, project manager, etc.

The reality of implementing a PFS project in the case of the MAJJ PFS project called for several multi-party, rather than bilateral, agreements, for several reasons including:

- **Necessary cooperation between government and service provider.** In order for the PFS project to deliver the contracted-for outcomes, frequent interactions between Roca and the Commonwealth were essential. For example, the PFS project initially envisioned payments for avoided incarcerations. However, the Roca Model, while reducing days in incarceration, assumes that the young men served will relapse throughout the program and face incarceration. Roca’s involvement in PFS project construction ensured that the ultimate payment outcome accounted for the nuances of the intervention model. Roca’s on the ground knowledge was also vital to the process of designing a practical operational blueprint for how young men would be selected and referred to Roca by the Commonwealth.
- **Government needs to be involved in construction and financing.** The Commonwealth was highly involved in the development of the MAJJ PFS project for two primary reasons: it needed to ensure that measures were enacted to safeguard the high-risk young men from harm, and it needed to actively ensure that the ultimate financing structure for the project was fair for the taxpayers who would ultimately supply the success payments.
- **The necessity of multiparty cooperation.** Several project developments required the assistance of multiple parties, such as the determination of the Roca Model’s “baseline” impact. Multiparty cooperation also led to several project innovations with both the financing and payment structure.
- **The necessity of funder input.** Obtaining institutional funding was more complex than a “take it or leave it” proposition. In order to obtain institutional approval for making a PFS project loans, funders often needed to provide input into the project design and financing structure.

Governance

Rather than using a Board of Directors model that would use voting rights to drive the project’s governance function, we employed a separate committee, ruled by consensus, to drive policy.

INNOVATIONS: GOVERNANCE STRUCTURE

FEATURE	DETAILS	WHY?
Consensus Decision-Making	The MAJJ PFS project developed a multiparty approach to PFS project development and contracting. PFS project decisions are made by consensus, as opposed to a more autocratic governance structure. If consensus cannot be reached, the parties agreed to binding arbitration.	The consensus approach was ideal due to project parties’ desire for decision rights as well as their shared interests; all parties wanted the project to succeed, so a more autocratic approach would have proven impractical.
Operating and Oversight Committees	The MAJJ PFS project features an operating committee composed of the Commonwealth, Roca and Third Sector that will meet monthly to review project operations. The oversight committee, composed of the Commonwealth, Roca, Third Sector and the evaluator, will meet quarterly to review results and resolve issues with the input and approval of funding partners.	Operating and oversight committee meetings make decisions by consensus and provide a forum to guide project operations and remediate any project issues collectively amongst stakeholders.

The Key Government Innovation: A More Active Role

As discussed previously, the PFS model in Massachusetts moved decisively to a structure where the Commonwealth maintained a high level of involvement throughout the project. While all governments may not choose this approach to PFS contracting, it is an attractive alternative to governments that prefer to be involved in service provision to ensure safeguards for the target population and want to mitigate concerns about the appearance of privatization.

Key Triggers and Remedies

Performance risk is inherent in PFS projects. While all parties can estimate a “base case” performance impact and resulting payouts from historical operating data or past impact evaluations, the ultimate realized impact and contingent success payments are unknown.

While the Roca Model’s direct impact was an acceptable risk, parties wanted to ensure that the measured impact wasn’t influenced by disruptions or poor performance in the execution of PFS project operations, given the untested nature of PFS contracting. As a result, the PFS contract features several “triggers” and “remedies”: the contract outlines expected performance standards, with possible deviations from the original project plan triggering an outlined remedy.

TRIGGER	REMEDY
Number/Quality of Referrals	If the number of acceptable referrals to Roca’s services falls below a threshold for a certain amount of quarters, the operating committee and evaluator will conduct an analysis to determine causes and implement a remediation plan; in severe shortfalls, Roca may self-recruit participants. In certain cases, Roca or YSI can declare the Commonwealth in default and require the Commonwealth to reimburse project costs to date.
Timing of Success Payments	If the Commonwealth does not make required success payments in a certain period of time, it must notify parties of any perceived default; if it does not make required success payments after notification, it will be considered in breach of the PFS contract, in which case, Roca can terminate its obligations under the PFS contract and the Commonwealth is required to pay back Roca and funders and pay for the wind-down of the project.
Financial Operations	If the PFS project account balances, expenditures and/or deposits vary significantly from the funding plan, the intermediary must provide detailed reports on the causes of the variation; with more significant variances, a remediation plan supplied by the intermediary must be reviewed and approved by the oversight and operating committees as well as funders.
Enrollment in Roca	Roca must report to the operating committee on quarterly enrollments; in the event of under-enrollment, Roca must increase the depth and frequency of their reporting. If enrollments fall below a certain threshold, Roca must develop and implement a corrective action plan.
Retention/Attrition	If attrition rates from Roca’s program vary significantly from historical rates, Roca must increase reporting to the operating committee and in cases of high attrition, develop and implement a corrective action plan. In an extreme case, if the attrition rate exceeds a specified rate in certain quarters, the Commonwealth and/or lenders may terminate the project or reduce its size.

GOVERNMENT AND PAY FOR SUCCESS: THE COMMONWEALTH'S ROLE

PFS projects ultimately rest on the government's willingness make payments for validated social outcomes. Additionally, nearly every phase of PFS project development requires active government participation. In the MAJJ PFS project, the Commonwealth displayed its commitment to the project through several critical avenues:

- Government championship.** As John Grossman, partner at Third Sector, commented, "without a government champion, you can't go forward." In the executive branch, former Secretary of Administration and Finance Jay Gonzalez was an enthusiastic supporter of PFS, and his successor, Glen Shor, continued to support the project. As the entity with final authority on PFS project execution, the Secretary's support and prioritization of the project was non-negotiable. Ed Dolan, former Commissioner of Department of Youth Services and now the Commissioner of Probation, convened state criminal justice agencies to gain support within government for the envisioned PFS project. The former Assistant Secretary of Administration and Finance, Greg Mennis, also prioritized the development and execution of the MAJJ PFS project. These champions ensured that Massachusetts was not only committed to the MAJJ PFS project, but prioritized its development and execution.
- Long-term financial commitment to making success payments.** The Commonwealth's decision to create a binding long-term financial commitment to the PFS project was a necessary condition to attract funders. This obligation, made through the state legislature's two-thirds vote to commit the Commonwealth's full faith and credit to project payments, was "amazing from a security standpoint" according to funders.
- Referring intervention participants.** The agency-level staff responsible for youth referrals in the juvenile justice system are essential to the daily operations of the PFS project: serving high-risk young men. Their support and buy-in is critical to long-term project success.
- Resources for project development.** While high-level government enthusiasm maintains support for PFS projects, project development and implementation requires significant staff time and energy. With limited budgets and staff capacity, governments often lack the internal resources to explore and develop PFS on its own. The Harvard Kennedy School's Social Impact Bond Technical Assistance Lab recognized the capacity issue within government and worked with government to dedicate a full-time fellow to support the Massachusetts PFS projects.
- Data sharing.** The Office of the Commissioner of Probation and Department of Youth Services worked with project parties to release data for evaluation purposes. This data was essential to establish impact baselines and to understand the historical outcomes for the project's targeted population.

Government Support Takes Multiple Forms

Throughout the project, all three branches of government in Massachusetts demonstrated support for the MA JJ PFS project, whether through project involvement or legislative support. The Executive Office of Administration and Finance was directly responsible for contract negotiation and deal construction and had the support of the Department of Youth Services, the Department of Criminal Justice Information Services and the Executive Office of Labor and Workforce Development. The Massachusetts State Legislature approved the establishment of the Social Innovation Financing Trust Fund with a two-thirds vote. The Office of the Commissioner of Probation, a part of the Judiciary, also had to work with the project to release data for evaluation purposes and is integral to the referral process. This support and cooperation across the executive, legislative and judicial branches lent credibility to the MAJJ PFS project and was integral to its funding and launch.

THE IMPLICATIONS FOR THE FUTURE

Target Population	Through Roca’s intervention, up to 929 young men could spend less time incarcerated and more time gainfully employed
Taxpayers	Taxpayers could enjoy a reduction in violence and crime at no net cost (and even realize savings at higher levels of impact).
Government	The Commonwealth will receive a rigorous impact measurement of Roca’s intervention that can inform future resource allocations; if the project does not achieve its impact goals, the Commonwealth will incur little to no cost since funders bear Roca’s performance risk.
Funders	PFS projects like the MAJJ PFS project leverage private sector capital to address social problems; the MAJJ PFS project also introduced innovative financing options for funders such as recyclable grants.
The PFS Sector	<p>Previous PFS projects, including the Peterborough project in England and Rikers project in New York, did not make key deal documents public. As a result, contracts for the MAJJ PFS project were drafted from the ground up. As one government official commented, “We spent a lot of time in the contract formation process resolving issues such as what the government’s rights are going to be, how to address funders’ concerns, and reporting mechanisms. Many of these issues should be transferable to other projects, making the future contracting process faster.”</p> <p>Project parties in the MAJJ PFS project have made key project documents public in order to allow for “open sourcing” to speed other PFS projects’ development.</p>

The MAJJ PFS project required a substantial investment of capital, resources and time. Due to the sector’s nascent stage of development, these early deals will often require an outsized amount of resources. However, the launches of these projects signal the progress of the sector. The amount of time and effort required to negotiate and close the next PFS transactions will be reduced greatly from the templates created in the MAJJ PFS project. Ultimately, we believe our experience with the MAJJ PFS project will actively inform the creation of a sustainable PFS sector that transforms government’s procurement of social services and delivers real results to our communities.

ACKNOWLEDGMENTS

Support for this publication was generously provided by the Rockefeller Foundation. Third Sector thanks the Foundation, especially Kippy Joseph, for its early support and for its commitment to the development of the Pay for Success sector in the United States. We also would like to sincerely thank our DukeEngage interns, Annie Wang and Travis Britain, for their hard work interviewing stakeholders and developing an early draft of this document.

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AUTHORS

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