



THE KRESGE FOUNDATION



NEW PROFIT inc.



FACT SHEET: The Massachusetts Juvenile Justice Pay for Success Initiative Revised October 31, 2016

- The Commonwealth of Massachusetts, Roca, Inc., and Third Sector Capital Partners, working with lenders Goldman Sachs, through its Social Impact Fund, The Kresge Foundation, and Living Cities and philanthropic grantors Laura and John Arnold Foundation, New Profit Inc., and The Boston Foundation, launched a Pay for Success (PFS) initiative in January 2014 to reduce recidivism and improve employment outcomes for young men at high risk of re-offending in the Boston, Chelsea, and Springfield, Massachusetts areas.
- The initiative will allow Roca to provide its high-impact intervention to 1036 at-risk young men aged 17 to 24 who are in the probation or parole system, are exiting the juvenile justice system, or are leaving the custody of the Suffolk, Essex, Hampden, and Middlesex Houses of Correction or the state's Department of Correction or are otherwise in need of services. Roca's programming aims to reduce recidivism and increase employment through intensive street outreach and targeted life skills, education, and employment programming. The Roca intervention is delivered over an intensive two-year period followed by two years of follow-up engagement.
- Massachusetts will make up to \$28 million in success payments for this seven-year project, which at the time of launch was the largest investment in a PFS initiative in the U.S. to date.
- PFS contracts, also called Social Impact Bonds, combine nonprofit expertise, private sector funding, and rigorous evaluation to transform the way government and society respond to chronic social problems. In a PFS initiative, funders assume up front financial risk, and taxpayers pay for a program only if a third-party evaluator determines that the initiative has achieved specific outcomes that create benefits to society and generate savings for government.
- Funding for the Massachusetts initiative includes commercial and philanthropic funding as well as risk sharing, in the form of deferred service fees, from the service provider (Roca) and project intermediary (Third Sector Capital Partners, Inc.). The funders assume project risk by financing services up front with the promise of repayment from government sources only in the event of success.
- Massachusetts will repay funders only if Roca's services are proven to produce positive societal outcomes and savings for the Commonwealth. These success payments will come from the Commonwealth and the U.S. Department of Labor, which awarded the Commonwealth a first-of-its-kind PFS grant of \$11.7 million.
- In 2012, the Massachusetts Legislature authorized the Secretary of Administration and Finance to enter into PFS contracts, with up to \$50 million in success payments backed by the full faith and credit of the Commonwealth. This legislative act created the Social Innovation Financing Trust Fund.

Service Provider—Roca is a nonprofit that has delivered an evidence-based high impact intervention to young people 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 program has a proven track record of reducing incarceration rates among the highest risk individuals. In this PFS project, Roca is deferring \$3.26 million (15%) of its service fees; it will only be paid that portion of its fees if results are achieved.

The Roca intervention establishes transformative relationships and uses targeted life skills, education, and employment programming to support young men in developing the skills necessary to reduce violence and create positive behavioral changes. The four-year 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 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 into full-time positions with employer partners.

The Commonwealth of Massachusetts—The Commonwealth makes payments for success if the independent third-party evaluator and validator determine that Roca’s program has reduced the number of days that participating young men spend in prison, has improved their job readiness, and has increased their employment. The project intermediary will then distribute any success payments from the Commonwealth to funders. At higher levels of success the funders can receive a small percentage return on their funding in return for assuming the up front financial risk.

Project Intermediary—Third Sector Capital Partners, Inc. is a nonprofit advisory firm that works with government, service providers, and funders to develop and launch PFS projects. As project intermediary for this initiative, Third Sector arranged project funding and is responsible for overseeing project implementation, distributing funding to Roca and managing repayment to funders.* New Profit Inc., a national venture philanthropy fund and social innovation organization, will provide additional management support. Third Sector is deferring \$50,000 (15%) of its management fees; it will only be paid that portion of its fees if results are achieved.

Funders

Goldman Sachs will provide up to \$8 million in senior loan financing through its Social Impact Fund.

The Kresge Foundation and Living Cities together will provide \$2.66 million (\$1.33 million each) in junior loan financing.

Laura and John Arnold Foundation, New Profit, and The Boston Foundation together will provide \$5.45 million in grants (\$3.34 million from Laura and John Arnold Foundation, \$1.81 million from New Profit, and \$300,000 from The Boston Foundation).

Other Project Participants

The Urban Institute is an independent evaluation and research institute and is responsible for implementing a statistical evaluation to measure the impact of the Roca intervention. The project will use a Randomized Controlled Trial, the gold standard of rigorous evaluation.

Public Consulting Group (PCG) is the independent validator and will be responsible for assessing the proposed evaluation methodology and verifying whether outcome targets are met. PCG was selected by Massachusetts through a formal procurement.

The Harvard Kennedy School Social Impact Bond Technical Assistance Lab (SIB Lab) provides pro bono technical assistance to state and local governments implementing PFS contracts using Social Impact Bonds. The SIB Lab assisted Massachusetts in developing the procurement and designing the data analysis strategy for this project.

* Third Sector has formed a subsidiary supporting organization, Youth Services, Inc. (YSI), to serve as the legal entity for managing the project. John Grossman, Managing Director & General Counsel for Third Sector, will lead YSI.

Determining Success Payments

Success payments will be made between the second and seventh years of this initiative based on decreases in incarceration, increases in job readiness, and increases in employment attained by the young men participating in the Roca program:

- **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 participants avoid incarceration as compared to similar young men who are not in the program. The payment rates are based on associated savings to the Commonwealth as shown below. The minimum reduction in incarceration necessary for payments to be made is 5.4%.

Incarceration-Based Payment Terms		
Decrease in Days of Incarceration	Incarceration-Based Success Payments	Gross Savings for Commonwealth
55.0%	\$ 21 million	\$ 33 million
40.0%	\$ 21 million	\$ 22 million
25.0%	\$ 11 million	\$ 11 million
10.0%	\$ 2 million	\$ 2 million
5.0%	\$ 0	\$ 0.9 million

- **Payments for increases in job readiness** are \$1000 for each participant in each quarter that a Roca participant engages with a Roca youth worker nine or more times, with each engagement helping young men address barriers to employment and move toward economic independence
- **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.

The project's target impact is a 40% decrease in days of incarceration. At this level of impact, the project would generate budgetary savings to the Commonwealth equal to the cost of delivering services.

If the project achieves its target impact, funders will be repaid using success payments from the Commonwealth's Social Innovation Financing Trust Fund as follows:

- The Goldman Sachs Social Impact Fund will be repaid its principal funding and a base annual interest rate of 5.0%;
- The Kresge Foundation and Living Cities will be repaid their principal funding and a base annual interest rate of 2.0%;
- Roca and Third Sector will be paid their deferred service fees;

In addition, at this high level of impact, project and funders will receive the following fees:

- Roca: Up to approximately \$0.71 million
- Goldman Sachs: Up to approximately \$0.91 million
- The Kresge Foundation and Living Cities: Up to approximately \$488,000 (\$244,000 each)

Any remaining PFS payments, which could be up to \$5 million depending on the level of impact achieved, will be used to recycle philanthropic funding. Laura and John Arnold Foundation will use recycled funding to support future PFS initiatives. New Profit and The Boston Foundation will use recycled funding to support scaling of Roca.

Throughout the establishment, structuring and negotiation of the PFS initiative, Roca received pro bono legal assistance from **Goulston & Storrs, P.C.**, the Commonwealth received pro bono legal assistance from **Nixon Peabody LLP**, New Profit received pro bono legal assistance from **Goodwin Procter LLP**, and Third Sector and Youth Services, Inc. received pro bono legal assistance from **Ropes & Gray LLP**.