



THE KRESGE FOUNDATION



NEW PROFIT inc.



## FREQUENTLY ASKED QUESTIONS

### The Massachusetts Juvenile Justice Pay for Success Initiative

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#### Project Overview

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 to reduce recidivism and improve employment outcomes for young men at high risk of re-offending in the Boston, Chelsea, and Springfield, Massachusetts areas. Roca has so far enrolled approximately 530 high-risk young men into its programming and expanded operations by opening a facility in Boston.

#### What is a Pay for Success contract?

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 upfront 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.

#### How is Pay for Success a different form of financing than currently exists?

PFS is a simple but powerful advance in funding social services. Historically, the government has typically paid for such services up front and may or may not have been able to measure whether services achieve desired results. PFS provides a tool for results-based government financing, leveraging evidence-based nonprofits and private sector capital to enable government and society to respond to chronic social problems, including the crime, poverty and incarceration crises facing our urban communities. PFS initiatives ensure that government funding is allocated based on *proven outcomes*, as opposed to inputs or promised success.

#### Is Massachusetts the first in the U.S. to pursue PFS?

Massachusetts was the first state in the nation to issue a competitive procurement for services using a PFS structure when it issued Requests for Responses on January 18, 2012. While governments elsewhere have established PFS projects, the up to \$28 million in success payments available through the Massachusetts Juvenile Justice PFS Initiative make it the largest financial investment in the nation to date.

#### How will the residents of Massachusetts benefit from this PFS initiative?

The project will provide four types of benefits to residents of the Commonwealth:

1. If successful, the initiative will improve the lives of up to 1,036 young men. Roca will apply its highly successful programming to the highest-risk young men, reducing their involvement in violence and crime.
2. The initiative could significantly reduce the cost of incarceration to taxpayers by reducing violence and crime. At the project's target impact of a 40% reduction in days of incarceration, the project would generate approximately \$21.8M in budgetary savings to the Commonwealth. At a 65% decrease in days of incarceration, the project would generate \$41.5M in gross budgetary savings for the Commonwealth.

3. PFS establishes a new model for rigorously and objectively evaluating whether or not public investments achieve their intended results. By building a knowledge base of what works, PFS initiatives provide government with information it needs to make evidence-based decisions about how to allocate its scarce resources.
4. The financing model makes it easier for government to test innovative models of service delivery. Government often struggles to do this because of the fiscal challenges associated with making short-term investments for long-term savings. PFS addresses part of this problem by leveraging up front private sector funding to support innovation in government, with the private sector sharing in the returns associated with better results and greater efficiency.

### **What does Roca do and how does Roca help young men?**

Roca helps young men who are or have been involved with the Commonwealth's justice system break the cycle of reoffending by increasing workforce participation and job readiness. Roca does this through its proven Intervention Model, which connects very high-risk youth to each other and adults through intensive relationships and uses targeted life skills, education and employment programming to support young people in developing the skills necessary to reduce violence and create positive behavioral changes. Roca's 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.

### **Why was Roca chosen as the service provider?**

Through a competitive procurement process, Roca was selected as the service provider for the project for two reasons. First, Roca's track record of success in serving the most high-risk young men is unparalleled. Roca's Intervention Model is the only full-time, long-term, behavioral change intervention delivered on the street, for this population, by a non-mandating authority. 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.<sup>1</sup> Second, Roca's historical and ongoing commitment to intensive data and outcomes tracking has proven the organization is well-equipped for a rigorous and long-term evaluation of its programming through the PFS initiative. Most existing interventions provide only short-term services and not the sustained commitment these young men need in order to accomplish the behavior changes necessary to succeed in the long-term.

### **Who are the young men being served and how are they chosen?**

The project is serving young men aged 17-24 who are in the Boston, Chelsea or Springfield areas and (i) leaving the juvenile justice system, (ii) are involved in the probation or parole system, or (iii) are leaving the custody of the Suffolk, Essex, Hampden, and Middlesex Houses of Correction or the state's Department of Correction. The project is designed for young men who are identified as being at high risk for re-incarceration and unemployment, and who require comprehensive programming that can stay with them for up to four years as they move along a continuum of change towards economic independence. Eligible young men are randomly assigned to one of two groups: those who are referred to Roca for services, and those who are not referred to Roca for services, but whose outcomes are tracked to provide a comparison group against which to measure success. While Roca does not have the capacity to serve all of the young men across the Commonwealth that could benefit from its services, young men who are not referred by the project but find their way to Roca are not denied services. Ultimately, Roca is a service agency with a social justice-centered mission. It is Roca's goal to

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<sup>1</sup> A review by the HKS SIB Lab and Commonwealth of Roca's records of program participants, drawn from the same target population identified for the initiative, determined that the level of incarceration for Roca served youth was 37% over a three-year period compared to the Commonwealth's historic baseline over three years of 55%.

help as many young people as possible. Nonetheless, Roca has finite resources, and must work within a sustainable scale of operations.

It is also important to note that young people who are referred to Roca are not mandated to participate in Roca programming—rather, it is Roca’s job to relentlessly connect with these young people and provide them services regardless of each young person’s inherent willingness and motivation to participate. Roca was chosen for this project because of its historical success with populations that others find difficult to engage. Finally, Roca will continue to serve other high-risk young men who are not part of this project, allowing Roca to continue to serve young people referred and/or identified through other venues.

**Why is the project serving only young men?**

Roca focuses its work on very high-risk young men because these are the young people causing the most harm within our communities both to themselves and to others. Based on Roca’s research and Department of Youth Services data, young men are the most likely to commit crimes that will result in adult incarceration. Roca made this choice based upon the risk principle that states: “limited resources should be directed at those at highest risk for involvement in the criminal justice system.”

**Where are the young men coming from?**

The young men involved in the project are referred to Roca from eight distinct entities within the Commonwealth: the Office of the Commissioner Probation (Probation) and the Department of Youth Services (DYS), a juvenile justice agency within the Executive Office of Health and Human Services, the Department of Corrections and the Parole Department, criminal justice agencies within the Executive Office of Public Safety and Security, and the Essex, Suffolk, Middlesex, and Hampden Houses of Correction. In addition to referring young men who qualify for Roca’s services, staff from these referring agencies will coordinate with Roca’s youth workers when services begin and, in the case of Probation and Parole, as long as the individual remains under supervision, to optimally engage and support participants. Roca will also be directly recruiting and enrolling young men who receive services as part of the Project but will not be included in the evaluation.

**What happens if a young man in the program re-offends?**

While Roca’s intervention is highly effective, it will not stop every re-offense by the high-risk young men the project serves. These young men will proceed through the justice system like other offenders, although Roca will continue to work with the young person throughout the process. If a young person is incarcerated, Roca will work to remain in contact with that person and, once released from incarceration, Roca will work to reenroll the young person and reengage them with Roca programming.

**Why did the Commonwealth choose to address the problem of juvenile justice with its first PFS initiative?**

Nationally, there is a lack of follow-up services for individuals released from incarceration—services that can both transition people into more positive lifestyle choices and can prevent the cycle of re-incarceration that is costly for taxpayers. The Commonwealth is seeking to plug this gap in services using an innovative financing tool that reduces taxpayer financial risk.

The problem is particularly pronounced for the youngest offenders. While every young man is different, based on historical data we know that 64% of high-risk young men leaving juvenile incarceration or probation end up re-incarcerated within five years of release. Historically, only 35% of this population is

employed one year after release. Among those employed, average annual earnings were only about \$5,000 one year after release.<sup>2</sup>

### **How will this PFS initiative be funded?**

In this PFS initiative, commercial and philanthropic funders provide the up front funding needed to deliver services and bear most, if not all, of the financial risk associated with program implementation. The Commonwealth only repays funders when the target outcomes for reductions in days of incarceration, increases in job readiness, and increases in employment have been achieved. To pay for PFS projects, in 2012 the Massachusetts Legislature authorized the Secretary of Administration and Finance to enter into up to \$50 million in PFS contracts backed by the full faith and credit of the Commonwealth. If the program proves successful, PFS payments will be made from appropriations to the Commonwealth's Social Innovation Financing Trust Fund.

### **How will funders be repaid? How are success payments calculated?**

The Commonwealth will make success payments for three different outcomes: reductions in days of incarceration, increases in job readiness, and increases in employment. To measure incarceration and employment outcomes, an independent third-party evaluator, the Urban Institute, will conduct a randomized controlled trial—the gold standard of program evaluations—to determine the impact of Roca's intervention on young men relative to a group of young men who do not receive Roca's services. An independent third-party validator, the Public Consulting Group, will validate the Urban Institute's findings. Once the findings are affirmed, and if the intervention is found to be successful, the Commonwealth will make success payments according to a formula that was generated through extensive historical analysis of the budgetary savings and societal benefits from reducing incarceration and increasing employment. The Commonwealth will issue success payments to the project intermediary, and the project intermediary will then repay funders.

### **Why not just pay for Roca's services out of the regular state budget?**

There are three reasons to use this innovative financing model to pay for Roca's intervention instead of paying for services using the traditional fee-for-service method:

1. It is difficult to invest in prevention and social innovation in times of fiscal constraint. The Commonwealth is still emerging slowly from a recession, and the budget is still fully allocated to current programs.
2. If Roca is successful at achieving the target outcomes for reductions in days of incarceration, increases in job readiness, and increases in employment, PFS provides an evidence base to support future investments in Roca's programming.
3. If Roca is not successful, then the Commonwealth will have built an evidence base showing that this type of intervention does not work, and the project will shut down with limited cost to taxpayers. This avoids the traditional method of adding programs into the annual budget and never ending those that are ineffective.

### **What's the next phase in this, and how will it grow?**

This PFS initiative is a long-term pilot. If this project produces the target outcomes, there is potential to expand the program and serve greater numbers of young people. If this seven-year initiative is successful at reducing the number of days of incarceration of young men served by Roca and increasing their job readiness and employment, then some funders can support the government's use of Roca's services in the future.

### **Is the goal to make PFS the new norm for funding social services?**

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<sup>2</sup> A review by the HKS SIB Lab and Commonwealth of males aged 16 to 22 who were (1) aging out of DYS custody or (2) in the juvenile and adult probation system and in the top-third of the risk score distribution during the past 10 years.

PFS is not about replacing government funding with private funding. PFS will likely play only a small role in the overall funding of social programs but can provide a new financial tool to produce evidence supporting more efficient and cost-effective solutions, which solutions can then be replicated.

**What rate of return are funders receiving?**

If the project achieves its targeted impact of a 40% reduction in incarceration, the Goldman Sachs Social Impact Fund will be repaid its principal funding and a base annual interest rate of 5.0% and The Kresge Foundation and Living Cities will be repaid their principal funding and a base annual interest rate of 2.0%. Both Roca and Third Sector Capital Partners are deferring 15% of their service fees for the project. If the project is successful, Roca and Third Sector will be paid \$3.45 million and \$50,000 respectively in deferred service fees.

At this high level of success, the funders can also receive a small percentage return on their funding in return for assuming the up front financial risk. Project participants and funders will receive the following fees: Roca—up to approximately \$0.71 million; Goldman Sachs—up to approximately \$0.91 million; and The Kresge Foundation and Living Cities—up to approximately \$488,000 (\$244,000 each).

Any remaining PFS payments, which could be up to approximately \$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.

**Why are commercial funders interested in supporting PFS projects, and the Massachusetts initiative in particular?**

Impact investing has grown as a method for high-net worth individuals as well as commercial funders to seek more than just a financial bottom line; investors can now seek to do social good with their capital while achieving reasonable financial returns.

**Are there plans to use PFS for other programs in the future?**

The Commonwealth is already pursuing additional PFS projects focused on homelessness and adult basic education and will continue to explore other promising applications of PFS for improving lives, saving taxpayer dollars, and improving the allocation of government resources.

**What has changed since the Project was launched in January 2014?**

Roca has enrolled over 530 young people in the Chelsea, Boston, and Springfield areas and has opened a facility in the City of Boston. Through Roca's four-year program, these young men will have the opportunity avoid re-involvement in the criminal justice system through targeted life skills, education, and employment programming.

Shortly after launch, the parties determined that there were not likely to be as many young people referred from the Office of the Commissioner of Probation as was originally anticipated. As a result, and in order to achieve its goals, the Project has expanded to include 24 year-olds and referrals from the Department of Corrections and the Parole Department, criminal justice agencies within the Executive Office of Public Safety and Security, and the Essex, Suffolk, Middlesex, and Hampden Houses of Correction. Additionally, instead of making referrals in Quarters 1 through 15 of operations, young people will now be referred to Roca through Quarter 21. These changes will help ensure that the Project is having a significant impact in helping to reduce crime and achieve better outcomes for young men in Massachusetts.

In order to make this expansion of services possible, the Commonwealth has agreed to raise the maximum success payments to \$28 million as well as to slightly re-structure how success payments will be made.

Finally, in order to bring in more criminal justice evaluation expertise and to be able to draw on a larger team of experts, the Urban Institute has succeeded the initial independent evaluator.

## **PROJECT PARTICIPANTS**

**The Commonwealth of Massachusetts:** PFS stemmed from Governor Patrick's vision of a government in which principles of performance management and accountability thrive and his determination to promote positive life outcomes among young men in the Commonwealth. The Commonwealth's work in the PFS project spans governmental branches and agencies. The Office of the Commissioner of Probation and the Department of Youth Services, a juvenile justice agency within the Executive Office of Health and Human Services, the Department of Corrections and the Parole Department, criminal justice agencies within the Executive Office of Public Safety and Security, and the Essex, Suffolk, Middlesex, and Hampden Houses of Correction are responsible for referring the high-risk young men they serve to Roca. The Department of Criminal Justice Information Services in the Executive Office of Public Safety and Security is providing data required to execute the project. The Executive Office of Labor and Workforce Development is helping measure employment outcomes and performing fiscal management for the US Department of Labor grant. And the Executive Office for Administration and Finance is managing the measurement and disbursement of success payments.

**Roca, Inc.:** Roca's mission is to help disengaged, disenfranchised young people move out of violence and poverty. Founded in 1988, Roca is an outcomes-driven organization committed to serving the highest risk 17-24 year olds in the Massachusetts communities of Chelsea, Boston, Malden, Everett and Springfield. Roca's cognitive-behavioral Intervention Model re-engages young people in society—moving them out of violence, poverty, and incarceration into educational, employment, and life skills programming.

Since its inception, Roca has helped more than 20,000 young people make positive, profound changes in their lives, creating a nationally-acclaimed model for violence intervention and youth development (transformational relationships) and pioneering effective local, regional and national relationships with government, state, religious, health and community partners.

Roca has received grants from the Jacobson Family Foundation, Kresge Foundation, Jane's Trust, Hyams Foundation and Yawkey Foundation to support its program implementation and capacity necessary for this initiative.

**Third Sector Capital Partners, Inc.:** Third Sector Capital Partners (Third Sector) is a nonprofit advisory services firm whose mission is to accelerate America's transition to a performance-driven social sector. Third Sector works with government, service providers and funders to develop and launch PFS projects. Third Sector is currently developing multiple projects with federal, state and local partners.

As the Project Intermediary, selected through a competitive procurement, Third Sector has led negotiations with the government; finalized contracts around impact, economic, and legal feasibility; raised \$18 million in investor capital to finance the project; and will continue to serve as project manager throughout the life of the 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, Partner &

General Counsel for Third Sector, will lead YSI. Through YSI, Third Sector will oversee project implementation, distribute funding to Roca, and manage repayment to funders.

**United States Department of Labor:** The United States Department of Labor has awarded an \$11.7 million grant to the Commonwealth of Massachusetts. Up to \$10.8 million of this amount will be used to provide additional success payments based on the outcomes of a cohort of young men involved in the project. The remainder of the grant will fund the project's evaluation and other administrative costs.

**Goldman Sachs:** Established in 2001, the Urban Investment Group deploys the firm's capital by making investments and loans that benefit urban communities. Through its comprehensive community development platform, UIG is a catalyst in the revitalization of underserved neighborhoods. UIG has committed \$5.0 billion, facilitating the creation and preservation of over 20,000 housing units - the majority of which are affordable to low, moderate and middle-income families - as well as over 1,900,000 square feet of community facility space and over 6,500,000 square feet of commercial, retail, and industrial space. In 2013, UIG launched the Goldman Sachs Social Impact Fund, a first of its kind direct impact-investing vehicle, and manages the strategy on behalf of Goldman Sachs clients. The Goldman Sachs Social Impact Fund is providing an \$8 million loan to the project. The loan will be repaid with the proceeds of the Pay for Success contract.

**Living Cities:** Founded in 1991, Living Cities is an innovative philanthropic collaborative that harnesses the collective power of 22 of the world's largest foundations and financial institutions to develop and scale new approaches for creating opportunities for low-income people and improving the cities where they live. Living Cities' grants, investments, research, networks, and convenings catalyze fresh thinking and combine support for innovative, local approaches with real-time sharing of our learning to accelerate adoption in more places. Living Cities is providing a \$1.33 million Program-Related Investment (PRI) to the project. The PRI will be repaid based on project success.

**Kresge Foundation:** The Kresge Foundation works to expand opportunity for low-income people in America's cities through grant making and investing in arts and culture, education, environment, health, human services and community development efforts in Detroit. Kresge's Human Services Program seeks to strengthen multiservice human services organizations that improve the quality of life and economic security of low-income people. Its Social Investment Practice uses loans, loan guarantees and deposits in support of Kresge program goals. These two units collaborated to provide a direct grant to Roca and a \$1.33 million Program-Related Investment (PRI) to the project. The PRI will be repaid based on project success.

**Laura and John Arnold Foundation:** Laura and John Arnold Foundation (LJAF) is a private foundation that currently focuses its strategic investments on criminal justice, education, public accountability, and research integrity. LJAF has offices in Houston and New York City. LJAF is providing a \$3.34 million grant to the initiative and an additional \$1.67 million to Roca to fund the enrollment of additional youth. Any recycled funding will be used to support future PFS initiatives.

**The Boston Foundation:** The Boston Foundation, Greater Boston's community foundation, is one of the largest community foundations in the nation, with net assets of close to \$900 million. The Foundation is a partner in philanthropy, with some 1,000 separate charitable funds established by donors either for the general benefit of the community or for special purposes. The Boston Foundation also serves as a major civic leader, provider of information, convener and sponsor of special initiatives that address the region's most pressing challenges. The Boston Foundation is providing a \$300,000 grant to the initiative. Any recycled funding will be used to support scaling of Roca.

**New Profit Inc.:** Founded in 1998, New Profit is a nonprofit social innovation organization and venture philanthropy fund seeking to increase social mobility by strengthening, connecting and amplifying the best ideas across the nation. With its signature partners and a network of philanthropists, New Profit invest in a portfolio of social entrepreneurs, grow their impact, and drive systemic change in education, workforce development, public health, community development/poverty alleviation, and other levers of opportunity. Through its annual Gathering of Leaders and cross-portfolio forums, New Profit connects social entrepreneurs with cross-sector leaders and build communities that amplify bold visions and systems-changing agendas that fuel social innovation. Through America Forward, its public policy platform, these communities drive policy agendas that forge public/private partnerships to accelerate their impact. New Profit is providing a \$1.81 million grant to the initiative. Any recycled funding will be used to support scaling of Roca.

**The Urban Institute:** Founded in 1968 to understand the problems facing America's cities and assess the programs of the War on Poverty, the Urban Institute is the independent evaluator. The Urban Institute brings decades of objective analysis and expertise to policy issues. The Urban Institute will serve as the independent evaluator that has been selected to run the Randomized Controlled Trial (RCT) for the project. The Urban Institute will take the young men referred to the project and divide them into a group to be referred to Roca for programming and a control group that is not referred to Roca. The Urban Institute will track the outcomes of the young men in both groups and report on whether those participating in Roca services are incarcerated for less time and are employed at a greater rate than the group of young men not participating in Roca.

**Public Consulting Group:** The 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.

**Harvard Kennedy School Social Impact Bond Technical Assistance Lab (SIB Lab):** The 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.

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**.