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Massachusetts Launches Landmark Initiative to Reduce Recidivism Among At-Risk Youth

\$27 million Initiative is Largest Financial Investment in a Pay for Success Contract in the Country

Chelsea - Wednesday - January 29, 2014 – Governor Deval Patrick today announced the launch of the nation’s largest financial investment in a Pay for Success (PFS) initiative, which is designed to improve outcomes for hundreds of at-risk young men in the probation system or leaving the juvenile justice system. The Massachusetts Juvenile Justice Pay for Success Initiative will not only improve the lives of young people, but also reduce crime, promote safer and stronger communities and save taxpayer dollars.

This initiative, in partnership with Roca, Inc., Third Sector Capital Partners and commercial and philanthropic funders, is the largest PFS financial investment in the country and is designed to encourage innovative solutions to chronic social problems and improve outcomes for individuals in Massachusetts. PFS contracts allow governments with limited resources to expand innovative social programs and only pay for those that actually make a difference.

“By working with our partners at Roca, the Pay for Success initiative will allow us to marry smart financial solutions with programs proven successful in helping high-risk youth become employed, stay employed, and break the cycle of violence,” said Governor Deval Patrick.

The Commonwealth's PFS initiative is part of an ongoing commitment by the Patrick Administration to reform the juvenile justice system and provide tools to keep youth on the right track to achieve future success. The program will allow Roca, a nonprofit service provider, to serve 929 young men in Boston, Cambridge, Chicopee, Everett, Holyoke, Ludlow, Lynn, Malden, Medford, Revere, Somerville, Springfield, West Springfield, Westfield and Winthrop by providing intensive outreach, life skills and employment training that will reduce recidivism and help these young men become assets and resources in their community.

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 and validator determine that the initiative has achieved specific outcomes that both create benefits to society and generate savings for government.

"The Massachusetts Pay for Success Initiative is about changing the odds," said Molly Baldwin, founder and executive director of Roca, Inc. "It's about confronting the stubborn trends of incarceration and poverty among justice-system-involved young men, and standing in solidarity to say to these young men, 'We will not leave you behind, you deserve more than jail or prison, and we will give you our time and support to help you make a better future for yourself and your community.'"

The program's success will be determined based on reductions in the number of days young men served by Roca spend in jail, and improvements in their employment and job readiness. The Commonwealth will repay funders if Roca's services are proven to produce positive societal outcomes and savings for the Commonwealth. Roca was chosen because of their historical and ongoing commitment to intensive data and outcomes tracking that have proven the organization is well-equipped for a rigorous and long-term evaluation of its programming through the PFS initiative. To reduce incarceration rates among high-risk young men, Roca's intervention model combines relentless outreach; intensive case management; life skills, educational, pre-vocational and employment training; and work opportunities with community partners.

Success payments will come from the Commonwealth, which has committed up to \$27 million for this seven-year project, and from the U.S. Department of Labor, which awarded the Commonwealth a first-of-its-kind PFS grant of \$11.7 million in September 2013. The additional funding for success payments from the Department of Labor will

enable the Commonwealth to extend the project, should it prove successful, to an additional 391 young men, thereby serving a total of up to 1,320 young men over nine years.

Third Sector Capital Partners, a nonprofit advisory firm serving as project intermediary for this initiative, secured the \$18 million in private financing for the project: \$9 million in loan financing from the *Goldman Sachs Social Impact Fund*; \$1.5 million in loan financing from The Kresge Foundation; \$1.5 million in loan financing from Living Cities; and \$6 million total in grants from Laura and John Arnold Foundation, New Profit, and The Boston Foundation. Remaining grant funds will be re-cycled into future projects at the conclusion of this initiative.

The social and financial costs related to recidivism for the Commonwealth are enormous. Currently in Massachusetts, 64 percent of young male ex-offenders reoffend within five years, and only 35 percent of these young men gain employment within a year of release. Roca's groundbreaking approach to positive youth development aims to interrupt the cycle of recidivism by filling a gap in services for high-risk populations. Through this project, Roca will aim to reduce the number of days that young men in the program are incarcerated by 40 percent. If this goal is met, the project would generate millions of dollars in savings to the Commonwealth that fully offset the cost of delivering services.

"Pay for Success has the potential to transform how government procures some of its most important social services, and to redirect vast resources towards the social interventions that are best able to deliver the results our communities need," said George Overholser, Third Sector Capital Partner's CEO and Co-Founder.

"This partnership is a creative way to test new approaches to solving deeply rooted social problems," said Secretary of Administration and Finance Glen Shor. "We are focused on government paying for demonstrated results, rather than simply the hope for success."

"We are pleased to work with Governor Patrick, Roca and all of our partners to help high-risk youth in Massachusetts secure access to life skills training and employment opportunities," said E. Gerald Corrigan, Managing Director and Chairman of Goldman Sachs Bank USA. "We are proud to be an investor in projects such as this that rely on public sector-private sector cooperation to better achieve social and economic public policy goals."

“This is a promising program with the potential to improve public safety, save taxpayers money, and directly impact the lives of hundreds of young people who are at high-risk of incarceration,” Laura and John Arnold Foundation (LJAF) Vice President of Public Accountability Josh McGee explained. “Yet, the people of Massachusetts don’t have to invest millions of dollars into the program and just hope that it will work. The unique Pay for Success funding model means the Commonwealth will only pay for the program if it is proven to be successful. LJAF supports social innovation financing as part of our overall effort to promote evidence-based decision making. By rigorously evaluating programs, we are better able to determine what works and then scale those programs that actually make a difference.”

“We applaud the Commonwealth's leadership on this program and we have high confidence that Roca will improve many lives and help transform communities through it,” said Tripp Jones, Managing Director of New Profit. “The Pay for Success approach is a promising way to mobilize critical private sector resources and ingenuity to drive greater impact in local programs, while also saving taxpayer money. It's rare to be able to achieve both, and we are looking forward to working on this and other similar initiatives in the future.”

“While much of the attention for this project will be based on its game-changing model for addressing major social issues in a cost-effective and socially responsive way, that is but one part of the reason the Boston Foundation is supporting it. This effort also takes on a major challenge for the Commonwealth by attacking the problem of juvenile re-incarceration, using a proven model, on a scale that would have been unimaginable in traditional scenarios. The potential social benefit for the Commonwealth is immense,” said Paul S. Grogan, President and CEO of the Boston Foundation.

“The Kresge Foundation has a long history with Roca. We’re pleased that, as we’ve expanded our social investing footprint, we’re able to support Roca’s outstanding work in a new way and to partner with these other funders,” said Kimberlee Cornett, director of Kresge’s Social Investment Practice. “CEO Molly Baldwin has been recognized as one of the most innovative service providers in the country for rigorous data intensive approach. We think the impact here is going to be tremendous.”

“The payoff for this transaction goes above and beyond the almost 1,000 lives we hope to positively impact. The ultimate success will be inspiring a new way for government, philanthropy and the private sector to collaborate that funds outcomes, not outputs. That’s how we’ll expand opportunities and make a dent in inequality,” said Ben Hecht, President and CEO of Living Cities.

PARTICIPANTS IN THE JUVENILE JUSTICE PAY FOR SUCCESS INITIATIVE

The Commonwealth of Massachusetts: PFS stemmed from Governor Patrick's dedication to reducing recidivism rates and a vision of a government that improves lives, is driven by results and in which principles of performance management and accountability thrive. The Commonwealth's work in the PFS project spans multiple 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, 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 U.S. Department of Labor grant. The Executive Office for Administration and Finance is managing the 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), pioneering effective local, regional and national relationships with government, state, religious, health and community partners.

Third Sector Capital Partners: 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. Third Sector received pro bono legal assistance from Ropes & Gray, LLP throughout the establishment, structuring and negotiation of the Pay for Success initiative.

Goldman Sachs Social Impact Fund: In 2013, the Goldman Sachs Urban Investment Group (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. Established in 2001, the Urban Investment Group deploys capital to help transform distressed communities into sustainable and vibrant neighborhoods of choice and opportunity. UIG seeks double bottom line returns by providing flexible financing for community projects that respond to the needs of low- and moderate-income communities and support public sector priorities. Through its comprehensive platform, UIG has committed more than \$3 billion of Goldman Sachs capital, catalyzing development across dozens of residential, mixed-use and commercial projects, and financing job creation and neighborhood revitalization strategies as well as social services, through the nation's first social impact bonds.

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.

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.

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.

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.

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 invests in a portfolio of social entrepreneurs, grows their impact, and drives 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 builds 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.

Sibalytics LLC: Led by Dr. Lisa Sanbonmatsu, Sibalytics is an independent evaluation firm that has been selected to run the Randomized Control Trial (RCT) for the project. Sibalytics 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. Sibalytics 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 more likely to be employed 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.