



THE KRESGE FOUNDATION



FACT SHEET: The Massachusetts Juvenile Justice Pay for Success Initiative

Revised December 16, 2014

- 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 929 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.

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 is 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. The additional funding for success payments from the Department of Labor grant 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.

- 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.

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 5.2%.

<u>Incarceration-Based Payment Terms</u>		
Decrease in Days of	Incarceration-Based Success Payments	Gross Savings for Commonwealth
55.0%	\$ 26 million	\$ 33 million
40.0%	\$ 21 million	\$ 22 million
25.0%	\$ 10 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 higher levels of impact, project and funders will receive the following fees:

- Roca: Up to \$.74 million
- Goldman Sachs: Up to approximately \$.93 million
- The Kresge Foundation and Living Cities: Up to \$500,000 (\$250,000 each)

Any remaining PFS payments, which could be up to \$4.9 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.