

Overview of Pay for Success Contracts

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Hilary Jackler

Partner

Kutak Rock LLP

Hilary.Jackler@KutakRock.com

202-828-2470

Social Impact Bonds / Pay for Success Contracts

- ▶ While often called “Social Impact Bonds” abroad, usually referred to as “Pay for Success Contracts” in the United States
- ▶ Concept of SIBs/PFS Contracts:
 - Government enters an agreement with a non-profit service provider that will serve a population for which the Government expends funds
 - Services to target population are funded by investors (no taxpayer money is at risk)
 - Government only pays back investors if savings achieved

Primary Parties

- ▶ Governmental entity
- ▶ Non-profit service provider
- ▶ Intermediary
- ▶ Independent Evaluator
- ▶ Investor(s)

Why Participate in a PFS Project?

▶ Governmental Entity

- Potentially achieve savings without risking taxpayer dollars and achieve better outcomes in your community for vulnerable populations

▶ Non-Profit Service Provider

- Receive a long-term funding stream to implement a program helping the target population

▶ Investors

- Potentially receive a favorable return if project succeeds and ability to invest in causes of social importance

Primary Challenges in a PFS Project

▶ Governmental Entity

- Transactions can be very time-consuming to set up
- Legislation often required

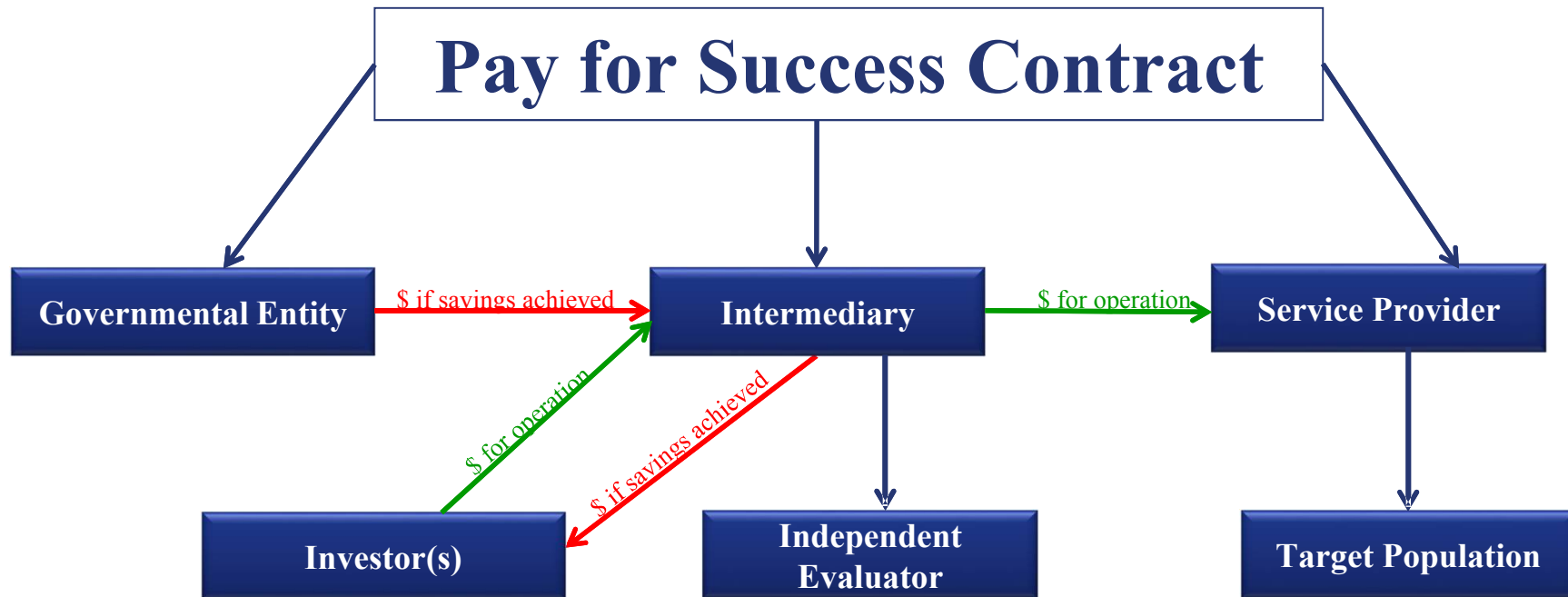
▶ Non-Profit Service Provider

- Transactions can be very time-consuming to set up
- Reputational risk if innovative service delivery method does not succeed

▶ Investors

- Could lose investment if project does not succeed

Transaction Structure



Executed SIB/PFS Contracts

- ▶ First project – 2010 in the United Kingdom
- ▶ Approximately 20 active projects around the world (Australia, Belgium, Canada, France, Germany, Ireland, Israel, Korea, Netherlands, U.K., U.S.)
- ▶ 6 active projects in the United States
- ▶ Many more projects in development

Executed PFS Contracts in the U.S.

► New York City (August 2012)

- Goal: reduce rates of recidivism among young men incarcerated at Rikers Island Jail by 10% by serving 3,400 high-risk minority young men at-risk for reincarceration
- Investment: \$9.6M by Goldman Sachs, supported by a \$7.2M guarantee from Bloomberg Philanthropies
- Repayment: NYC repays based on the percentage decline in recidivism rates (ranges from \$4.8M if 8.5% decline up to \$11.7M if 20% decline)

Executed PFS Contracts in the U.S. (Cont.)

► State of Utah (June 2013)

- Goal: avoidance of special education or remedial education services by funding an extension of an existing school-readiness curriculum to 3,500 additional preschoolers
- Investment: \$6.8M (\$4.6M senior loan by Goldman Sachs and \$2.4M junior/guarantee loan by J.B. and M.K. Pritzker Family Foundation)
- Repayment: if a child does not utilize special education or remedial services in a particular year between grades K-6, investors are paid an amount equal to 95% of the state's cost savings (\$2,470/child) plus 5% interest. Thereafter, repayments drop to 40% of cost savings (\$1,040/child) for every year the child does not utilize those services.

Executed PFS Contracts in the U.S. (Cont.)

► New York State Dept. of Labor (Dec. 2013)

- Goal: improve economic and personal outcomes for 2,000 men recently released from prison at high-risk for re-offending
- Investment: \$13.5M (federal and state governments, private investors, philanthropic sources; \$13M raised through a Private Placement Agreement vehicle made available to high-net-worth and institutional clients of Bank of America Merrill Lynch and U.S. Trust with a minimum investment of \$100K, with an average investment of \$300K; guarantee of \$1.32M provided by Rockefeller Foundation)
- Repayment: return on investment of up to 12.5% annually, capped at \$11M for Phase 1 and \$10.5M for Phase 2

Executed PFS Contracts in the U.S. (Cont.)

► Commonwealth of Massachusetts (Jan. 2014)

- Goal: improve life and employment outcomes for up to 1,320 high-risk young men that are aging out of the juvenile detention and probation systems (savings accrued from avoided reincarceration bed days)
- Investment: \$21.3M (U.S. Dept. of Labor grant; \$12M in loans from Goldman Sachs [\$9M], Living Cities, and the Kresge Foundation; and \$6M in “recyclable” grants)
- Repayment: if days of reincarceration are reduced by at least 40%, investors receive \$22M; if a 70% reduction in reincarceration days, investors receive \$27M

Executed PFS Contracts in the U.S. (Cont.)

► City of Chicago (Oct. 2014)

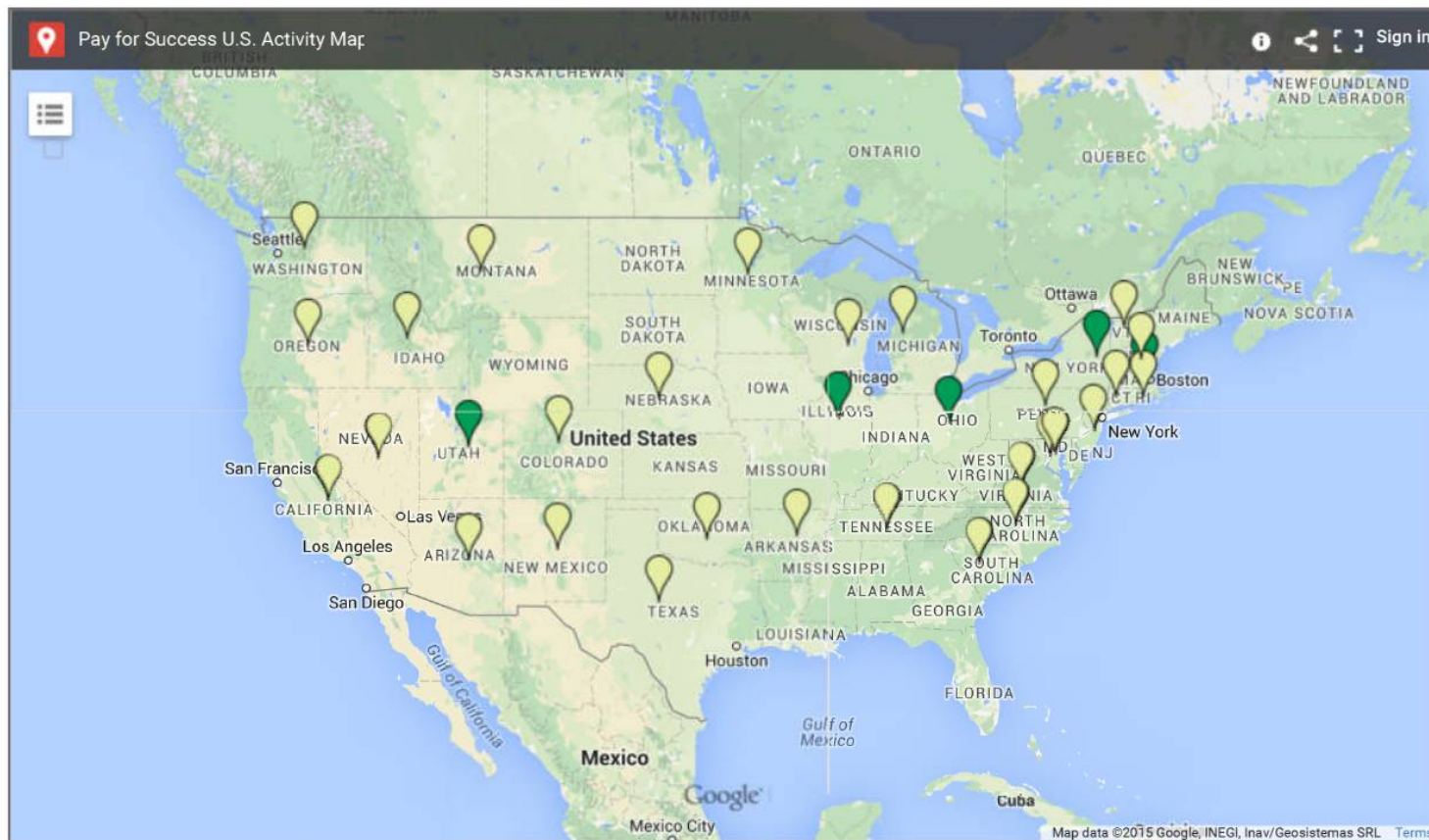
- Goal: improve educational outcomes of students and reduce use of special education services for mild disabilities by funding pre-kindergarten education for 2,620 Chicago public school children over 4 years (services for both children and parents)
- Investment: \$16.6M (Goldman Sachs, Northern Trust, J.B. and M.K. Pritzker Family Foundation)
- Repayment: if there is a decrease in the need for special education services, repayment of \$9,100/student/year, with a 1% compounded interest rate per student; if there is an increase in kindergarten readiness, repayment of \$2,900/student; if there is an increase in third grade literacy, repayment of \$750/student who tests above the national literacy average (if successful, investors could be repaid up to \$34M)

Executed PFS Contracts in the U.S. (Cont.)

► Cuyahoga County, Ohio (Dec. 2014)

- Goal: reduce out-of-home foster care placement by serving 135 homeless mothers with children in foster care
- Investment: \$4M (senior loan: The Reinvestment Fund [\$1.5M]; junior loans: George Gund Foundation, Nonprofit Finance Fund, Cleveland Foundation, Sisters of Charity Foundation of Cleveland; recoverable grants by Sisters of Charity Foundation of Cleveland)
- Repayment: ranges from \$1.7M if 10% reduction in foster care days to up to \$5M if 40% or greater reduction in foster care days

PFS Contracts in the Works



Map Source: <http://payforsuccess.org/pay-success-deals-united-states>

PFS Contracts in the Works (Cont.)

- ▶ Over 75 projects in various stages of development, some of which focus on:
 - Chronic homelessness
 - Childhood asthma
 - Reduce recidivism
 - Infant mortality
 - Early childhood education
 - Workforce development

Questions?

Hilary Jackler
Partner
Kutak Rock LLP
Washington, D.C.

Hilary.Jackler@KutakRock.com
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