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The Latest on Social Impact Bonds and Pay for Success Financing Models

The Broadcast will Begin at 1:00pm EDT

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Hello! Welcome to the webcast.



Katie Kramer

Vice President
Council of Development Finance Agencies
Columbus, OH

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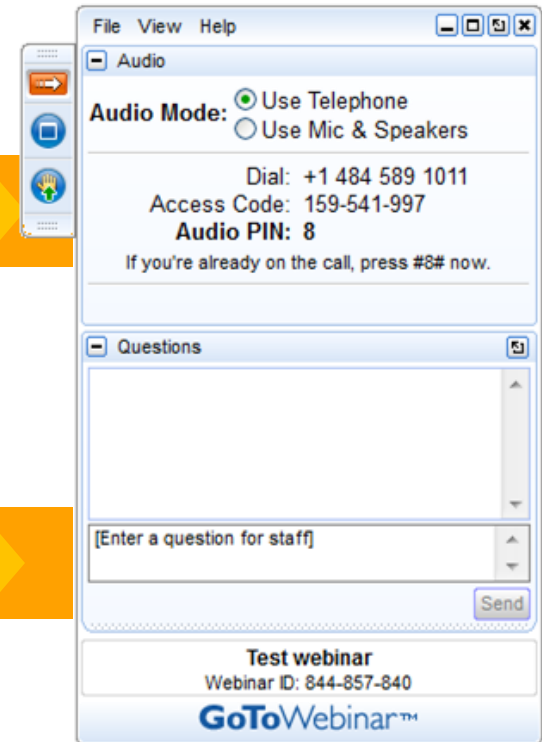


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Daily: 12-5pm (EDT)

Fundamentals of Economic Development Finance Course



August 11, 2014
Washington DC

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August 12-13, 2014
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in partnership with 

Panelists

David Safer, *Moderator*

BNY Mellon

Jane Hughes

Social Finance

Caitlin Reimers Brumme

Social Finance

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The Latest on Social Impact Bonds and Pay for Success Financing Models



David Safer

Vice President
BNY Mellon
New York, NY

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The Latest on Social Impact Bonds and Pay for Success Financing Models



Jane Hughes

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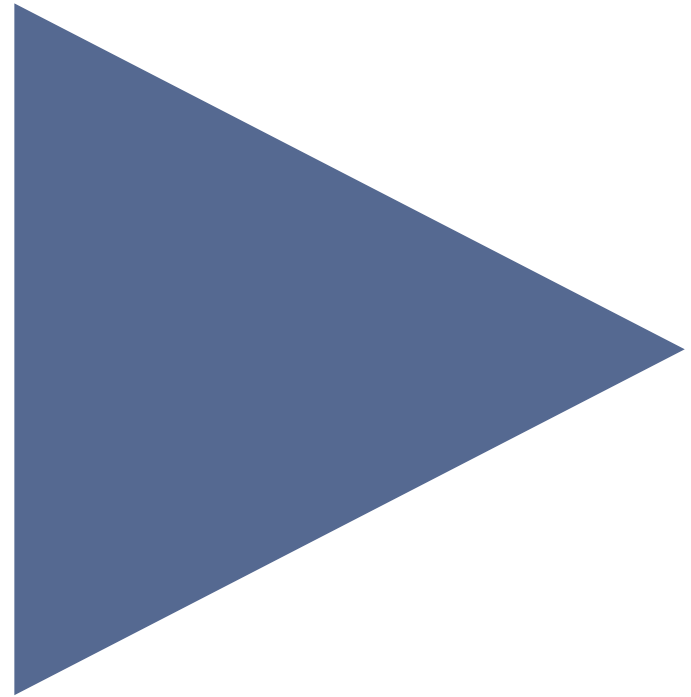
SOCIAL IMPACT BONDS CDFA WEBCAST

MAY 20, 2014

AGENDA

- I. About Social Finance
- II. Social Impact Financing & the Social Impact Bond
- III. NYS Social Impact Partnership

ABOUT SOCIAL FINANCE



▶ MISSION AND VALUES

We believe that everyone deserves the opportunity to thrive, and that social impact financing can play a catalytic role in creating these opportunities.

Who We Are

Our mission is to mobilize investment capital to drive social progress

We structure and manage impact investments that will unlock capital to fund effective solutions and drive an outcomes-focused social sector.

History

- Social Finance launched operations in January 2011, and is a registered 501 (c) 3 nonprofit
- Our sister firm, Social Finance UK, was founded in 2007, and launched the world's first Social Impact Bond in 2010. We work closely together but are independently funded, managed and governed; we share a common mission, model and knowledge platform.

Core Values

- **People:** People are our mission and our inspiration; we are committed to our team, our partners, and the individuals we serve.
- **Performance:** Our work demands rigorous thought, inquiry, and analysis; we pride ourselves on the depth and quality of our endeavors.
- **Collaboration:** We build strong, enduring relationships across sectors to align diverse interests and advance our collective mission.
- **Integrity:** The highest standards of accountability and transparency underpin all of our work.



OUR SERVICE OFFERINGS

Our Focus is on the Social Impact Bond*

Advisory Work

- Feasibility studies
- Development and implementation of proof-of-concept projects
- Performance management

Product Development

- Cost benefit analysis
- Financial structuring
- Outcome metric selection and evaluation design
- Contract development
- Capital raising
- Accounting and compliance
- Investor relations

Field Building

- Market education, thought leadership, research and advocacy to support the development of a strong and sustainable Social Impact Bond and broader impact investment market

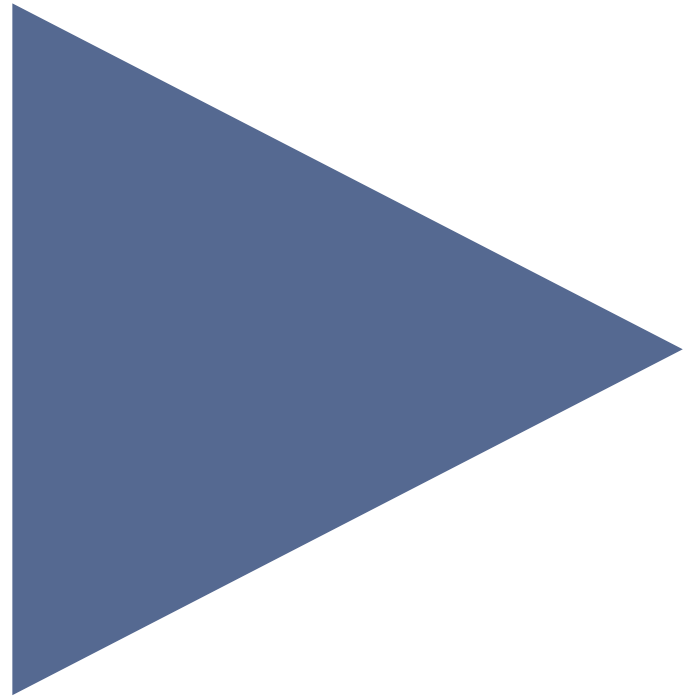
* Social Impact Bonds are not traditional government issued bond, and are also referred to as pay for success, pay for performance, social innovation financing, or outcomes-based financing

WHAT WE DO

Our work spans geographies and issue areas; however, our fundamental approach is consistent.

- 1) **Assess the Problem:** First, we dive into the problem and ask: a) What is the problem? b) How big is the unmet need? c) Is there an intervention that can improve results? d) Can impact investing play a role?
- 2) **Identify a Social Outcome Financing Solution:** If a social impact financing strategy is appropriate, we identify promising ways to finance the expansion of programs with a track record of performance, a strong evidence base, and a focus on outcomes.
- 3) **Shape the Partnership:** We develop performance-based structures that align the incentives of government, investors and providers to achieve shared, measurable goals.
- 4) **Raise Capital:** We raise capital from impact investors to fund the initiative.
- 5) **Collaborate through Completion:** We work over the investment life with all stakeholders to ensure that social and financial goals are met.

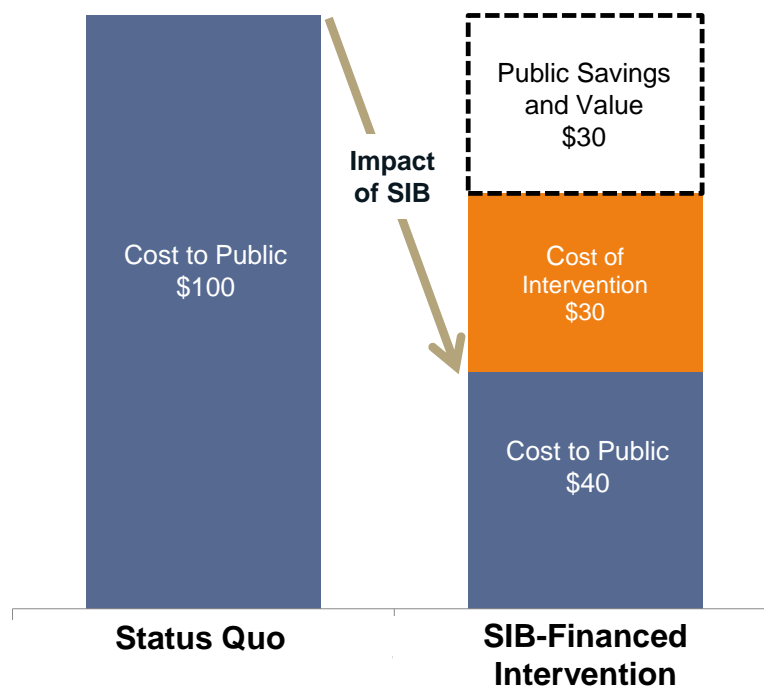
▶ SOCIAL IMPACT FINANCING & THE SOCIAL IMPACT BOND



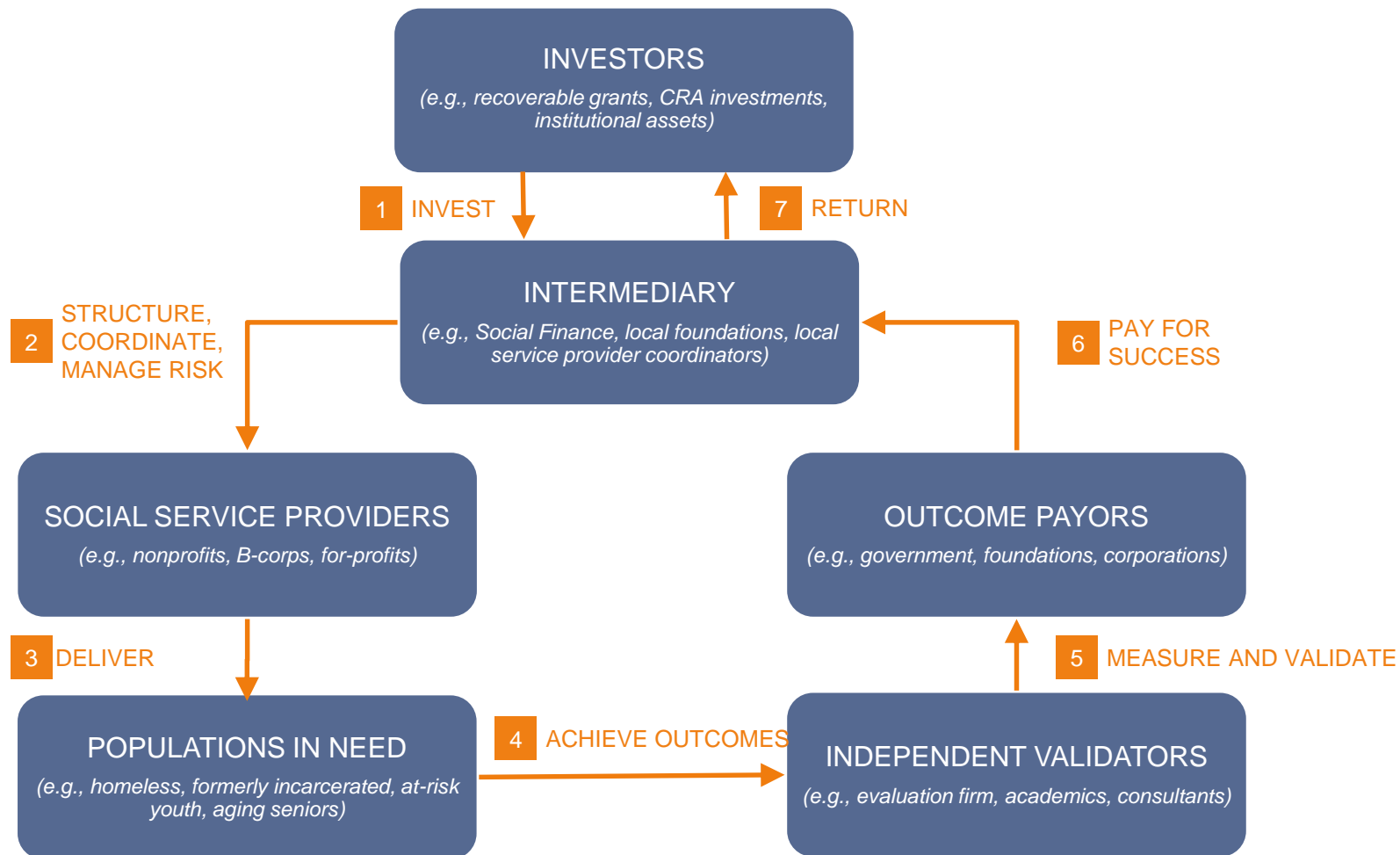
► SOCIAL IMPACT BONDS AS ONE SOLUTION

Improving Social Outcomes While Reducing Public Cost

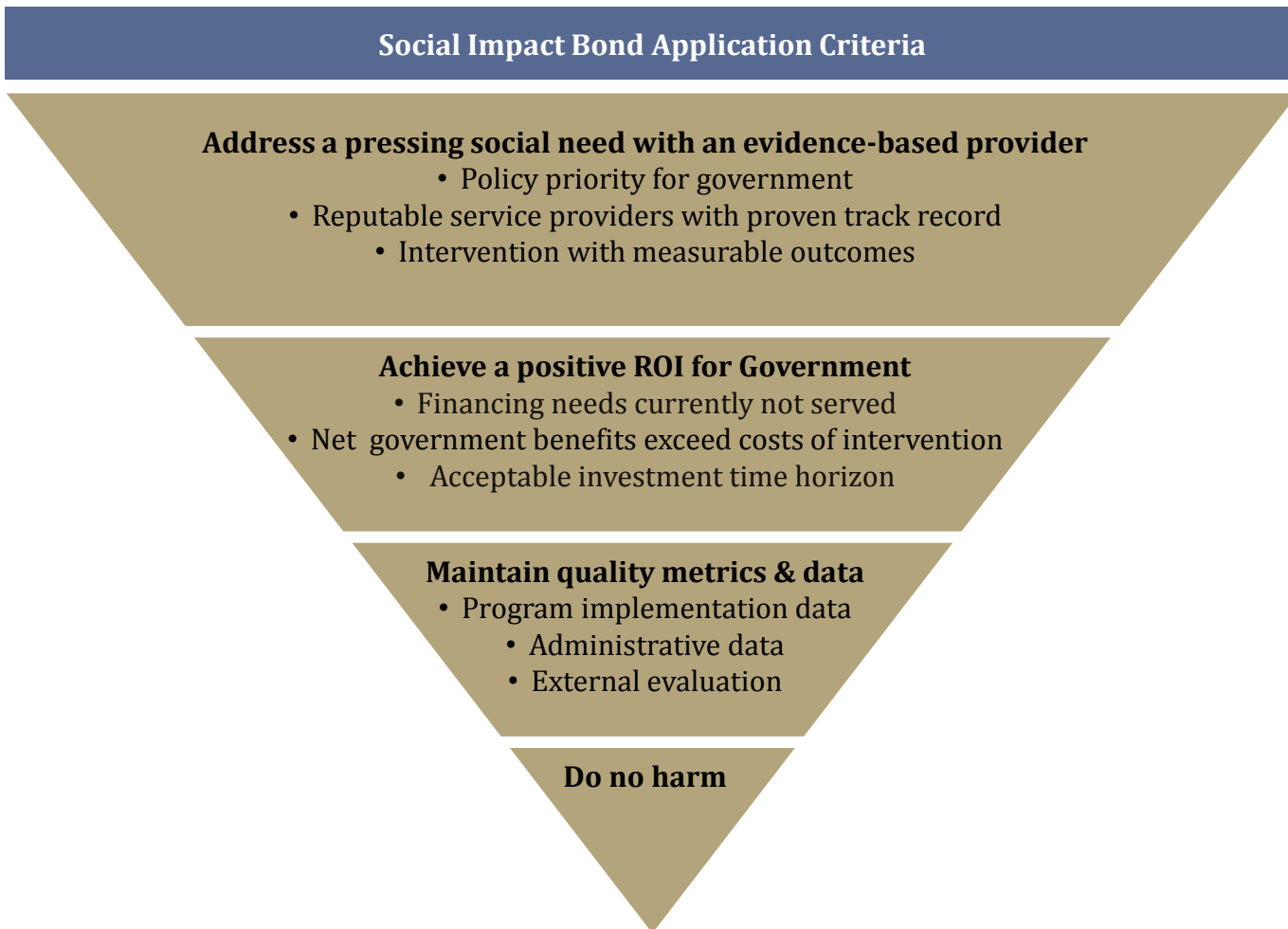
Social Impact Bonds provide investment capital to fund evidence-based programs delivered by highly effective service providers. Government repays investors' principal and provides a return, but only if programs achieve predefined metrics.



▶ AN INNOVATIVE MULTI-STAKEHOLDER PARTNERSHIP



► SOCIAL IMPACT BOND ASSESSMENT CRITERIA



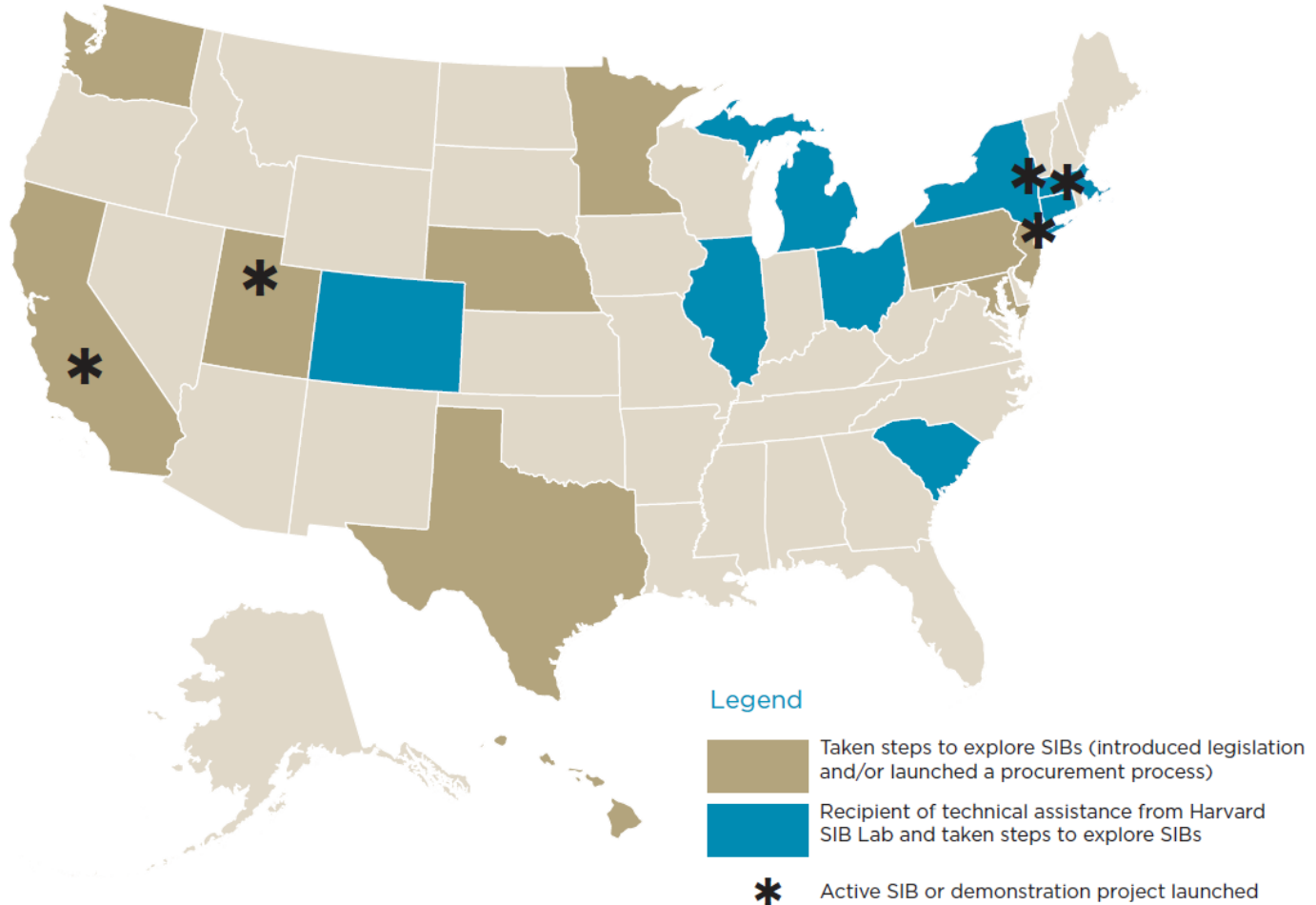
PROMISING APPLICATIONS

		Evidence-based Intervention	Sufficient Net Benefits within Time Horizon	Replicable and Scalable
<i>Vulnerable Population</i>	<i>Potential Intervention</i>			
Justice-Involved Adults and Youth	Post-incarceration support and job training to reduce recidivism	●	●	●
At-Risk Youth	Community-based wraparound services to reduce substance abuse, out-of-home placements, and other problems	●	●	●
Low-Income Mothers	Prenatal and early childhood support for first time, low-income mothers to improve family success	●	●	●
Low-Income Seniors	Supportive housing and care coordination to reduce out-of-home healthcare usage	○	○	●
Individuals with Chronic Conditions	Preventative care and management of chronic diseases, e.g. education and home retrofits to reduce asthma-related emergencies	○	●	●
Chronically Homeless Persons	“Housing first” supportive housing to reduce emergency healthcare and shelter usage	●	○	●
Hard to Employ Individuals	Job training for hard-to-employ populations to fill skill gaps	○	○	●
0 – 5 Year Old Children	Providing all children with the tools necessary to begin school ready to learn	○	●	●
K-12 Students	Support educators working to restart chronically under-performing schools	●	○	●

● Aligns with most assessment criteria

○ Aligns with some assessment criteria

▶ THE SIB MARKET IS GROWING



► FEDERAL, STATE, AND LOCAL ACTIVITY

Strong Federal Interest

- President Obama's FY2014 budget increased support for Pay for Success, including:
 - \$195M in support of PFS in areas of job training, education, criminal justice, housing, and disability services
 - \$300M Incentive Fund at Treasury to provide credit enhancement and to supplement outcomes payments (akin to UK's Outcomes Finance Fund)
- Department of Justice and Department of Labor are providing funding for PFS pilots

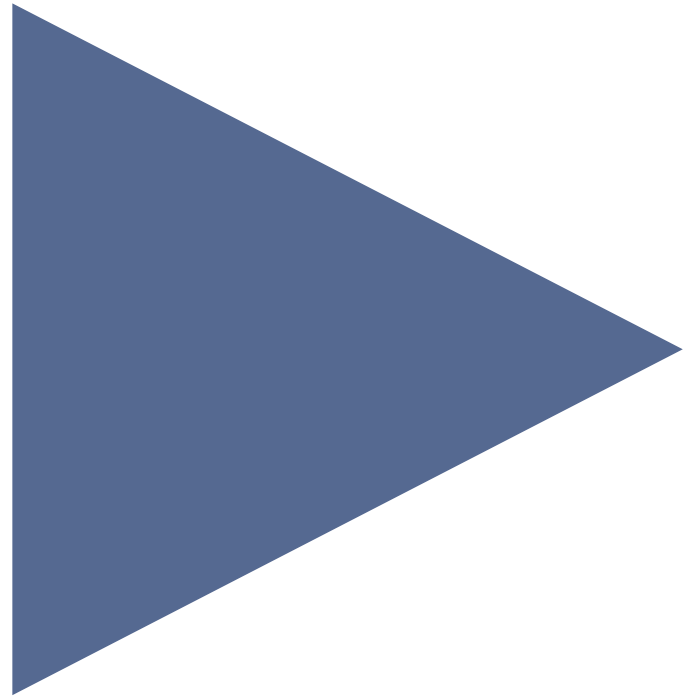
Increasing Activity at State/Local Level

- NYS General Assembly approved \$30M in Pay for Success over next 5 years
- NYS and NYC have both begun procurement processes; IL began RFI process Spring 2013
- New Jersey, Maryland, California, Texas, Hawaii and Pennsylvania are all considering PFS legislation
- 28 jurisdictions applied to Jeff Liebman's Harvard Social Impact Bond Technical Assistance Lab for pro bono assistance

Transactions Moving Forward

- New York City launched nation's first SIB at Rikers Island; focus on youthful offenders
- New York State launched first privately placed transaction for workforce reentry program
- Social Finance and Collective Health were awarded a grant from the California Endowment to launch a Health Impact Bond demonstration project
- Massachusetts launch financing focused on juvenile justice
- Early education demonstration project launched in Utah

▶ NYS SOCIAL IMPACT PARTNERSHIP



▶ NEW YORK STATE WORKFORCE RE-ENTRY TRANSACTION

The nation's first Private Placement SIB

Problem

- Prisoners in New York State have a high likelihood of returning to prison after release, but there are intervention programs that have demonstrated success in reducing recidivism

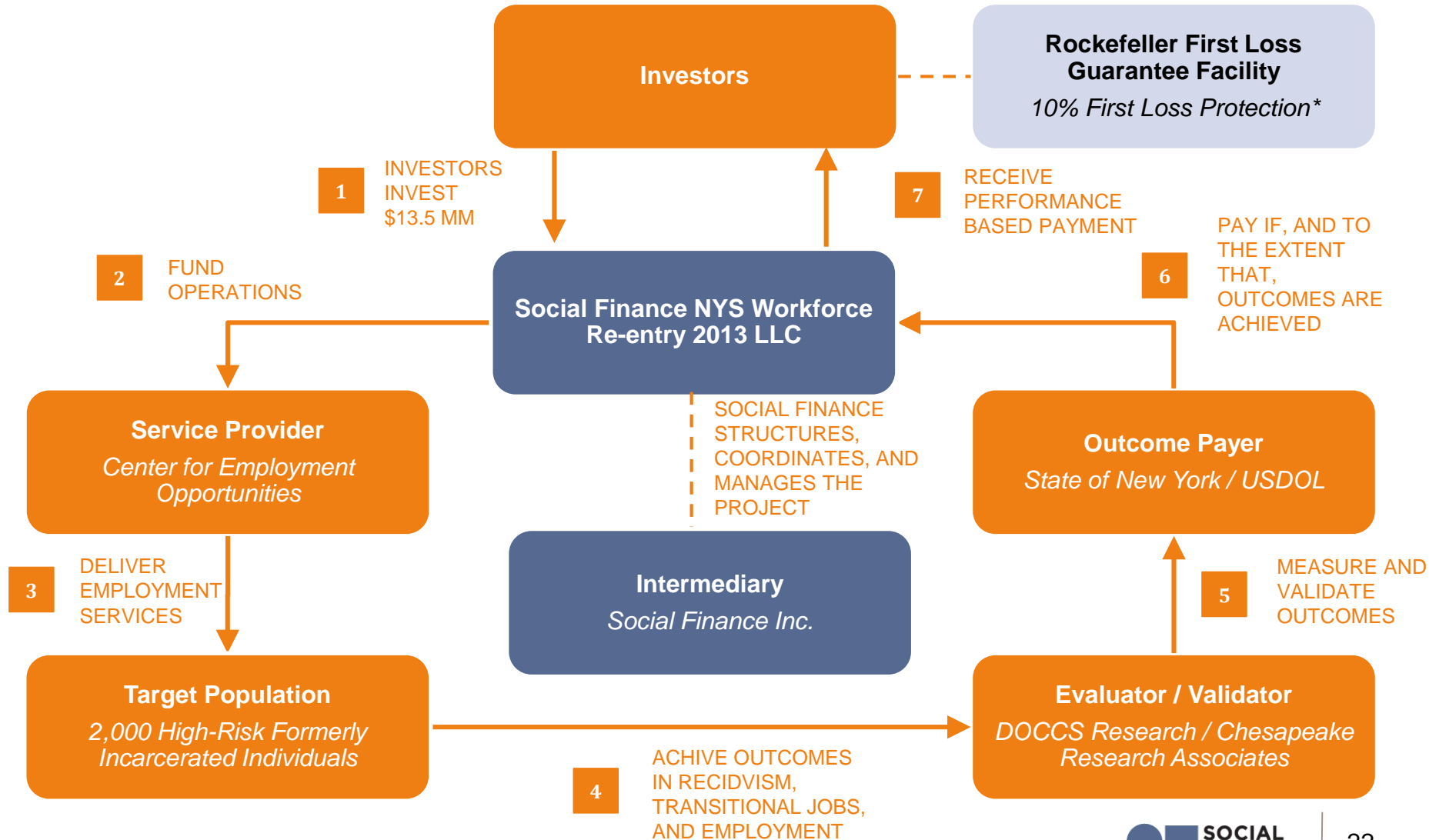
Intervention

- The Center for Employment Opportunities (CEO) will provide intensive services including training, transitional employment and permanent job placement to 2,000 formerly incarcerated individuals at high-risk of returning to prison
- CEO underwent an independent, randomized control trial from 2004-2007 to assess its impact on measures of recidivism and employment

Key Terms

- Payor: New York State
- Outcome Payment Metrics: reduction in recidivism and increase in employment
- Issuance Size: \$13.5M investment; private placement via Bank of American Merrill Lynch Wealth Management with participation by qualified impact investors and foundations
- Timing: 5.5 year term with two payments, if any, at year 4 (~September 2017) and year 5.5 (~March 2019)
- Evaluation: randomized control trial, validated by independent third party

NEW YORK STATE WORKFORCE RE-ENTRY TRANSACTION



* First loss protection available to the Class A-1 investors

► NYS SIB ROLES AND RESPONSIBILITIES

A true public private partnership

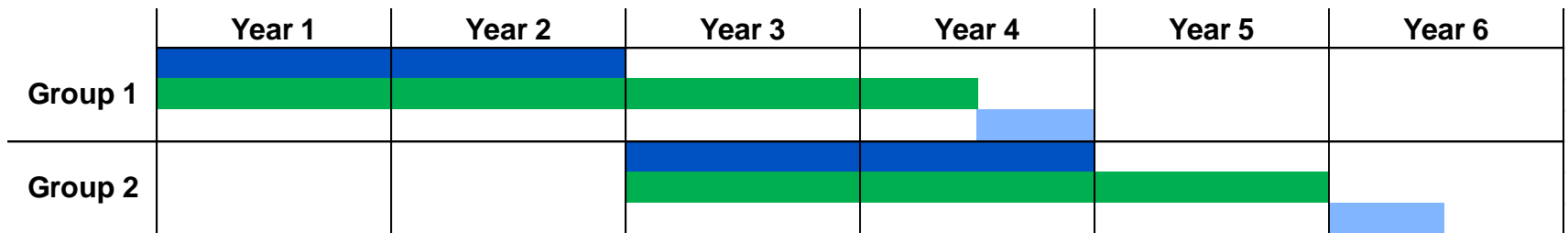
- **Social Service Provider:** The Center for Employment Opportunities (CEO), a nonprofit employment service agency for formerly incarcerated individuals, will scale its evidence-based training and employment intervention to serve 2,000 high-risk individuals.
- **Intermediary:** Social Finance, Inc., a nonprofit social impact financing and advisory firm, brought partners together, facilitated the project's development, and will coordinate the partners and manage the project over the course of five and a half years.
- **Investors:** Over 40 investors, including Bank of America Merrill Lynch clients, contributed to the \$13.5 million equity investment in Social Finance NY State Workforce Reentry 2013 LLC. Rockefeller Foundation will protect up to \$1.3 million of principal (approx.10% of the total capital raised).
- **Outcome Payer:** NYS is the outcome payer for this project, and has made up to \$21,543,853 available for performance-based payments (up to \$11,095,000 from a USDOL grant, and up to \$10,448,853 from NYS funds).
- **Evaluator:** NYS Department of Corrections and Community Supervision Research will be executing the project's evaluation methodology.
- **Validator:** Chesapeake Research Associates, a public policy research and evaluation company, will independently validate the evaluation results.
- **Legal Counsel:** Jones Day, a global law firm, provided legal expertise on structuring and contracting for this project.
- **Technical Assistance:** Harvard Kennedy School Social Impact Bond Technical Assistance Lab provided pro bono technical assistance to NYS to develop the project.

DETAILED PROJECT TIMELINE



- Release: Released prisoners are randomly assigned to treatment group or control group.
- Intervention: CEO aims to provide services to 2,000 people in the treatment group.
- Measurement: Measure the results of the people in the program.
- Comparison: Compare results for treatment and control groups.
- Validation: Chesapeake Research Associates validates results calculated by NYS and Intermediary.
- Calculation of Savings: Use validated results to calculate government savings according to a preset formula.
- Potential Investor Payment: Based on preset formula, determine what percentage of savings will be paid to investors.

Two groups (each targeting 1,000 prisoners) will be served, with results measured and potential investor payments made for each group



► NYS PFS OUTCOME MEASUREMENT AND PAYMENT DETAIL

Outcome Metric	Definition	Minimum Threshold	Price/ Outcome*
Recidivism	<ul style="list-style-type: none"> Difference in average bed days spent in prison or jail between a treatment and control group measured at two different points in time, and where that difference is scaled up to five years. 	36.8 bed days (~8% reduction)	\$85/day
Transitional Job	<ul style="list-style-type: none"> Number of individuals enrolled in CEO who participate in the Transitional Jobs component of the CEO program. 	36.8 bed days (~8% reduction)	\$3,120/ person
Employment	<ul style="list-style-type: none"> Percentage point difference of employed individuals in the treatment and control groups measured during the fourth quarter after release from prison. 	5 percentage points	\$6,000 / person

-
- Payments, if any, occur at year 4 (~September 2017) and year 5.5 (~March 2019)
 - **Three steps to determining payments:**
 - *Measure* impact based on randomized control study methodology
 - *Estimate public sector benefits*, based on “price per outcome” for each metric which meets or exceeds the minimum threshold
 - *Share savings* - Investors receive 100% of public s sector benefits up until breakeven and 50% thereafter until the maximum payment

* Prices for Phase II are slightly higher due to adjustment for inflation

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Tuesday, June 17th @ 1:00 pm EDT

Tuesday, July 15th @ 1:00 pm EDT

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