

Investing In What Works: “Pay for Success” in New York State Increasing Employment and Improving Public Safety

March 2014 | Fact Sheet

Summary

In December 2013, New York State (“NYS”) announced a groundbreaking initiative to improve employment and public safety outcomes. The project will expand a comprehensive, evidence-based employment intervention for 2,000 formerly incarcerated individuals in New York City (“NYC”) and Rochester with the goals of increasing employment, reducing re-incarceration, and thus improving public safety. Through an innovative public-private partnership, NYS will only pay for this project if – and to the extent that – these goals are achieved. This is first state-led project of its kind in America and was the largest in the world at the time of launch.

Project Snapshot

The Opportunity	Formerly incarcerated individuals in NYS have a high likelihood of returning to prison after release. Certain employment re-entry programs have demonstrated success in reducing recidivism but lack sufficient funds to scale their programs.
Population Served	2,000 formerly incarcerated individuals under community supervision in NYC and Rochester who are at high-risk of returning to prison.
Intervention	The Center for Employment Opportunities (“CEO”) will provide evidence-based comprehensive employment services, including training, transitional employment and job placement.
Goals	The project seeks to achieve the following impacts: <ul style="list-style-type: none"> ➤ Increased Employment: Increase in employment in the fourth quarter following release from prison. ➤ Reduced Recidivism: Reduction in the number of days incarcerated following release from prison. ➤ Engagement in Transitional Jobs: Maximize participant engagement in transitional jobs.
Duration	Total of 5.5 years consisting of two phases. In each phase, service delivery and observation of outcomes take place over roughly 3 years followed by a period of data collection and outcome measurement.
Investment	\$13.5 million raised by Social Finance and Bank of America Merrill Lynch (“BAML”) from over 40 individuals and philanthropic foundations; proceeds will fund intervention costs (~90%) and performance management, legal and transaction costs.
Evaluation	The project’s social impact will be evaluated using a Randomized Control Trial (“RCT”), widely considered the highest quality form of evaluation designs. NYS will make performance-based payments based on this impact.
Innovative Structure	For this unique project, NYS uses a Pay for Success (“PFS”) contract, which is a performance-based contract, to partner with an intermediary to deliver specific social outcomes. Taxpayer resources are only expended if results are achieved, according to a rigorous evaluation. A Social Impact “Bond” (“SIB”) ¹ is used to finance the PFS contract. In the SIB model, the intermediary arranges upfront working capital from private investors to fund social services designed to achieve the contract’s desired outcomes. The government commits to making performance-based payments, which the intermediary uses to repay investors, if pre-defined minimum outcomes are achieved.

\$3.1 billion

2013-14 Budget for NYS Department of Corrections and Community Supervision (“DOCCS”).

23,989

Individuals released from NYS prisons in 2013.

41%

Of formerly incarcerated individuals return to prison within three years following release in NYS.

\$60,000

Average annual cost of incarceration in NYS.

460 days

Average days incarcerated following release for high-risk formerly incarcerated individuals in NYS.

Key Benefits

- **Social and Economic Impact:** Improving public safety and employment and thereby saving taxpayer dollars.
- **Efficient Use of Limited Resources:** Transferring performance risk to private investors and protecting public budgets from paying for ineffective services.
- **Flexible Funding:** Providing social service providers with access to stable, flexible, and multi-year funding necessary to build capacity and scale evidence-based interventions.
- **Accelerated Learning:** Advancing knowledge about “what works” in tackling endemic social problems.

**“THIS PROJECT IS
A WIN-WIN
FOR OUR STATE**

facilitating the reentry process of individuals into the community by boosting employment opportunities and thereby reducing recidivism rates, but requiring payment for services only if these goals are met.”
– Governor Andrew M. Cuomo



Pay for Success Project Mechanics

Conduct rigorous impact evaluation

The evaluator will assess the project's impact using an RCT. In an RCT, outcomes are compared for individuals randomly assigned to a treatment group (those who will be systematically referred to CEO) versus a control group (those who will be treated as usual). An independent validator will audit the results to ensure that the agreed-upon methodology was implemented with fidelity. In this way, NYS ensures that it pays only for results while also learning "what works" to inform future policy and program decisions.

Estimate savings

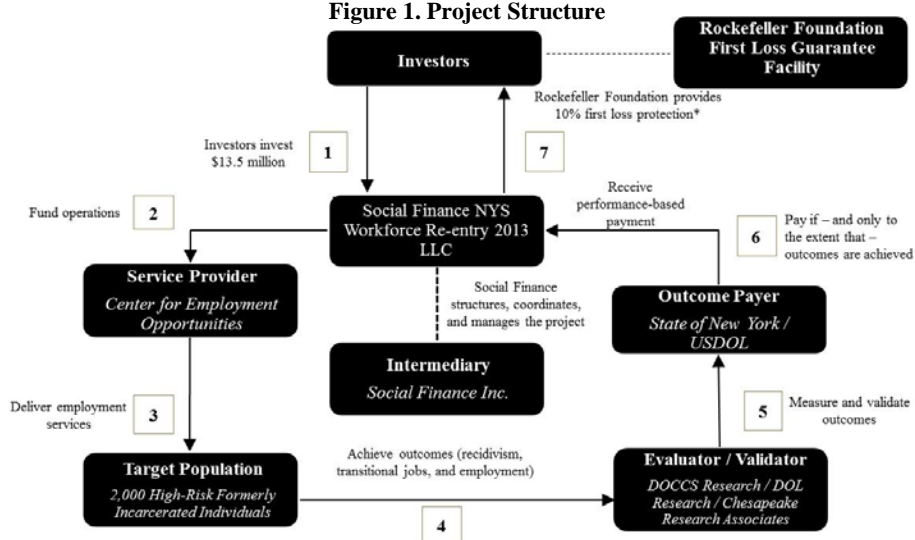
If the project's impact on an outcome metric exceeds its minimum performance threshold, then the partners multiply this impact by the pre-determined "price per outcome" to determine the estimated public sector savings and benefits associated with that impact. These prices were determined based on a rigorous cost-benefit analysis.

Determine payment

NYS performance-based payments never exceed the estimated savings and benefits accruing to the public sector.

For each outcome metric that meets or exceeds the performance threshold, the public sector savings and benefits are included in the calculation of performance-based payments.

Figure 1. Project Structure



Definition	Threshold	Price Per Outcome
Employment: Percentage point difference between treatment and control group members with positive earnings in the fourth quarter following release from prison.	5 percentage point increase	Phase I: \$6,000 per person Phase II: \$6,360 per person
Recidivism: Difference between treatment and control group in average number of days incarcerated per person during the observation period.	36.8 days reduction	Phase I: \$85 per day Phase II: \$90.1 per day
Transitional Jobs: Number of treatment group members who start a CEO transitional job during the observation period.	Same threshold as recidivism	Phase I: \$3,120 per person Phase II: \$3,307 per person

Partner Roles

- **Social Service Provider:** 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 BAML 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 (~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 US Department of Labor grant and up to \$10,448,853 from NYS funds).
- **Evaluator:** NYS DOCCS Research and NYS Department of Labor Research will execute the project's evaluation methodology.
- **Validator:** Chesapeake Research Associates, a policy research and evaluation firm, 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:** The Harvard Kennedy School Social Impact Bond Technical Assistance Lab provided pro bono technical assistance to help NYS develop the project.

¹ Social Impact "Bond" is not truly a bond. Instead, it is a financing instrument in which repayment of principal and a rate of return is tied to social outcomes. If the project does not achieve sufficient performance, then investors could lose their entire principal.

Sources: NYS Division of the Budget, "2014-15 Executive Budget Agency Appropriations," publications.budget.ny.gov/eBudget1415/agencyPresentations/appropData/index.html.
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 NYS DOCCS, "2009 Inmate Releases: Three Year Post Release Follow Up," April 1, 2013, http://www.doccs.ny.gov/Research/Reports/2013/2009_releases_3yr_out.pdf.
 "The Price of Prisons: New York." Vera Institute of Justice (2012): 1. <http://www.vera.org/files/price-of-prisons-new-york-fact-sheet.pdf>.
 Analysis by NYS Division of Criminal Justice Services and NYS DOCCS Research, 2012.