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Social Impact Bonds: Can They Help Government Achieve Better Results for Families in Need?
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Thank you Chairman Reichert, Ranking Member Doggett and all the members of the Committee for your efforts to highlight Social Impact Bonds (SIB) as a tool that can bring new resources to address some of this country's most pressing social problems. Although SIBs are a relatively new financing mechanism, they have the potential to help scale some of this country's most effective social programs and help government focus funding on interventions that have proven results and save taxpayer dollars. The recent legislation introduced by Congressmen Young and Delaney would catalyze all levels of government to address issues ranging from prisoner reentry to homelessness to early childhood care by directing funding only to programs proven effective through rigorous, independent evaluation.

My name is Sam Schaeffer and I am the Executive Director and Chief Executive Officer of the Center for Employment Opportunities (CEO) an organization devoted exclusively to meeting the employment needs of men and women with histories of incarceration. The testimony I am submitting is principally on behalf of CEO, but I also hope to offer the perspective of the field of reentry employment as well as nonprofit providers who use data-driven approaches to address social problems impacting communities across the nation.

Background on Center for Employment Opportunities and NYS SIB Project
CEO began as a demonstration project at the Vera Institute of Justice in New York City. The organization became an independent nonprofit in 1996 and since that time has helped more than 18,000 men and women coming home from prison find full-time jobs to support themselves and their families. The CEO program has been proven through random assignment evaluation to reduce recidivism and make impacts on the employment of high-risk individuals. Over the last five years, CEO has leveraged its evidence and expertise to expand to 10 jurisdictions across Oakland, San Bernardino and San Diego, California; Albany, Buffalo, Binghamton and Rochester, New York; and Oklahoma City and Tulsa, Oklahoma. Today, the organization serves more than 4,200 people returning from incarceration each year, placing more than 2,000 in full-time, private sector jobs where they will earn more than $30 million to support themselves and their families.

In December 2013, CEO began a SIB project that serves individuals in New York City and Rochester. This transaction was the result of more than a year of planning between the State of New York, Social Finance US (SF) and CEO. The parties' strong collaboration was driven by shared purpose: help serve 2,000 high-risk men returning from prison over the next four years. Forty-four private investors provided capital for this transaction. If CEO hits benchmarks on reducing prison and jail bed days, along with additional employment outcomes, the investors will be repaid by the US Department of Labor and New York State. This is a performance-based contract. But instead of focusing on *outputs* like job placements, it hinges on our organization making an *impact* on recidivism and long-term employment. This SIB deal was one of the first in the United States. Yet the early learnings from this project already present policy makers, service providers and intermediaries with knowledge that can help other transactions successfully tap new capital that will maximize taxpayers' investment in government-supported services.

The Problem: Direct and Collateral Consequences of Incarceration
Let me begin by giving the context for CEO's work and explain why attracting new capital to prisoner reentry through vehicles like SIBs is critical. The United States incarcerates more people than any country in the world; around 2.4 million at last count. Half of this prison population is under thirty years old; more than 600,000 are young adults between the ages of 18 and 25. This morning, seven million children woke up across the country with a parent in jail or prison or living

under criminal justice supervision. All this comes at a great cost: the United States spends $64.3 billion every year on incarceration. While budgets for corrections departments have soared, there has not been a corresponding investment in reentry to assist people coming home from prison in order to stop the costly cycle of crime and incarceration.

Nearly everyone who is incarcerated in prison, approximately 95 percent, will eventually be released. Over the last decade that has consistently meant that we have 600,000 or more chances a year to help people turn their lives around and make neighborhoods and communities safer. Still, recidivism rates are stubbornly high: more than 40% are reincarcerated and more than two thirds rearrested within three years. There is a strong correlation between unemployment and recidivism: a study in New York found that 89% of people who were re-incarcerated were unemployed at the time. We fail too frequently in helping people reenter their communities successfully. This failure has a profound impact on public safety and communities impacted by crime and incarceration.

The CEO Model

At CEO, our mission is to turn those statistics around and break the cycle of crime and incarceration through a proven and cost-effective employment model. CEO's vision is that *anyone* returning from prison who wants to work has the preparation and support needed to find a job and stay attached to the labor force. This creates safer communities and healthier individuals and families, all at a fraction of the cost of incarceration. CEO's model consists of four phases that participants move through at their own pace, enabling each person to address their own unique barriers to employment.

Phase I: Recruitment and Job Readiness Training

CEO targets the highest risk, hardest to serve individuals. We recruit directly from parole officers, ideally within the first 90 days of release. Everyone who comes to CEO is unemployed. We don't screen for attitude, education or experience. Our ideal client is someone who needs a job and is likely to fail in their reentry without a targeted intervention. 43 percent of our participants are young adults, under 25 years of age. Nearly 1 in 2 is a parent. Half have never worked and only 10% have any education above high school or its equivalent.

CEO's program begins with a brief Life Skills Education course in the first week, where participants learn best practices for applying to jobs, interviewing and overcoming the stigma of a conviction. CEO also works with participants to procure all necessary identification documents, removing a frequent barrier that prevents them from legally stepping onto a job site and receiving a paycheck.

Phase II: Transitional Employment

After graduation, participants receive a pair of steel-toed boots and a work ID and are immediately eligible to begin working on a CEO transitional job site. Across the country, our social enterprise has 60+ work crews that provide basic maintenance and custodial services to public and private sector customers. For example, in New York City, crews maintain eight college campuses in the City University system; in Oklahoma, they are helping rebuild homes after the tornadoes that hit Moore last year; and in California the crews perform litter abatement for CalTrans. The crews work in groups of 5-7 people and are overseen by a CEO site supervisor. Individuals can work four days a week. At the end of every shift they are evaluated on their work performance and given a paycheck for the day. Working for CEO on a supervised work crew gives participants an opportunity to earn income within one week of enrollment while learning basic workplace skills and developing the tools they need to rejoin the permanent workforce and rebuild a life without crime.

Phase III: Full-time Job Placement
Concurrent with working a transitional job, CEO participants receive a full suite of vocational services. CEO uses the experience gained on transitional work sites to develop participants' competencies and place them in jobs with permanent employers. CEO's dedicated Business Account Managers focus on building relationships with local businesses and filling job orders to match participants to employer specifications. Businesses value CEO as a ready source of job-ready labor that can fulfill their hiring needs.

Phase IV: Job Retention
CEO recognizes the tenacity required of program participants to remain connected to the workforce. To that end, participants receive retention services from CEO for a full year after job placement. Retention services include workplace counseling, crisis management, job redevelopment after job loss, and career planning. An incentive-based program, *Rapid Rewards*, provides monthly payments to enrolled participants who attain job retention milestones.

CEO Evaluation
CEO has replicated this model with fidelity in sites across the country because we know it works. In 2004, CEO participated in the U.S. Department of Health and Human Services' Enhanced Services for the Hard-to-Employ Demonstration and Evaluation Project. As part of this project, the independent evaluator MDRC conducted a three-year random assignment evaluation of CEO that also included a sophisticated benefit-cost analysis by the Vera Institute of Justice.

The evaluation of CEO[1] is one of the most rigorous tests of an employment program for former prisoners in recent years. **The three-year evaluation found that CEO significantly reduced recidivism.** The largest impacts occurred among former prisoners who enrolled shortly after release from prison, the core group of people targeted by CEO. CEO substantially increased employment early in the study period, and while the employment effects faded over time for the overall sample, CEO had several positive impacts on post-program employment. In general, CEO's impacts on criminal justice and employment were strongest for those who were at higher risk of recidivism when they enrolled in the study. The benefit-cost analysis included in the study shows that CEO's financial benefits significantly outweighed its costs.

The study of 977 former prisoners used a rigorous random assignment design, comparing outcomes for individuals assigned to the program group, who were given access to CEO's services, with the outcomes of those assigned to the control group, who were offered basic job search assistance at CEO along with other services in the community with the exception of transitional jobs.

The Results: Program Impact
- **CEO significantly reduced recidivism with the largest impacts for the group of participants recently released from prison.** This group was significantly less likely than

[1] This information was summarized by the National Transitional Jobs Network from MDRC's final evaluation report. The full report is available http://www.mdrc.org/publications/616/overview.html.

control group members to be arrested (49 percent, compared with 59 percent); convicted of a crime (44 percent, compared with 57 percent); or incarcerated (60 percent, compared with 71 percent). These impacts represent a reduction in recidivism of 16 to 22 percent across the three outcomes. Such reductions in recidivism are difficult to achieve and have rarely been seen in rigorous evaluations similar to this one.

- **CEO's impacts on employment and recidivism were stronger for those who were more disadvantaged or at higher risk of recidivism**. Among the subgroup with four or more prior convictions at the time of study, CEO reduced convictions for new crimes by 12.8 percentage points. For CEO participants without a high school diploma and for those considered to be at high risk of recidivism, there was a reduction in the number of days spent incarcerated. For those at high risk of recidivism, post-program (years 2-3) average quarterly unsubsidized employment increased by 11 percentage points (27 percent of program group members compared to 16 percent of the control group).

- **CEO substantially increased employment in year 1; for the recently released subgroup CEO had some positive impacts on post program employment but the effects were less for the overall sample.** First year improvements in employment outcomes were substantial (24.5 percentage points) driven by participation in transitional jobs. In years two and three, on average, recently released program group members had more quarters with unsubsidized employment than their control group counterparts (19 percent of program group members worked seven or eight quarters, compared with 11 percent of the control group). At the time of the evaluation, it should be noted, CEO had only just begun its retention services program. Over the last 9 years, CEO has doubled its internal 180- and 365-day job retention outcomes.

- **CEO's financial benefits far outweigh its costs.** The total financial benefits of CEO were as high as $3.85 for every $1 invested in the program. Put another way, the total financial benefit equaled $10,300 per person served. Over 80 percent of CEO's cost impacts were taxpayer benefits that came in the form of reduced criminal justice expenditures, primarily due to lower utilization in prison and jail beds. When viewed through the lens of taxpayer benefits only, the financial benefits of CEO were still as high as $3.30 for every $1 invested in the program, or $8,300 in savings for every person served.

Pay for Success: Overview
The CEO evaluation illustrates that by providing intensive employment services for those at higher risk of re-offending, as close to release from prison as possible, employment reentry can increase public safety and be part of our economic solution. The SIB project that CEO is currently implementing in New York State builds directly on these principles. The project plays to CEO's programmatic strengths, allowing us to deliver the model we have refined over the last 30 years to those individuals who most benefit from the intervention. Further, CEO's strong evidence base and clearly defined outcomes gave investors the ability to assess the risks and rewards of their investment.

In this $13.5 million SIB transaction, CEO will serve 2,000 high-risk men recently released from prison and returning home to New York City and Rochester, New York. If individuals in the treatment group spend at least 8 percent fewer days in jail or prison than the control group, and show at least a 5 percent increase in their immediate and long-term employment, the federal government and the State of New York will return investors a portion of the savings. Returns for the 44 private investors financing the project can reach as high as 12.5 percent. However, if these targets are not met, investors stand to lose their capital.

The Value of PFS Financing for Providers

The opportunity for CEO is significant: receive unrestricted capital to deliver our core program to the population for whom we make the deepest impact. CEO typically finances its operations through a diverse set of government and private funding streams. While our economic model has helped us build a financially stable and sustainable organization, the resources we receive from this SIB project are unique in that they pay *the full* unit cost (currently $6,000) of each person we serve. Never before has CEO received funding that pays the entirety of per-person costs at this scale. What's more, we are not required to provide a match or conduct any additional fundraising for the project. Receiving these resources upfront, on a quarterly basis, allows CEO to concentrate on providing excellent services and alleviates the burden of fundraising.

Certainly, there are risks. Random assignment evaluation, scaling up, and multi-year, multi-million dollar contracts all require significant preparation and due diligence for nonprofits. When we began there was no playbook, road map or learning community to guide us through the intricacies of scoping this project or bringing the deal to closure. CEO was able to manage potential financial and reputational risk by forging strong working relationships with our partners in both New York State and SF. Mutual interest in the project's success drove trust and collaboration between all parties. Each entity brought particular expertise to the deal making process and had a strong interest in seeing this project succeed.[2]

Role of Intermediary

While CEO has experience with performance-based contracts and scaling-up, in size, scope, and complexity, this project is like no other we have taken on in the past. To finalize the project design and contract, we worked closely with the SF and New York State for more than a year. SF gave CEO the space to provide meaningful input in the project and evaluation design, helping us align the SIB project with our proven program model. They also brought significant expertise in the capital raise, directly marketing the deal to private investors. This work was clearly outside of our expertise and would have presented a distraction were we required to participate in it.

SF's role has remained critical since the project launch. CEO prides itself as a national leader in nonprofit performance management, but has gained an invaluable thought partner in SF. Weekly calls with SF and the state have given us the opportunity to jointly look at data and spot issues before they become a problem. For example, we were able to make minor corrections to the referral process in order to continue hitting enrollments targets. Their continued support and involvement will be critical for this projects' success.

PFS: Project and Evaluation Design

As mentioned, the program intervention at the heart of this transaction is the core CEO model. The only deviations to the model are minimal, and if anything, are likely to enhance the project's impact.

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[2] For a discussion on how CEO navigated risk in this transaction, and tool that other providers can utilize, please see: Schaeffer, Samuel "Assessing Nonprofit Risk in PFS Deals," http://www.ssireview.org/blog/entry/assessing_nonprofit_risk_in_pfs_deals

Jeffrey Liebman of the Harvard Kennedy School and Director of the Harvard SIB Lab designed the evaluation for this project. The evaluation will be administered by the New York State Department of Corrections and Community Supervision (DOCCS) and validated by Chesapeake Research Associates. DOCCS is responsible for randomly assigning individuals into the treatment and control groups. The randomization occurs in the weeks before an individual is released from state custody. After the list of participants is generated, it is sent to CEO, Social Finance and NYS parole officers. All study group participants will be at a high-risk of recidivism, as assessed by COMPAS, a validated Risk/Need Assessment tool.

Immediately upon release, CEO Outreach Specialists and Parole Officers (part of DOCCS) meet together with each treatment group member. In a "Matched Candidate Meeting" (MCM) individuals are told they have been selected to enter CEO based on their need for employment services. During the MCM, the participant is introduced to CEO's program and scheduled for the next orientation – generally within a week. This coordinated messaging helps reinforce the collaboration between CEO and Parole and is unique to this project. The Outreach Specialist continues to follow up with the individual until they enroll at CEO. After enrollment, the participant receives all CEO services beginning with Life Skills Education and extending through Transitional Work, Job Placement and Retention Services. This pinpointed recruitment of high-risk, recently released individuals and the MCMs have long been aspirations of CEO. Only by working in such close partnership with DOCCS in this SIB project was CEO able to target its services to those individuals for whom this program has been proven most effective.

Performance Measures and Repayment[3]
DOCCS will track the employment and criminal justice outcomes of all treatment and control group members. There are three performance measures in the NYS transaction that can trigger repayment:

- **Recidivism:** The marginal cost of an additional day of incarceration in NYS, either in prison or jail, and the cost to victims of crimes associated with those incarcerations.
- **Employment:** Greater tax revenue and reduced public assistance costs as a result of increased employment.
- **Transitional Jobs:** Value to the public sector due to services provided through CEO's transitional jobs in government buildings.

Again, the project must achieve a minimum performance threshold before investors are eligible for a performance-based payment for that metric. If the intervention's impact falls below all of these levels, then investors will not be repaid. Table 1 describes the performance threshold that must be met or exceeded to trigger payment for each outcome metric.

Table 1. Minimum Performance Thresholds Required to Trigger Payment

Outcome Measure	Minimum Performance Thresholds
Reduction in Recidivism	Avoided Bed Days >= 36.8 (~8%)

[3] The tables in this section were originally published in "Investing in What Works: "Pay for Success" in New York State Increasing Employment and Improving Public Safety." The text draws heavily from document as well. http://socialfinanceus.org/sites/socialfinanceus.org/files/Detailed%20Summary%20of%20NYS%20PFS%20Project.pdf

Engagement in Transitional Jobs	Avoided Bed Days >= 36.8 (~8%)
Employment	Employment Rate Difference >= 5 Percentage Points

The project's outcome pricing methodology ensures that the government's performance-based payments are never more than the savings and benefits estimated to result from the project's impact. Phase I represents the first two years of the project; Phase two the second two years.

Table 2. Public Sector Savings and Benefits Calculation

Outcome Measure	Price Per Outcome	Public Sector Savings and Benefits
Recidivism	Phase I: $85 per day Phase II: $90.1 per day	Average Reduction in 5-Year Bed Days * Price Per Outcome * Number of Participants
Transitional Jobs	Phase I: $3,120 per person Phase II: $3,307 per person	If average hours worked is greater than or equal to 111 hours: Number of Participants Engaged in Transitional Jobs * Price Per Outcome
	Phase I: $20 per hour Phase II: $21.2 per hour	If average hours worked is less than 111 hours: Number of PFS Participants Engaged in Transitional Jobs *Average Hours Worked * Hourly Price Per Outcome
Employment	Phase I: $6,000 per person Phase II: $6,360 per person	Percentage Point Difference in Employment Rates * Price Per Outcome * Number of Participants (capped at $2,000,000)

Payment Schedule

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. For Phase I and Phase II, the performance-based payment will be the sum of:

- 100% of public sector benefits and savings for employment, not to exceed $2,000,000.
- 100% of public sector benefits and savings for recidivism and transitional jobs outcomes up until the amount of the original investment in the applicable Phase ($6,832,000 for Phase I and $6,668,000 for Phase II).
- 50% of public sector benefits and savings for recidivism and transitional jobs beyond the value of the original investment for the relevant phase.

The total performance-based payment is capped for Phase I at $11,095,000 and for Phase II at $10,448,853.[4]

[4] For Phase I, the maximum performance-based payment is the difference between the $12,000,000 US DOL grant awarded to NYS and the $905,000 state and validator costs. For Phase II, the maximum performance-based payment is the difference between $11,000,000 state funds allocated for this project and the $551,147 in state and validator costs.

Recommendations to Facilitate a Robust National SIB Infrastructure
Social Impact Bond financing has the potential to bring much needed investment and market principles to some of our country's most pressing social problems. Increasing work for the long-term unemployed, preventing child abuse and neglect, and ensuring successful prisoner reentry are a few of the areas that SIB projects can address. And there are so many more creative and important proposals being considered by governments across the country. Yet, thus far there are only five transactions in operation. Each has been tailored to particular issue-areas and geographies. As Tracy Palandjian, co-founder and CEO of Social Finance, has said, "If you have seen one Pay for Success deal, you have seen only one Pay for Success deal."

Still, there is much we can learn thus far from the work of government, providers and intermediaries. As government at the local, state and federal level consider support for new and exciting projects, there are several tenets to be absorbed from early adopters. Congressmen Young and Delaney's legislation recognizes several of these principles and makes clear that Congress and the federal government can play a leadership role in the development of the field. Below I offer recommendations that can help this nascent field continue to expand and innovate.

Recommendations Regarding Providers, Evaluation and Performance Thresholds

- **Select experienced, proven providers.** At this early stage of SIB development, it is important that projects select service providers with extensive experience implementing an evidence based model. This means that their work must be proven through experimental or quasi-experimental studies. In the future, SIBs may be used to fund more speculative interventions, but for the field to gain steam we need to construct transactions around service models and providers that have a measurable impact on a particular issue.
- **Choose performance and repayment metrics carefully.** Performance thresholds must be achievable based on a provider's capacity and track record of performance. Transactions should only aim to achieve results that are consistent with providers' historical performance, not in excess of it.
- **Don't overlook fidelity and performance management.** Demonstrating impact through rigorous evaluation is a significant achievement for a provider. Replicating that impact consistently, year-after-year can present a challenge. The success of SIB projects rests on the ability of providers to implement interventions *with fidelity* to a proven model. Additionally, providers must be capable of managing performance to achieve pre-determined benchmarks of a particular PFS project, especially in the face of unanticipated external challenges (e.g. insufficient referrals). To do this effectively, they will need support in collecting meaningful data and assessing their program fidelity by independent evaluators. The must also have the capacity to utilize robust performance management tools.
- **Build on evidence.** In the NYS transaction, CEO and its partners identified subgroups in its original MDRC evaluation where it made the deepest impacts (high risk and recently released parolees) and designed the SIB intervention specifically around this group. The approach is helping CEO achieve the greatest social value for its participants, while allowing government and investors to achieve the greatest financial impact. Other projects should take the lessons of their previous evaluations, and design projects that maximize efficacy and public return on investment.

Recommendations Regarding Capital Investment

- **Make the capital flexible and unrestricted.** Too often, providers receive grants and contracts that pay only a portion of the actual expenses required to deliver services. As a result, time and energy is diverted away from running the program to fundraise for the shortfall. SIB projects have the potential to address this challenge head-on by providing flexible capital to providers that accounts for the actual cost of services. Continuing this approach can strengthen the financial sustainability of providers while allowing them to invest more time and resources into high-quality programming.
- **Attract new capital; don't cannibalize.** One of CEO's interests in participating in a PFS project was accessing new forms of financial support that were previously unavailable. Diverting existing government and/or philanthropic sources to our project would have lessened its appeal – that would be simply supplanting funding. We wouldn't want a foundation to rescind an annual grant and start investing those resources in a SIB. SIBs should offer us the chance to grow the pie of funding, not just cut it differently.
- **Facilitate multiple payor projects** Many social interventions save money across multiple levels of government. Prisoner reentry, for instance, might save a county the cost of jail bed days; a state, the cost of prison bed days; and the federal government might have reduced healthcare expenditures. Coordinating a transaction – and evaluation -- across three levels of government is challenge, but if the field is going to grow it will be important to develop a way for multiple levels of government to partner and reap the benefits of a SIB deal.
- **Cost benefit is key, but it's not the only thing.** Providers like CEO that work in the criminal justice space are well suited for SIBs. Over a relatively short time horizon, our impacts can be monetized based on outcome measures like averted jail and prison bed days. Interventions focusing on violence reduction or literacy, for example, may show impacts, but the monetary benefit may be less clear. These projects should have a place in the SIB landscape if they can prove through rigorous evaluation that their program is definitively making an impact *and* it is an outcome that government values. Saving money is one of the chief advantages of SIB projects, but we should also find a way to support projects with clear societal, if not exclusively monetary, benefits.

Recommendations to Help Grow the Field

- **Government champions are critical.** There are a handful of key players in every SIB deal: government(s), providers, intermediaries, evaluators and investors. For a deal to come to closure *and* be successfully operationalzed, strong government leadership is essential. Government will often need to coordinate referrals or service delivery with the provider. Only deals that can demonstrate strong government leadership should be considered for participation in this space. This means government must be committed as a payor, but also an operational and performance management partner.
- **Help providers become deal-ready.** As mentioned above, there are only a handful of active SIB deals nationally. Many more are in the pipeline, but for the field to scale, more providers will have to enter the market. To do this, government needs to provide technical assistance and support to help providers become deal-ready. This should come in the form of support for performance management training, investment in data collection systems, and fidelity assessments. Philanthropy should continue the active it has played in capacity building as well.
- **And assist them in managing risk in deal-closing.** For those providers who are ready to participate in SIB transactions, they will need the support of intermediaries and potentially

outside counsel to wade through the technicalities of evaluation design, investment terms, and other areas that might fall outside the bounds of their expertise.

Conclusion

SIBs provide a promising vehicle for evidence-based interventions to scale-up and provide solutions to challenges facing communities across the country. Not all social problems can be solved by SIBs and not all organizations are capable of successfully navigating the rigorous process of deal construction. In a resource scarce environment, however, SIBs allow government to support projects only when a proven intervention has show real results to a specific social problem.

But there is even more to SIBs than maximizing taxpayer return. SIBs can help fundamentally transform performance in both government and the social sector. I see several ways in which this is already happening. First, the rigorous evaluations attached to these projects will help us build a robust evidence base of what really works. Second, as nascent as SIBs may be in the United States, the impact of their presence is already resonating throughout the social sector. Philanthropy has been compelled to support organization's efforts to become SIB ready by building their capacity and evidence base. These efforts will benefit the sector as a whole by building stronger providers, regardless of whether or not they lead to a SIB deal being executed.

Perhaps most importantly, SIB projects have the opportunity to fundamentally change how government works by placing an emphasis on funding high-performing, evidence-based interventions. SIBs and this legislation have the ability to bring about a sea change in government behavior, persuading cities, counties states and the federal government to fund what works. SIBs can promote an ethos that will push local government agencies to acclimate themselves to this performance or outcome based approach to contracting. Finally, SIBs are not an end unto themselves. Providers who can demonstrate their success in SIB deals should have preference in future government contracting. While the mechanism is groundbreaking, as important is the idea that we fund based on performance. We can start doing that today. Now is the time to start.