

# CDFIs INVEST

## From the Four C's of Credit to the Four P's of Pay for Success: Underwriting PFS Transactions

September 28<sup>th</sup> 2017

LISC is a national nonprofit intermediary that provides financial and technical assistance to community-based organizations, public agencies and private nonprofit and for-profit entities focused on the redevelopment of urban neighborhoods and rural communities. The organization works through 30 local offices in urban sites and a national rural program which operates in 43 states.

**Presenters: Anna Smukowski**

**LIVING CITIES**  
INNOVATE • INVEST • LEAD

Living Cities works with cross-sector leaders in cities to build a new type of urban practice aimed at dramatically improving the economic well-being of low-income people. Living Cities works on four core elements to achieve their mission: open-sourcing social change, collective impact, capital innovation and public sector innovation.

**Presenters: Sindhu Lakshmanan**

**Nonprofit Finance Fund**

Nonprofit Finance Fund (NFF) unlocks the potential of mission-driven organizations through tailored investments, strategic advice and accessible insights. NFF's work in PFS has focused on helping service providers, investors, and governments understand and build readiness for productive participation in transactions tied to meaningful and measurable outcomes.

**Presenters: David Streim**

**REINVESTMENT FUND**

Reinvestment Fund is a catalyst for change in low-income communities and one of the most experienced PFS lenders in the United States. We integrate data, policy and strategic investments to bring high-quality grocery stores, affordable housing, schools and health centers to the communities that need better access—creating anchors that attract investment over the long term and help families lead healthier, more productive lives. Reinvestment Fund also manages and administers a \$10 million PFS Fund. Learn more at [reinvestment.com](http://reinvestment.com).

**Presenters: Sara Vernon Serman**

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- What is Pay for Success and how does it work?
- Pay for Success Underwriting Framework
- Underwriting Exercise
- Getting Involved in Pay for Success Opportunities
- Q & A and other Resources

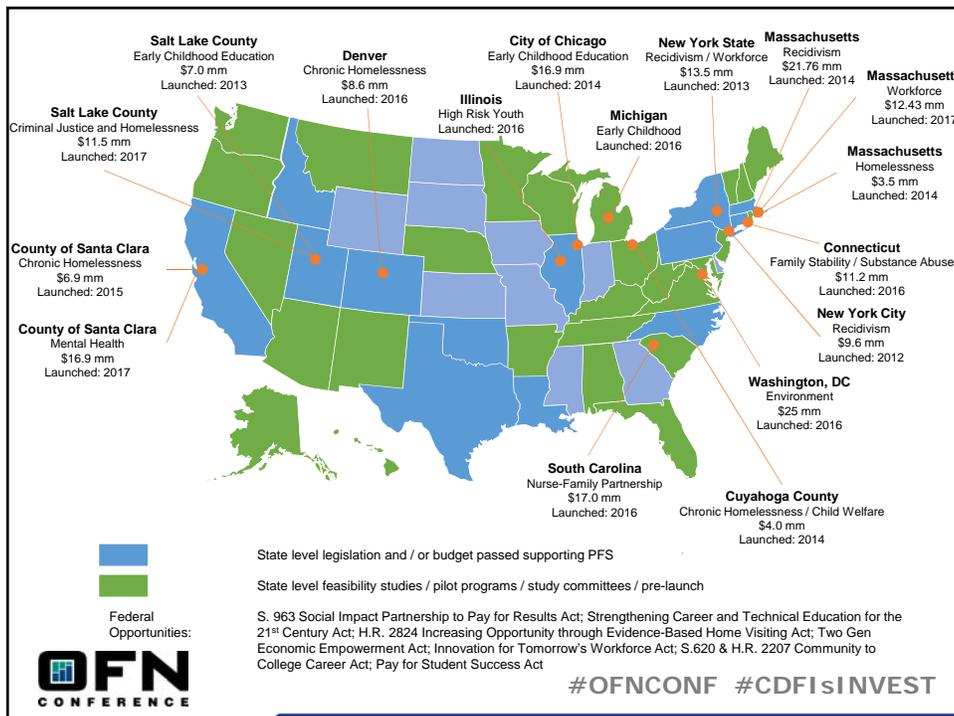
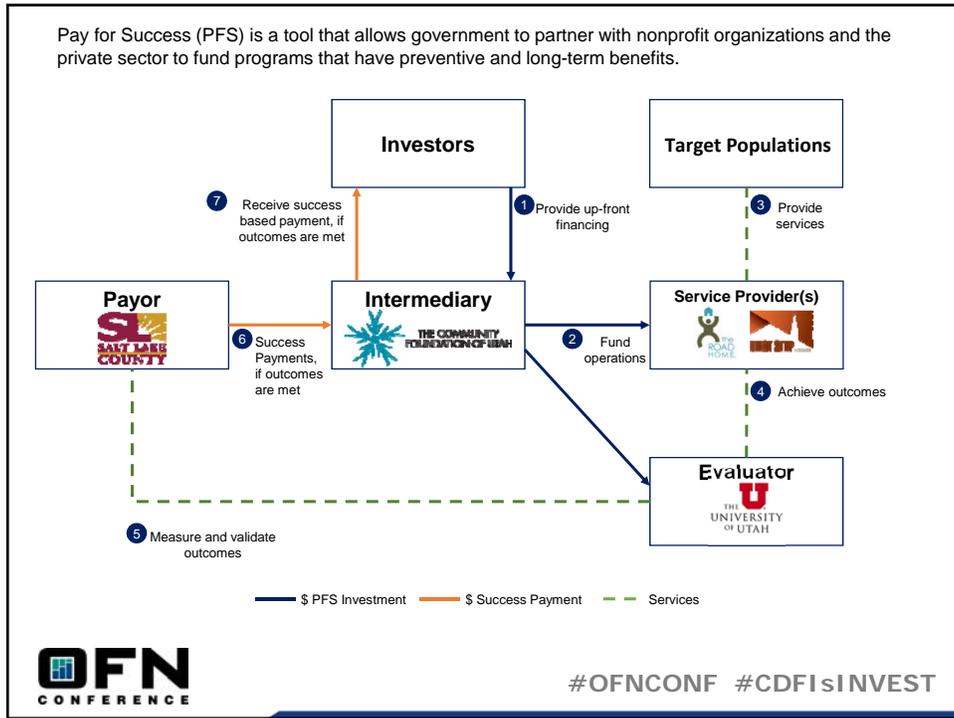


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## What is Pay for Success?



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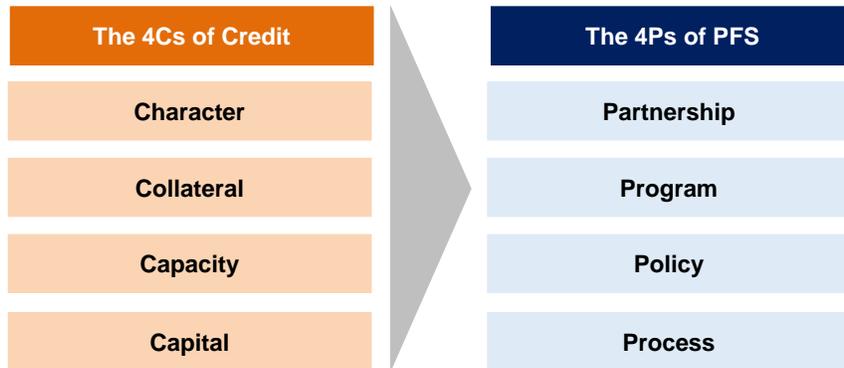


## Pay for Success Underwriting Framework



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### Assessing Risk in Pay for Success Projects



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### Assessing Risk: Partnership

#### Players

- Service Provider
- Payor
- Evaluator
- Intermediary
- Investors

#### Mitigating Factors

- Relevant Content Knowledge
- Organizational Credibility and Capability
- Partnership Capabilities
- Strategic Plan for Evaluation



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### Assessing Risk: Program

#### Players

- Service Provider
- Intervention
- Evaluator

#### Mitigating Factors

- Connection with Target Community and Intervention
- Ability to Scale Operations
- Interest and Capacity to Undergo Rigorous Evaluation
- Funding and Financial Management



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### Assessing Risk: Policy

#### Players

- Payor: Government, Philanthropy or Insurer
- 

#### Mitigating Factors

- Leadership and Capacity
- Partnership Capabilities
- Data and Accounting Capabilities
- Appropriations



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### Assessing Risk: Process

#### Players

- Service Provider
  - Payor
  - Evaluator
  - Intermediary
- 

#### Mitigating Factors

- Leadership, Board, and Staff Interest and Capacity
- Strategic plan for PFS implementation
- Operational Planning, Performance Tracking and Innovation
- Communication and Marketing Capabilities
- Risk Management and Infrastructure Capabilities



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## Putting it All Together

### Alignment

- Are the partners clearly aligned on the goals, methods, and processes to be used to do the work?
- Do they articulate these things with a shared vocabulary?

### Flexibility

- Do the partners have the ability to be flexible, to accommodate new learning, changing circumstances, and each other?
- Have the partners worked together before?

### Compatibility

- At the organizational level, are cultures compatible?
- Do the leaders and staffs of the organizations evidence shared values? At the individual level, do the key players get along?

### Passion

- Is there clear passion for the work and faith in the proposed project?



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## Example Underwriting Activity

- What should we consider when underwriting this deal?
- List two strengths and two weaknesses of the project using the 4 Ps of Pay for Success to guide your table's discussion.
- At the end of the discussion, we will ask each table to report out their key considerations to the rest of the group.



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## Getting Involved in Pay for Success Opportunities



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Issue Area	Intervention	Target Population	Project Partners	Contact / Org
Youth Development	Latin American Youth Center will provide long-term client management to disconnected and disengaged youth facing multiple obstacles that prevent them from accessing resources and achieving educational, employment, and healthy living goals in Washington, DC	340 opportunity youth	<ul style="list-style-type: none"> <li>District of Columbia</li> <li>Latin American Youth Center</li> <li>Urban Institute</li> <li>LISC</li> </ul>	Anna Smukowski, <a href="mailto:asmukowski@lisc.org">asmukowski@lisc.org</a> , LISC
Healthy Futures	National Kidney Foundation of Michigan will provide a year long lifestyle change program to adults at risk of developing type 2 diabetes in urban and rural Michigan	3,500 Medicaid eligible adults	<ul style="list-style-type: none"> <li>National Kidney Foundation of Michigan</li> <li>University of Michigan</li> <li>LISC</li> <li>HAP</li> </ul>	Anna Smukowski, <a href="mailto:asmukowski@lisc.org">asmukowski@lisc.org</a> , LISC
Justice	La Familia Counseling Services will provide an integrated service offering for community re-entry through a peer-based program designed as an Individualized Coaching Model in Alameda County, California	150 adult recidivists	<ul style="list-style-type: none"> <li>Alameda County District Attorney</li> <li>Alameda County</li> <li>State of California</li> <li>La Familia Counseling Services</li> <li>West Ed</li> <li>Third Sector</li> <li>Harvard Kennedy GPL</li> </ul>	Oscar Benitez, <a href="mailto:obenitez@thirdsectorcap.org">obenitez@thirdsectorcap.org</a> , Third Sector Capital Partners
Early Childhood Education	Public pre-k with enhancements for educationally and / or economically at-risk four-year old children in Mecklenburg County, North Carolina	Four-year old children	<ul style="list-style-type: none"> <li>Mecklenburg County</li> <li>Charlotte-Mecklenburg Schools</li> <li>Third Sector</li> </ul>	Mary Beach, <a href="mailto:mbeech@thirdsectorcap.org">mbeech@thirdsectorcap.org</a> , Third Sector Capital Partners
Early Childhood Health	Home visiting program for low-income, pregnant women at high-risk for pre-term births and other negative outcomes for themselves and their children in Virginia	Pregnant women	<ul style="list-style-type: none"> <li>Virginia Department of Health</li> <li>Virginia Pay for Success Council</li> <li>Third Sector</li> </ul>	Gerald Croan, <a href="mailto:gcroan@thirdsectorcap.org">gcroan@thirdsectorcap.org</a> , Third Sector Capital Partners
Healthy Futures	Daily home-delivered meals, social supports and care management to seniors following hospital discharge in Baltimore, MD	Seniors	<ul style="list-style-type: none"> <li>Meals on Wheels</li> <li>Johns Hopkins Bayveiw Medical Center</li> <li>Quantified Ventures</li> </ul>	Brendan O'Connor <a href="mailto:bcannon@quantifiedventures.com">bcannon@quantifiedventures.com</a> , Quantified Ventures

Nonprofit Finance Fund's Pay for Success Learning Hub  
[www.payforsuccess.org](http://www.payforsuccess.org)

Urban Institute Pay for Success Initiative  
<http://pfs.urban.org/>

The Reinvestment Fund  
<https://www.reinvestment.com/initiatives/pay-for-success>

Living Cities  
<https://www.livingcities.org/topics/social-impact-bonds>

LISC  
<http://www.lisc.org/our-model/financing/lending/pay-success/>



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## **Before You Go**

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### Case #1 – Child Welfare and Family-based Recovery

#### Project Overview

In America, over 420,000 children are being raised in foster care, at a cost to taxpayers of more than \$9 billion annually. Youth who spend time in foster care are disproportionately likely to experience poverty, housing instability, medical issues and other poor outcomes that can exact even higher costs to the individual and to society at large.

Since 1995, Project ABC helps address the number of children entering the foster care system due to family members suffering from opioid use disorders and / or other family-based needs. A community-based program, Project ABC offers home-based substance abuse and family counseling, as well as parent education, nursing services, parenting group, domestic violence groups, sobriety support, and links to other services like affordable housing, substance abuse counseling and health care. Upon referral and enrollment, each family is connected to a team including a clinician, nurse and parent educator. If a child is currently in foster care, staff work with the parents and foster families to support relationships while in out-of-home care.

A rigorous evaluation indicated numerous outcomes including increased reunifications between families and children and reduced referrals and re-referrals to Child Protective Services (CPS), in addition to a positive change in a child's developmental well-being.

Project ABC has partnered with CPS to use Pay for Success to expand their services from one county to statewide. Based on negotiations, CPS has agreed to pay Project ABC \$2,000 for every family that is reunified and additional \$3,000 if that family is not re-referred to CPS after a year of reunification. A local university has agreed to be the evaluator to ensure the initiative achieves the stated outcomes. Project parties are working with LLC Corp to structure their transaction and are now looking for financing.

**What should we consider when underwriting this deal? List two strengths and two weaknesses of the project using the 4 Ps of Pay for Success to guide your table's discussion. At the end of the discussion, we will ask each table to report out their key considerations.**

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### Case #2 – Disconnected Youth and Workforce Development

#### Project Overview

One out of eight young Americans count as “disconnected youth” – 16 to 24 year-olds who are out of school and out of work. Disconnected youth are more likely to access social services and cost an estimated \$26.8 billion annually, and the numbers of unemployed youth mean even more lost tax revenue.

Since 1980, Project XYZ reconnects youth to opportunity by providing intensive case management aimed at helping the most at-risk and disconnected youth overcome significant life obstacles, such as lack of education, homelessness, trauma, substance abuse and court involvement. Case managers provide youth with one-on-one mentoring and advocacy over a period of four to six years through wraparound services, linkages to community partners, placement and paperwork assistance, home visits, 24-hours per day/seven days per week crisis intervention, and escorting youth to appointments and important events.

A rigorous evaluation showed the program can statistically reduce the incidence of teen births, reduce usage of temporary shelter and increase engagement in school.

Project XYZ has partnered with their city's Department of Health and Human Services (DHHS) to use Pay for Success to expand their services to additional at-risk youth. Based on negotiations, DHHS has agreed to pay Project XYZ \$100,000 for reduction in teen births, \$200,000 for reduction in usage of temporary shelter and \$50,000 for increased engagement in school based on a percentage reduction between a treatment group and control group. A national nonprofit evaluator was selected to make sure the stated outcomes have been achieved through a randomized controlled trial. Project parties are working with LLC Corp to structure their transaction and are now looking for financing.

**What should we consider when underwriting this deal? List two strengths and two weaknesses of the project using the 4 Ps of Pay for Success to guide your table's discussion. At the end of the discussion, we will ask each table to report out their key considerations.**

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Worksheet | Project \_\_\_\_\_

Assessing Risk	Guiding Questions	Notes
<b>Partnership</b>	<ul style="list-style-type: none"> <li>• Have the players worked together on previous projects?</li> <li>• Can the organization translate data into actionable insights?</li> <li>• Does the organization have demonstrated knowledge and experience with multiple assessment methods?</li> </ul>	
<b>Program</b>	<ul style="list-style-type: none"> <li>• Does the service provider have significant experience with beneficiaries?</li> <li>• Can the impact delivered by this intervention be clearly measured?</li> <li>• Does the intervention have a long track record of results?</li> </ul>	
<b>Policy</b>	<ul style="list-style-type: none"> <li>• Is there a demonstrated commitment to paying for results?</li> <li>• Do the parties involved have demonstrated experience with performance-based contracts?</li> <li>• Are there mechanisms in place to ensure repayment to the investors over the multi-year life of a transaction?</li> </ul>	
<b>Process</b>	<ul style="list-style-type: none"> <li>• Can the organizations effectively collect and analyze data?</li> <li>• Have the organizations demonstrated an ability to manage to outcomes?</li> <li>• Do the organizations have the capacity to scale operations?</li> <li>• Do the organizations have a demonstrated track record in raising capital for new ventures?</li> </ul>	

**Strengths:**

**Weaknesses:**