

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

### 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.**

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

### 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.**

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

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:**