

Innovative Financing for Workforce Development

January 28, 2016

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The **Connecting Communities**[®] audio conference series is a Federal Reserve System initiative intended to provide timely information on emerging and important community and economic development topics with a national audience. The audio conference series complements existing Federal Reserve Community Development outreach initiatives that are conducted through our regional Reserve Bank offices and at the Federal Reserve Board of Governors in Washington, D.C.

Welcome

Thank you for attending today's session. How to join (remember, this session is being recorded)

- Call-in number: 888-625-5230
- Conference code: 61531304#
- Webinar link: <https://www.webcaster4.com/Webcast/Page/584/12152>

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**These questions may be part of the recorded archive for this session.*

- Email us at: communities@stls.frb.org
- Type your question into the chat box of the webinar

An archived recording of this session will be available on the **Connecting Communities**[®] website shortly after the session ends. Please visit www.stlouisfed.org/connectingcommunities/

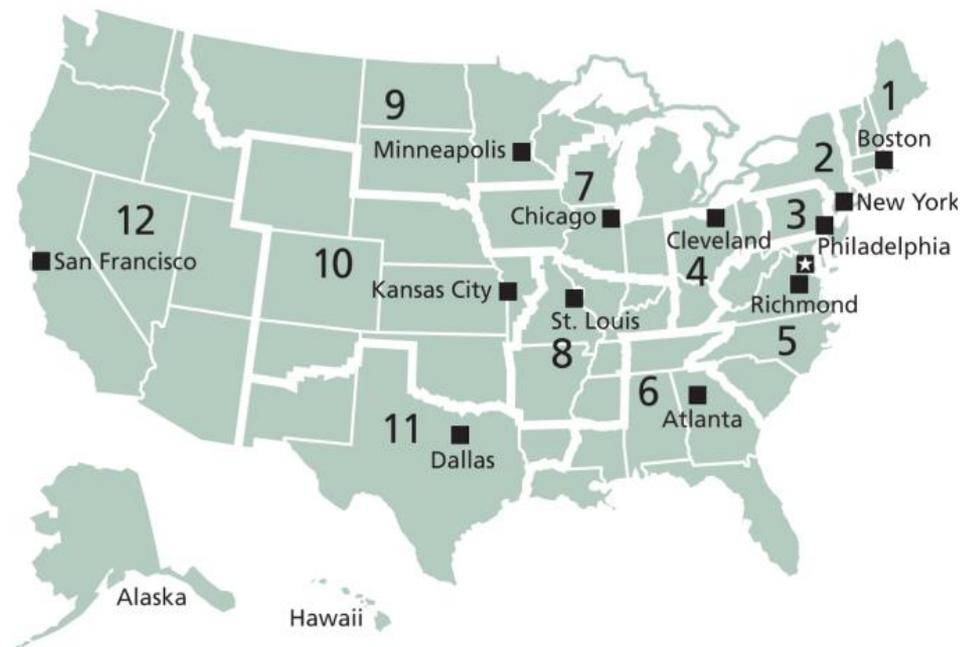
In connection with this session, you can find a variety of additional resources on this topic , available at www.fedcommunities.org. We encourage you to browse through this site and to contact your regional office if you would like additional information on any of these items.

Legal Notices and Disclaimer

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.

Community Development

- The Community Development function within the Federal Reserve System
 - consisting of individual departments at each of the twelve Federal Reserve Banks, as well as at the Board of Governors – promotes economic growth and financial stability for low- and moderate-income communities and individuals through a range of activities, including:
 - **Convening stakeholders**, including practitioners, financial institutions, nonprofits, governmental agencies, and the philanthropic and private sectors
 - **Conducting and sharing research** to examine economic challenges facing low- and moderate-income communities and attendant policy implications
 - **Identifying emerging issues**



Today's Presenters

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Community Employment Loan Program

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Overview

- Social Capital Partners (SCP)
- Community Employment Loan Program (CELP)
- Ontario Community Loan Pilot (OCLP or CELP 2.0!)



SCP Overview

- Nonprofit social finance organization founded in 2001
- Social objective: provide meaningful employment for people who face employment barriers
- Done through social enterprises (2001 – 2006), social finance, and system change

CELP

- This program provides subordinate debt financing to small business owners of franchises conditional on their agreement to implement a community hiring project.
- The interest rates are tied directly to employment outcomes. For every person hired through community service agencies, the interest rate on the loan declines.
- We guarantee the quality of the community hires and work with the best community service agencies to find the right employees.
- Most of our franchises have been in the auto service sector.

CELP Result

- Average loan size: \$100,000
- Total number of franchise locations: 79 across Canada
- Total number of hires: more than 400 people
- Return rate: 7 percent
- Default rate: 2.4 percent

Numbers as of December 2014

CELP Next Step

- “**Sold**” portion of loan portfolio to Royal Bank of Canada
- Getting mainstream financial institutions to develop social finance products (e.g., affordable housing funds, community bond funds)

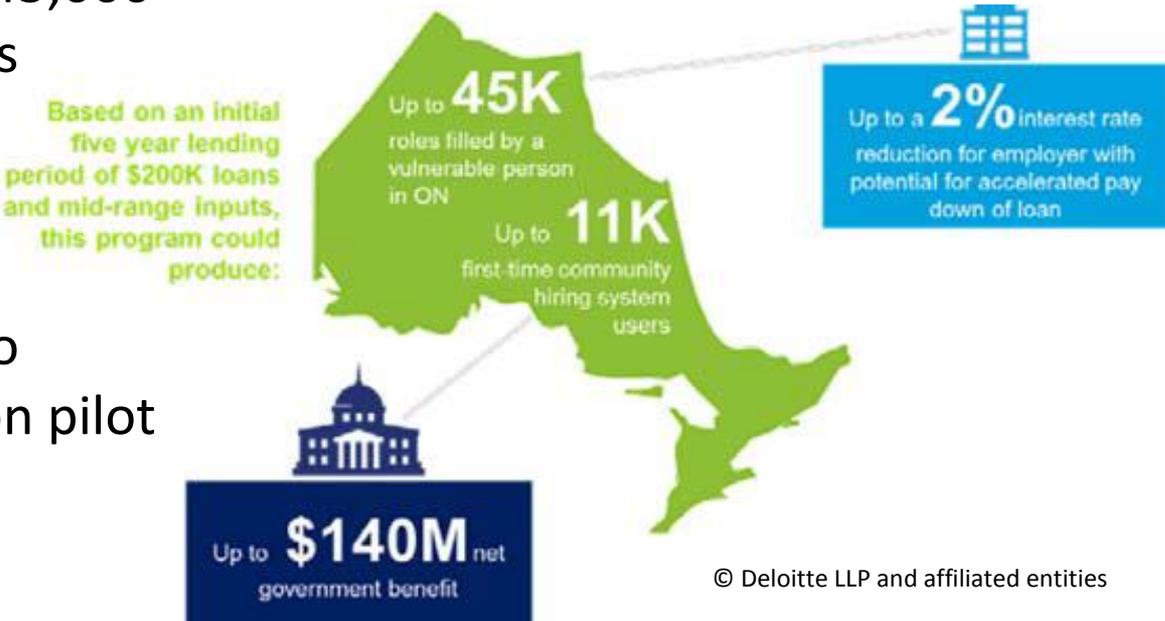
- The Ontario government approached SCP to respond to a RFP (request for proposal) to develop a Social Impact Bond (SIB) in June 2014.
- We proposed a different model, rather than a “conventional” SIB.
 - The government realizes taxpayer savings before it provides any capital.
 - There is no need to raise any private capital in advance.
 - The potential scale could be much larger.

OCLP Design

- The Ontario government through the Ministry of Economic Development, Employment and Infrastructure (MEDEI), offers interest rate reductions to any small and mid-sized business (less than 500 employees) owners who hire vulnerable populations and who are otherwise on social assistance or other government support programs and services.
- Interest rate reduction is only paid if an employee is hired through a community agency and has been retained at least six months.
- Total amount of interest reduction paid < total cost of unrealized social assistance = government savings have been already realized before any payment is made

MEDEI Action

- Feasibility study by Deloitte LLP forecasts up to \$140 million in savings while driving positive employment outcomes for up to 45,000 unemployed persons from vulnerable population groups in Ontario
- MEDEI has agreed to implement \$4 million pilot



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$$(\text{monthly cost savings per pers.} \times \text{No. of pers. employed for six months}) + \text{incremental tax revenue} - (\text{financial incentive costs} \times \text{No. of loans}) - \text{administration costs} = \text{net positive financial impact to government}$$

How Does It Work?

- **Term Loan** “Receive the equivalent of a reduced interest rate of up to 4 percent on your term loan:”*
 - Maximum loan amount: \$200,000 (loan amount may be more, but rebate only calculated to maximum)
 - Interest rate reduction per hire: 1 percent
 - Maximum number of hires eligible to receive rebate: four
- **Line of Credit** “Interest-free line of credit for up to two years:”
 - Maximum balance: \$200,000 (balance may be more, but rebate only calculated to maximum)
 - Number of interest-free months per hire: six months (rebate of actual interest paid)
 - Maximum number of hires eligible to receive rebate: four

*Calculated over the full term of the loan, regardless of how far you are into the term (e.g., if you are already two years into a five-year term, the interest rate reduction is calculated as if you received it for the full five years)

Implementation Schedule

- The OCLP will be available in Spring 2016 at participating banks and credit unions in London, Ottawa, and Hamilton for 12 months.
- Full pilot length is 2 years
- Target of up to 550 employers and up to 1100 employees
- Evaluation in 2018 on prospect of full-scale implementation

Stakeholder Value Propositions

- **Government:**
 - Significant taxpayer savings
 - New channels for providing employment to vulnerable population
 - Self-financed, no risk
- **Financial institution:**
 - Provide new and significant benefit to small and mid-sized enterprises clients
 - No cost to financial institution. Market share gains?
 - Tangible Corporate social responsibility/Public relations opportunity
 - Co-designer of product offer
- **Small and mid-sized enterprises:**
 - Reduced interest costs
 - Free customized human resources support
- **Vulnerable population:**
 - New employment opportunity from an employer segment previously absent from community hiring

What Is Success?

- Must optimize two critical variables for long-term opportunity:
 - Take up by employer
 - Employee retention
- The better we optimize, the better the probability of moving to full-scale implementation (not just Ontario but all of Canada).

Links

- SCP website:
 - <http://socialcapitalpartners.ca/>
- MEDEI news release:
 - https://news.ontario.ca/medt/en/2015/12/ontario-improving-employment-opportunities-for-people-facing-barriers.html?utm_source=ondemand&utm_medium=email&utm_campaign=0
- Deloitte feasibility study:
 - http://socialcapitalpartners.ca/wp-content/uploads/2015/01/SCP_Feasibility_StudyReport_5Nov2014.pdf
- Royal Bank of Canada investment in SCP CELP:
 - <http://www.rbc.com/community-sustainability/rbc-social-finance-initiative/scp-investee-profile.html>

Pay for Success: Applications in Workforce Development

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Overview

- Overview of Social Finance
- What is Pay for Success?
- Case Study: New York State Workforce Re-Entry
- Applications in Workforce Development
- How can your organization get involved?

Social Finance Overview

Our Vision

We envision a society in which everyone has the opportunity to achieve their full potential.

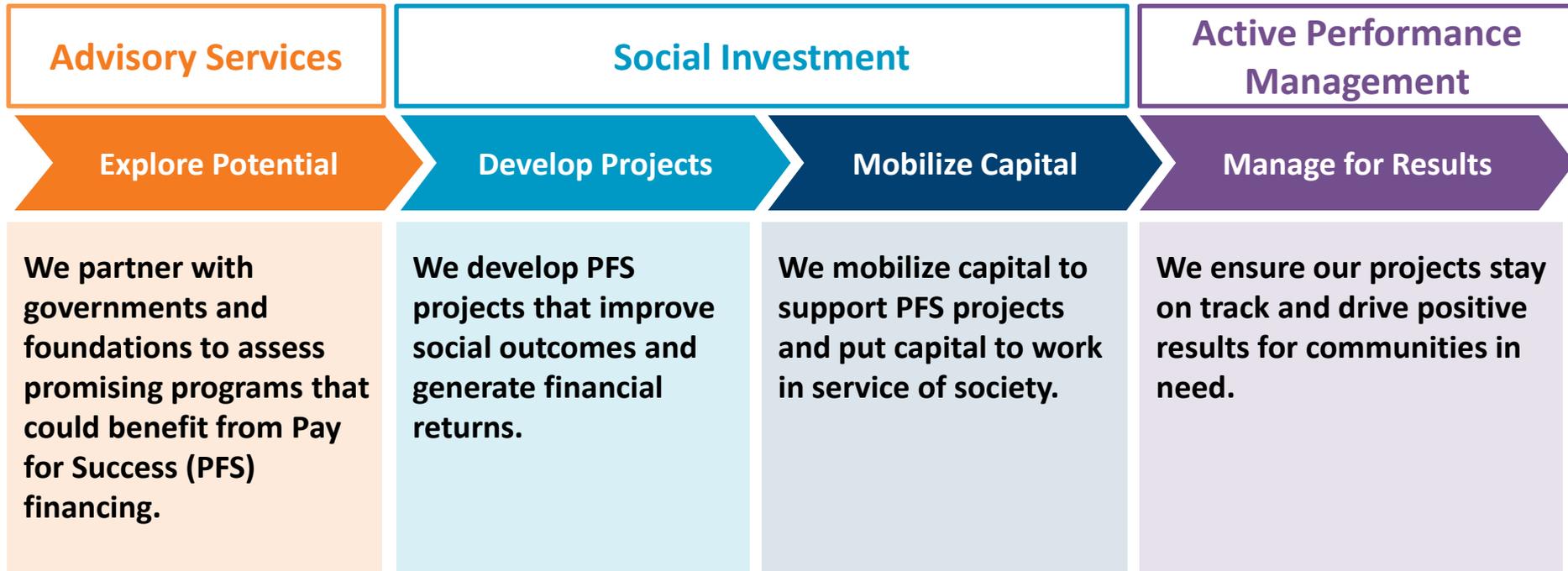
Our Mission

We are dedicated to mobilizing capital to drive social progress.

Our History

- Registered 501(c)3 nonprofit founded in January 2011
- Our sister firm, Social Finance UK, was founded in 2007 and launched the world's first SIB in 2010
- Offices in Boston, MA, and Austin, TX
- Team of 30 includes experienced professionals from the public, private, and nonprofit sectors
- Actively structuring seven transactions in issue areas from child welfare to adult basic education

Social Finance Services



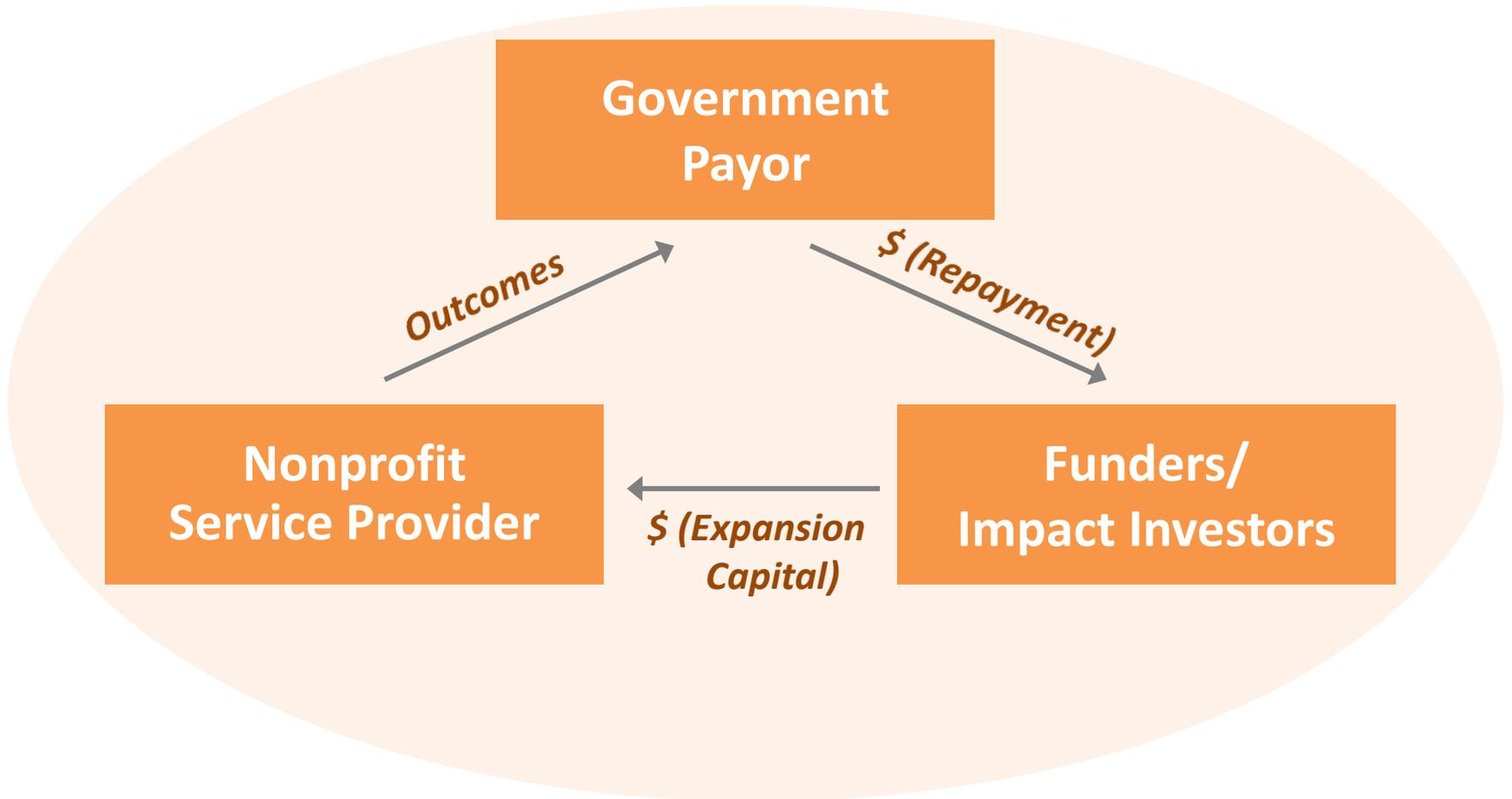
Field Building and Market Education

Through research, advocacy, and publications, we support the development of the PFS market and the broader impact investment movement.

What Is Pay for Success?

Pay for Success is about
measurably improving the lives
of **people most in need**
by driving government resources
toward **more effective services.**

What Is Pay for Success? (continued)



Why Do We Care about PFS?

Focuses on **evidence and outcomes**

Helps **scale up** high-quality services

Influences **government funding** decisions

Eight PFS Deals Have Reached the Market to Date

Criminal Justice (Recidivism)



- 1 New York City
- 2 Massachusetts
- 3 New York State

Early Childhood Education



- 4 Salt Lake City
- 5 Chicago

Homelessness (and At-Risk Youth)



- 6 Cuyahoga County
- 7 Massachusetts
- 8 Santa Clara

Additional projects in development:

Teen Pregnancy

Asthma

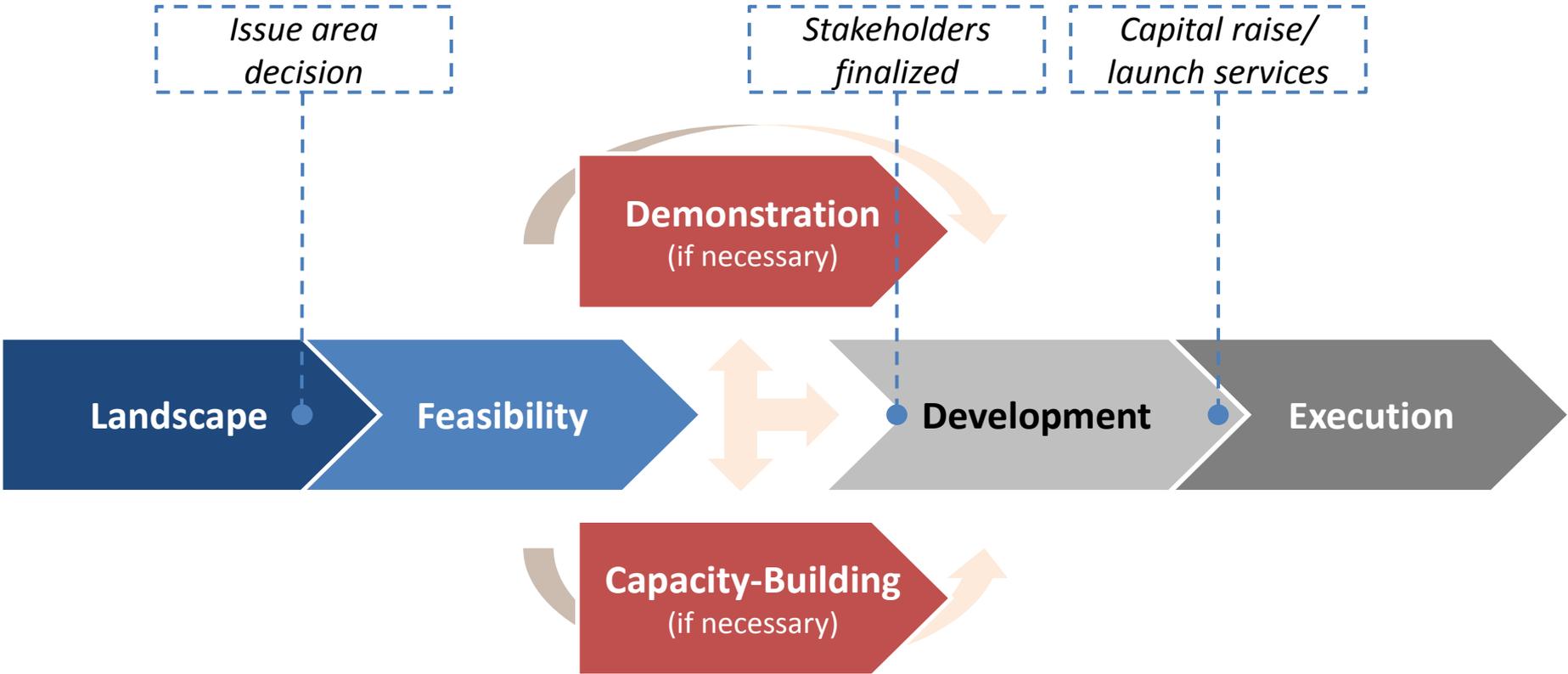
Child Health

Workforce

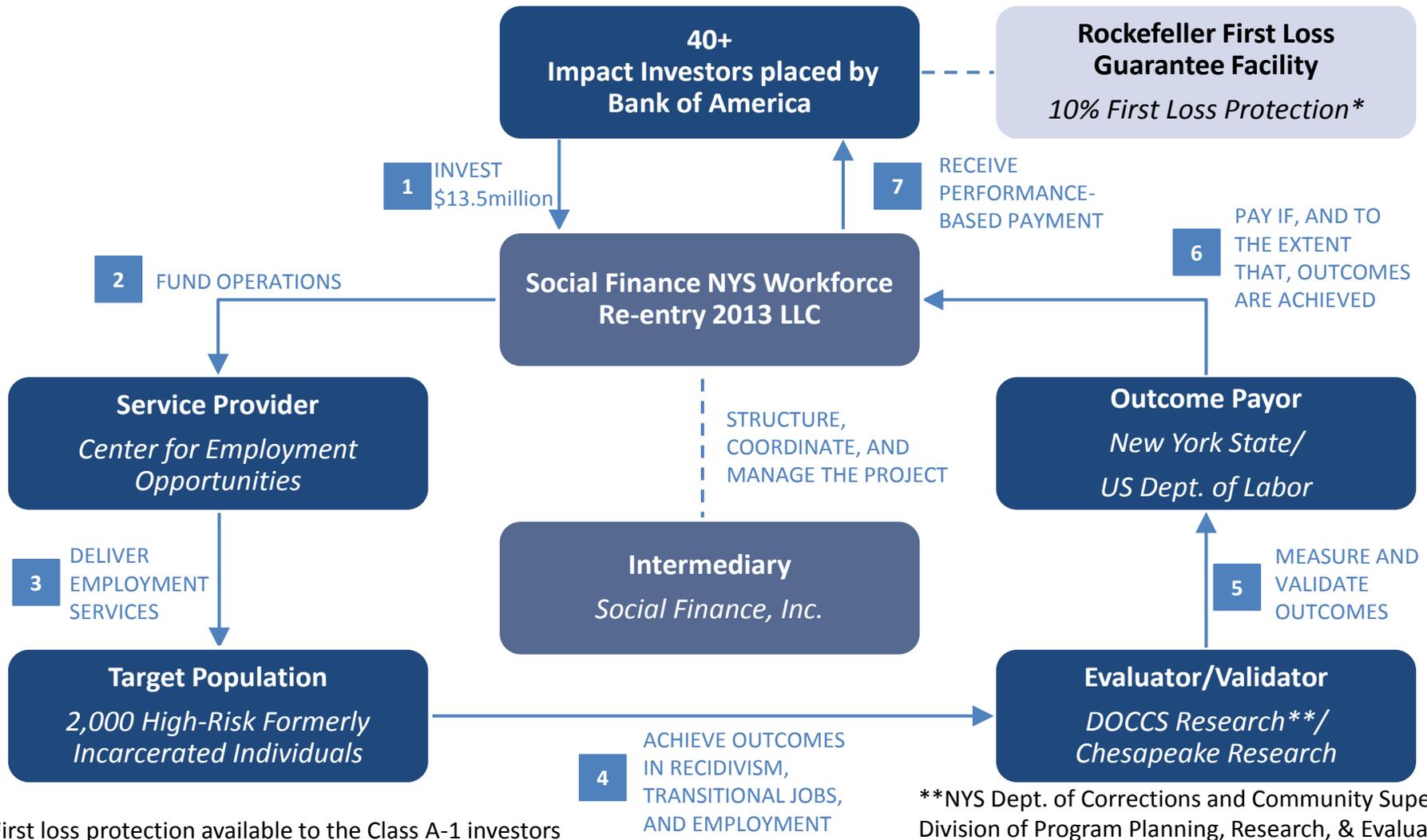
Diabetes

Photographs courtesy of Center for Employment Opportunities, Chicago Public Schools, and FrontLine Services.

What Does It Take to Develop a PFS Project?



Detail: New York State Workforce Re-Entry



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

**NYS Dept. of Corrections and Community Supervision Division of Program Planning, Research, & Evaluation

Workforce Development Applications

Service Provider-Focused

Jewish Vocational Service (JVS)

- Tiered intervention integrating skills training and English instruction
- Scaling via PFS to target ~2,000 adult learners with low- or intermediate-level English in greater Boston

Individual Placement and Support

- Vocational rehabilitation model for veterans with severe and persistent mental illnesses
- Present in 16 states, 130+ sites
- 22 randomized controlled trials show statistically significant impacts on employment and wellness with nonveterans

Payor-Focused

Department for Work and Pensions (DWP) Innovation Fund

- UK Innovation Fund pilot initiative, comprises 10 DWP-awarded pay for results contracts
- Aimed at supporting 17,000 disadvantaged young people in education and employment over three years

The Opportunity

- Strong political will accompanied by large demand for services
- Direct and indirect economic benefits
- Federal funding available (Workforce Innovation and Opportunity Act, National Emergency Grants)

The Challenge

- Administrative data difficult to access (namely, individual-level employment and earnings outcomes for subsets of population)
- Evaluations of workforce programs remain particularly susceptible to confounding variables (selection biases, mean reversion)

How Can Your Organization Get Involved?

	CRITERIA	EXAMPLE
<p>PROVIDER</p> <p><i>Deliver evidence-based program to a target population to achieve agreed-upon outcomes</i></p>	<ul style="list-style-type: none"> • Strong, multiyear track record of administering an evidence-based program • Management and operational capacity to scale 	<ul style="list-style-type: none"> • JVS was awarded bidder status by Massachusetts as part of \$15 million PFS project being developed to foster successful transitions to employment, higher wage jobs, and higher education.
<p>PAYOR</p> <p><i>Provides the outcomes-based payments (To date, this has been a government entity)</i></p>	<ul style="list-style-type: none"> • Ability to allocate sufficient funding for success payments • Buy-in at a senior level • Willingness to provide rate of return tied to budgetary savings and/or value 	<ul style="list-style-type: none"> • Workforce Investment Boards (WIBs): The Workforce Investment Opportunity Act authorizes local WIBs to use up to 10 percent of their funding to create pay for performance contracts. • United Way of Massachusetts Bay and Merrimack Valley invested in PFS project to reduce chronic homelessness in Massachusetts.
<p>PROGRAM INTERMEDIARY</p> <p><i>Advise and educate on program design, performance management, and/or evaluation design</i></p>	<ul style="list-style-type: none"> • Sector specific and/or technical expertise 	<ul style="list-style-type: none"> • Jobs for the Future to provide performance management support to JVS post-project launch, as national intermediary with expertise overseeing the implementation of educational and career advancement programs.
<p>CONVENER</p> <p><i>Assemble stakeholders to generate interest in PFS opportunity</i></p>	<ul style="list-style-type: none"> • Strong ties with relevant local funders, providers, government entities, and other stakeholders 	<ul style="list-style-type: none"> • The Kresge Foundation convened local providers in Michigan to spur interest in PFS for maternal and child health.

Next Steps

NEXT STEPS

PROVIDER

Deliver evidence-based program to a target population to achieve agreed-upon outcomes

- Do you have evidence-based programs?
- How would you classify the level of evidence?
- What outcomes are currently tracked?
- Have you engaged in any performance-based contracts?
- Has government in your jurisdiction indicated interest in PFS and/or begun a procurement process? Should you respond?

PAYOR

*Provides the outcomes-based payments
(To date, this has been a government entity)*

- In which jurisdictions does your organization have strong relationships with WIBs?
- Has your organization participated previously in any performance-based contracts?

PROGRAM INTERMEDIARY

Advise and educate on program design, performance management, and/or evaluation design

- What types of technical assistance are you qualified to provide? What role would you not want to play?
- Has government in your jurisdiction indicated interest in PFS and/or begun a procurement process? Should you respond?

CONVENER

Assemble stakeholders to generate interest in PFS opportunity

- In which communities might PFS resonate? Who else might you include?

Links and Resources

About Social Finance

Social Finance	http://socialfinance.org/
New York State Workforce Re-Entry Project Summary	http://socialfinance.org/content/uploads/2015/12/PFSProjectSummary_0314.pdf
Massachusetts Adult Basic Education Project	http://www.payforsuccess.org/massachusetts-adult-basic-education-initiative

Publications

PFS Financing Playbook	http://socialfinance.org/content/uploads/2015/10/BAML-SF_PFS-Playbook.pdf
Improving Outcomes for Veterans	http://socialfinance.org/content/uploads/2015/10/Veterans-Impact-Study-final.pdf
Building a Better Workforce: How States Can Use the Workforce Innovation & Opportunity Act to Turbocharge Workforce Development:	http://socialfinance.org/content/uploads/2015/12/WIOA-Concept-Paper.pdf
Innovation Fund Fact Sheet	https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/212328/hmg_g8_factsheet.pdf

Questions?

You have two options to ask questions today:

1. Email us at: communities@stls.frb.org
2. Type your question into the chat box of the webinar

Wrap-Up/Closing

Thank you to today's presenters and to all participants for joining this session.

Next steps:

- All session materials are available on our website and, in the next few days, we will be posting an audio file of today's session.
- If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at communities@stls.frb.org.
- Information about future sessions will be posted on our website, along with archived materials from past sessions:
www.stlouisfed.org/connectingcommunities/

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Transforming U.S. Workforce Development Policy & Practice Webinar Series

www.kansascityfed.org/transformworkforce

- February 23: Redesigning Strategies
- March 22: Building Evidence Based Practice
- April 28: Targeted Strategies

Related Resources



In connection with this session, you can find a variety of additional resources on this topic, available at **www.fedcommunities.org**.

It provides an array of practical resources to help you in your role as a community development professional, whether your work involves supporting people, places, the practice of community development, or small business development.