

# Response to Michigan Request for Information Social Impact Bonds

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## Executive Summary

Every year, 1.3 million students drop out of school. In Michigan 14,000 students dropout and 15,000 additional students fail to graduate on time each year. While these students are found throughout Michigan (the graduation rate in the State Capital City of Lansing averages 60%), the highest concentration of at risk students reside in Southeast Michigan. Compared to high school graduates, dropouts are more likely to be unemployed, live in poverty, suffer from poor health and enter the criminal justice system.<sup>1</sup> Young people who drop out of high school are unlikely to have the skills and credentials needed in today's globally competitive and technology-dependent workplace. High school dropouts are not qualified for 90% of U.S. jobs.<sup>2</sup> On average, dropouts earn almost \$10,000 less per year than high school graduates and \$30,000 less per year than those with a bachelor's degree. Research suggests that dropouts from the class of 2008 will cost the nation more than \$319 billion in lost wages over the course of their lifetimes.<sup>3</sup>

Monitoring and encouraging attendance, mentorship, and parent and community engagement have demonstrated positive results in academic achievement and dropout prevention.<sup>4</sup> Offering these community resources and interventions inside the neediest public schools—where they are accessible, coordinated and accountable—has been proven as the best-in-class dropout prevention strategy. Communities In Schools is the nation's leading school-based dropout prevention organization, but limited funding restricts growth momentum. During the 2011-12 School year Communities In Schools affiliates in Michigan worked with over 30,000 students and were able to achieve a graduation rate of 89.7% compared to 68.6% of students in the same schools who were not served by CIS. Leveraging Social Innovation Financing through a Social Impact Bond, could help scale the CIS program in Michigan, and afford thousands more young people the opportunity to thrive.

## I. Background Information

### Communities in Schools

Communities In Schools (CIS) is committed to combating obstacles to high school graduation so that students can focus on learning and teachers can focus on teaching. For 35 years, CIS has worked to surround students with a community of support to empower them to stay in school and achieve in life. CIS pioneered the Integrated Student Services (ISS) model—providing wrap-around community services within a school—and deploys almost 75,000 professionals and volunteers into more than 2,400 K-12 schools, reaching nearly 1.25 million students and their families. CIS is currently the fifth largest youth-serving nonprofit and the nation's leading dropout prevention organization. In Michigan alone, CIS affiliates in Metro Detroit, Kalamazoo, Tecumseh, Lenawee County and Mancelona serve over 30,000 students and provide case management services to more than 2,100 students. Of this case population 52% were African American, 27% were Caucasian, 9% were Hispanic, and 12% were multi-racial, Native American, Asian, or did not identify.

To help students stay in school, CIS identifies and makes available the resources that young people need to be successful. These services vary between communities, and include mentoring, academic support, health care, family strengthening, college readiness, career development, summer and after-school

<sup>1</sup> Alliance for Excellent Education, 2009.

<sup>2</sup> Education Week, Child Trends Database, 2012.

<sup>3</sup> Alliance for Excellent Education, 2006.

<sup>4</sup> APA, 2008; Balfanz & Legters, 2004; Toldson, 2008; U.S. Department of Education, 2006.



programs, alternative education models and service learning. During the 2011-12 school-year, CIS affiliates throughout Michigan provided student support services, including: academic assistance, basic needs, enrichment, parent specific services, mentoring and tutoring and afterschool and summer programming.

### **Social Finance, Inc.**

Social Finance is a 501(c)3 nonprofit organization dedicated to mobilizing investment capital to drive social progress. We work to improve the lives of the underserved by developing financial instruments that generate both social benefit and financial returns. At the core of our work is the Social Impact Bond, a multi-stakeholder partnership that enhances government efficiency, funds effective social programs at scale and achieves positive returns for investors. We draw on the foundation created by our UK sister organization, Social Finance Ltd., which launched the world's first Social Impact Bond in Peterborough, England aimed at reducing prison recidivism. We strive to work collaboratively with public, private, and provider partners to develop, structure, and raise investment capital for high-quality Social Impact Bonds. Social Finance serves as an intermediary to develop structure, finance and manage Social Impact Bonds. While we offer an array of intermediation services, our approach is flexible so that we may tailor our services to match a project's specific needs.

Social Finance US brings experience in managing multiple Social Impact Bond efforts across the country. These include:

- **New York State:** As part of a competitive procurement process, Social Finance was selected by New York State to serve as the intermediary for the State's Federal Department of Labor (DOL) Workforce Innovation Fund PFS solicitation. Social Finance and the State DOL worked together to craft this solicitation and succeeded in securing a \$12 million grant from the federal DOL that will enable the State to utilize Social Impact Bonds to scale up ex-offender reentry programs.
- **Fresno, California:** Social Finance and Collective Health were awarded \$1 million by The California Endowment to launch a demonstration project to improve the health of low-income children with asthma and reduce the costs that result from emergency treatments. Social Finance and Collective Health are managing a team of four sub-grantees to execute the implementation of the intervention and administer a randomized control trial.
- **Advisory role to multiple jurisdictions:** Our directors have testified in Maryland and Texas legislatures on potential Social Impact Bond legislation, and are have informally advised leaders in New Jersey, Pennsylvania, South Carolina, Maryland, Texas, and other states on their initial exploration of Social Impact Bonds.

## **II. Description of Program: Technical Requirements**

### **Social Issue**

According to the U.S. Department of Education, students drop out of school for several reasons, not limited to: dislike of school, low academic achievement, retention at grade level, and a sense that teachers and administrators are apathetic to individual students. Moreover, teachers and administrators are often overwhelmed by the emotional, social and health needs of high-risk students who come to school without their basic needs met. Identifying and providing the right resources for these students, including poor and impoverished at-risk youth, can help them to succeed in school and avoid the dropout trap.



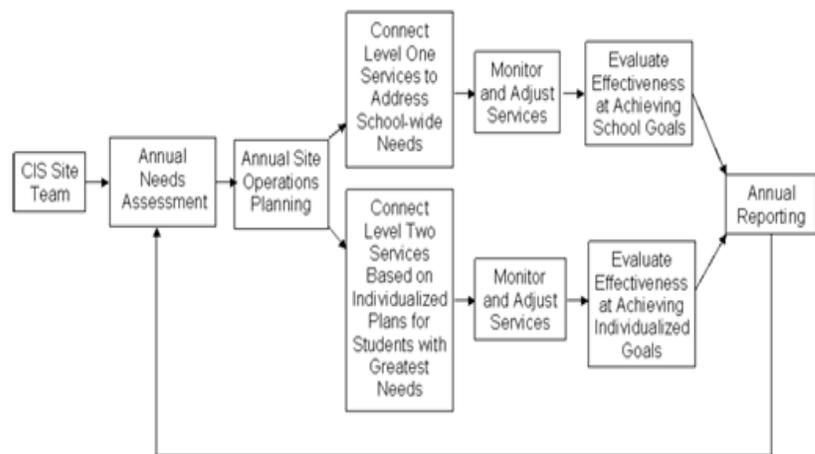
The legacy impact of school dropout has manifested in social challenges facing communities throughout Michigan. High school dropouts contribute to high unemployment, and account for lost earnings (\$5.1 billion of aggregate lost lifetime earnings), decreased workforce competition, higher health care costs, and higher incarceration rates (49% of those in state prisons dropped out of school.) According to the Alliance for Excellent Education if only half of Michigan’s dropouts were to have graduated they most likely would have generated \$544 million in increased home sales, \$17 million in increased auto sales, 1200 new jobs, \$224 million increase in State gross product and \$19 million in increased annual state tax revenue.

CIS understands that young people face enormous challenges inside and outside of the classroom—including poverty, hunger, homelessness, lack of parental involvement, and being labeled a “troublemaker” or “bad student”—which contribute to failure to graduate. Focusing on community based interventions shifts emphasis from recovery to prevention, and engages students, families, schools, and communities in a child’s success for extraordinary results. Customizing the community-based intervention based on local needs, holistically empowers both the student within the school environment, and keeps him on the path to graduation.

**Intervention**

The effectiveness of the CIS Model (Figure 1) is a result of its differentiated approach to service provision. CIS provides school-wide prevention and early intervention services based on specific school needs (e.g. attendance problems, negative school climate, lack of parent engagement). Simultaneously, CIS staff works with school leaders, juvenile justice and service agency leaders to identify a subset of the most at-risk students, who then receive targeted interventions. This blended prevention and intervention model is based on a widely accepted

**Figure 1. CIS Model**



public health model translated to education by Dr. Robert Balfanz of Johns Hopkins University. The CIS Model includes a trained CIS school-based Site Coordinator; a comprehensive school- and student-level needs assessment; a community asset assessment and identification of partners; annual plans for school-level prevention and individual intervention strategies; prevention services and resources for the whole school (e.g., leadership skills training, personal/social development, life skills courses), coupled with coordinated, targeted and sustained case-managed services and resources for the most at-risk students.

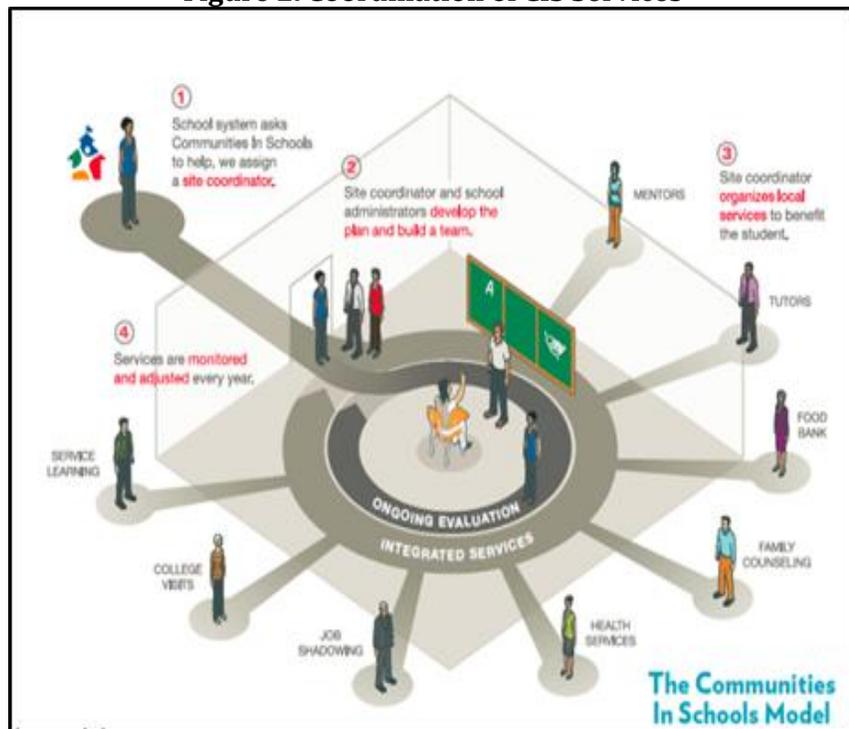
Through a school-based coordinator, CIS brings local resources inside the public school setting, where they are accessible, coordinated, and accountable (Figure 2). The Site Coordinator works with the school staff and identifies students at risk of dropping out. He assesses the school and student needs and establishes relationships with local businesses, social service agencies, health care providers, and volunteers. The Site Coordinator then serves as the single point of contact for a student—linking him to integrated services, while also playing the role of adult role model, case manager, mentor and friend.



Services at CIS Michigan schools include:

- College and Career Prep:** Affiliates help prepare students for life after high school through career planning, college visits, job shadowing, and leadership training. Site coordinators help students obtain scholarship information and apply to college, take students on campus tours and conduct mock interviews. They also help students find an enjoyable, sustainable career path to pursue through internships, job shadowing opportunities and leadership training courses.
- Family Engagement:** Site coordinators connect families with counselors and social workers to make sure that home is a healthy, nurturing environment where a student can feel safe.
- Enrichment Activities:** At many of the CIS locations students are able to participate in programs such as instrumental and vocal music, robotics and art.
- Bullying Prevention:** Site coordinators work with schools and community resources to provide guidance and support to create a safe environment for all students to learn.
- Academic Assistance:** Students have the opportunity to work with tutors and study groups. Literacy programs to assist student in reading and writing are common among the Michigan CIS network.
- Basic Needs:** The site coordinator ensures that students have their basic needs met, including: access to food, clothing, health and dental care, and a safe place to live.
- Additional, targeted services:** Depending on local needs, schools have extended programming in after-school learning, summer learning, pregnancy prevention, parent learning, violence and gang prevention, services for youth in the juvenile justice system, and English language learning.

**Figure 2. Coordination of CIS Services**



**Availability of Performance Measures: Ability to Collect Data and Manage Performance**

A CIS Social Impact Bond would build-on the Governor’s dashboard, and could immediately impact the State’s performance on third grade reading proficiency, ACT college readiness scores, student academic growth, schools meeting Average Yearly Progress, and self-reported bullying on school property. Moreover, given the personalized relationship between a student and a site coordinator and overall program goals, truancy and absenteeism is likely to decrease. In efforts to ascribe value and savings to these objectives, CIS and Social Finance believe that grade promotion and high school graduation rates are appropriate aggregate measures to dictate SIB financing, and that other performance outcomes



should be used to monitor program efficacy on an ongoing basis. Over time it is expected that real personal income per capita is expected to rise due to the increased job opportunities for high school graduates.

### ***Communities In Schools:***

CIS of Michigan currently uses the CIS data management system, CISDM, to collect data and manage performance. CISDM allows CIS site coordinators to enter and track case plans for students, delivery of services (frequency, duration, type, etc.), and individual student goals and outcomes. For a SIB project, CIS of Michigan will use CISDM to measure success based upon performance outcomes and process measures:

- Performance Outcomes
  - Increase in students promoted to the next grade level
  - Increase in students graduating high school on time
- Process Measures
  - Improvement in attendance, behavior and course performance goals

CIS focuses on the lowest performing schools and the students most vulnerable to dropping out. Target populations are identified by a number of metrics, including (and not limited to): eligibility for free or reduced price lunch and demographics and prevalence of racial diversity. CIS Michigan affiliates provide services in 16 school districts. The average free and reduced lunch for these districts is 69%, however in 5 of the 6 affiliate locations the free and reduced rate is over 90%. The average graduation rate of schools served by CIS affiliates in Michigan is 68.6%. Students served by CIS in those same districts achieve a graduation rate of 89.7%.

CIS maintains a Total Quality System (TQS) to sustain quality service delivery. By 2014 all CIS affiliates in Michigan will be accredited.<sup>5</sup> The TQS accredits local affiliates—through a codification of business standards demonstrated in a 5 year multi-part integrated study—to have the greatest effect on student improvement. As of 2011, approximately 108 affiliates had been accredited or are in the process, with all affiliates on track for accreditation by 2015. TQS ensures effective service delivery, and allows aggregate-level metrics tracking for all local affiliates.

In addition to TQS, CIS has also launched a Site Coordinator Certification program to effectively train and accredit the in-school personnel implementing their services. The training program involves in-person training sessions, interactive online modules, and a variety of elective courses.

### ***Social Finance:***

Social Finance works closely with partners in government and non-profits, as well as legal counsel, to put in place the appropriate contractual and operational structures that facilitate the achievement of the goals set forth in our social impact bond structures, such as dedicated performance management personnel. These team members focus on analyzing data on leading and lagging performance indicators and translating this analysis into actionable recommendations in coordination with our partner government and social service providers. We work directly with our partner's management teams to solve unforeseen strategic and/or operational challenges related to these programs, such as hiring or retention challenges, and implement any necessary course corrections. In addition, Social Finance benefits from the experience and performance management team of its sister

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<sup>5</sup> The Total Quality system is a comprehensive set of standards that all CIS affiliates must demonstrate, in 6 parts: identity standards (on par with CIS brand), board standards, planning and implementation standards, fiscal management standards, written agreement standards, and data collection/ evaluation/ reporting standards. Crucially, TQS ensures that all CIS affiliates show positive outcome trends, with both decreased dropout rates and increased graduation rates. (Source: CIS website, CIS North Carolina report)



organization Social Finance UK, who has over three years of experience providing intensive performance management for the world's first social impact bond.

### **Evidence Base**

CIS is committed to evaluation and quality. A five-year comprehensive national evaluation of CIS was completed in October 2010 by an independent, third party evaluator, ICF International that included four impact studies: a school-level quasi-experimental study and three randomized controlled trials. The evaluation showed the effectiveness of the CIS Model on reducing dropout rates, increasing on-time graduation, improving academic achievement (including course completion) and improving attendance. Importantly CIS of Michigan has ended programs in communities who were not committed to implementing our model with fidelity. Analysis indicates that the more fully and carefully the model is implemented, the stronger the effects.

In FY 12, CIS National began planning a new \$3 million comprehensive evaluation with MDRC funded by the Edna McConnell Clark Foundation, the Wallace Foundation, and the Corporation for National and Community Service through the True North and Social Innovation Funds. Key research questions relate to the impact of CIS on outcomes in three primary domains: school progress, academic performance, and behavior. The evaluation consists of three complementary studies – 1) a student-level randomized controlled trial; 2) a school-level comparative interrupted time series study; and 3) an implementation study including costs of the CIS model. Work on the cost study began with a focus on capturing cost per school and service delivery. Final impact results are anticipated May 2015.

End of year performance results consistently show improvements in graduation, promotion, and attendance rates across the CIS network. During the 2011-12 school year, CIS affiliates in Michigan achieved the following results: 30,767 students served, 2177 Students were case managed, 98.6% of potential dropouts stayed in school, 83.1% of students were promoted, 89.7% of students graduated, 69.7% met behavior improvement goals, 69.6% improved achievement, 72.3% of students improved their attendance.

### **Participant Base**

Community-based drop-out prevention strategies should focus on targeting low-income students who are at high risk of dropping out of school. The school-based prevention model can be used with students in elementary, middle and high schools—but have gained most traction with students in grades 9 to 12. The program is especially targeted to students eligible for free or reduced school lunch.

### **Ability to Scale**

The Communities In Schools of Michigan Board has identified eight target communities for growth. There are over 40,000 students in these communities who attend these schools and would benefit from CIS services. CIS is uniquely situated to scale effectively. To-date, the CIS network serves approximately 1.25 million students each year across 183 local affiliates in 27 states and the District of Columbia. The opportunity to scale to provide the evidence-based CIS Model of ISS to more students in Michigan will, over time, result in millions of dollars of savings to the State of Michigan. The current Michigan affiliate network has capacity to expand by at least 10% per year within their operating areas. New replicate affiliates could reach even more at-risk youth.

### **Potential for Savings**

#### ***Paying for Performance:***



In paying for performance, the government may choose to pay only for “savings” (e.g. the cost avoided by decreasing grade repetition and reducing per pupil spend) or the government may also choose to pay for the “value” of improving an outcome (e.g. the social benefit generated by increasing seat time for young people in school, or increased effectiveness of public dollars). There are benefits to both strategies for paying for performance. However, basing an outcome price (the amount that the State agrees pay per successful outcome) on both savings and value allows the government to consider a wider range of Social Impact Bond application areas that result in outcomes that have a positive impact on both the government’s budget and society more broadly. This strategy is currently being employed in the United Kingdom where the Department of Pensions and Work released a youth employment procurement that specified a list of payable outcomes and the amount the government is willing to pay for a given outcome (e.g. improved behavior at schools, arresting of chronic truancy, passing of a mandatory test)<sup>6</sup>

When assessing the value of an improved outcome, governments might also take into account the added effectiveness of their dollars through a Social Impact Bond. For example, Michigan might spend \$30 million through traditional contracts to improve high school graduation rates and be achieving a *5% improvement* in graduation rates. However, the State could structure a SIB that enabled it to use those \$30 million dollars to achieve a *30% improvement* in high school graduation rates. The added value per dollar that the SIB structure provides could be taken into account when determining how much to pay for an increase in high school graduation or other social outcome.

### ***Dropout Prevention Value:***

The CIS model is particularly cost-effective and sustainable; an economic impact study by EMSI in 2012 showed that every dollar invested in CIS creates \$11.60 of economic benefit for the communities across the country. In Michigan, the return on investment ranges from \$3.50 to \$16.70 for every dollar invested in CIS<sup>7</sup>; benefits to society are amplified based on benefit to society created by dropout prevention. We suggest the following definitions to better understand the value generated by dropout prevention.

- **High School Dropout:** We conservatively estimate that the state will gain \$5,400 for each additional high school graduate, through use of state services and tax revenues due to higher likelihood of employment and higher wage rates for high school graduates.<sup>8</sup>
- **Increased Graduation Rate:** Because a high school graduate is likely to earn at least \$130,000 over a lifetime more than a high school drop-out, a graduate contributes more in taxes. As a result, a graduate creates \$10,742 in revenue to state, Federal, and local governments.
- **Reduced Grade Repetition:** Every student that is not retained, reduces the per pupil spending on that student throughout their academic career. This savings creates a total of \$10,776 in aggregate return to State, Federal and local governments based on reduced per pupil spending in Michigan with nearly \$7,000 accruing directly to the State.<sup>9</sup>

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<sup>6</sup> For additional information on the Department of Works and Pensions procurement under The Innovation Fund see “The Innovation Fund for Young People: Specification and Supporting Information for Round Two,” Department of Works and Pensions available at <http://www.dwp.gov.uk/docs/innovation-fund-specification-r2.pdf>.

<sup>7</sup> The 2012 EMCI Return on Investment study resulted in the following economic impacts in Michigan: Detroit ROI=\$4.30; Kalamazoo ROI=\$6.50; Manelona ROI=\$3.50; Tecumseh ROI=\$16.70

<sup>8</sup> Assumption is based of the pro-rated ten year value of lifetime usage of state services and tax revenues.

<sup>9</sup> <http://cms.bsue.edu/-/media/WWW/DepartmentalContent/Teachers/PDFs/michigan.pdf>



### Potential Social Impact Bond Structure

While we encourage the State to identify Social Impact Bond Intermediaries with whom to work to refine the scope and structure of a CIS SIB, an illustrative structure for two potential in-school scenarios is outlined below.

**Table 1. Illustrative SIB for Communities In Schools Intervention**

Term	Communities In Schools
<b>Intervention</b>	Five-pronged, school based community intervention model, including: a one-on-one relationship with a caring adult, a safe place to learn and grow, a healthy start and a healthy future, a marketable skill upon graduation, and a chance to give back to the community.
<b>Individuals Served</b>	24,000 students in three cohorts across grades and school sites - Cohort one: years 1 – 4 (inclusive); 6,000 students - Cohort two: years 2 – 5 (inclusive); 8,000 students - Cohort three: years 3 – 6 (inclusive); 10,000 students
<b>SIB Timeline</b>	- Years 1-6: Service delivery; interim measurement - Year 7: Evaluation - Years 5 – 7: Outcomes payments
<b>Outcome Payments</b>	- \$0- \$22 million (total State payment would be dependent on the level of outcomes achieved with the state not paying unless a pre-determined level of success is achieved.)

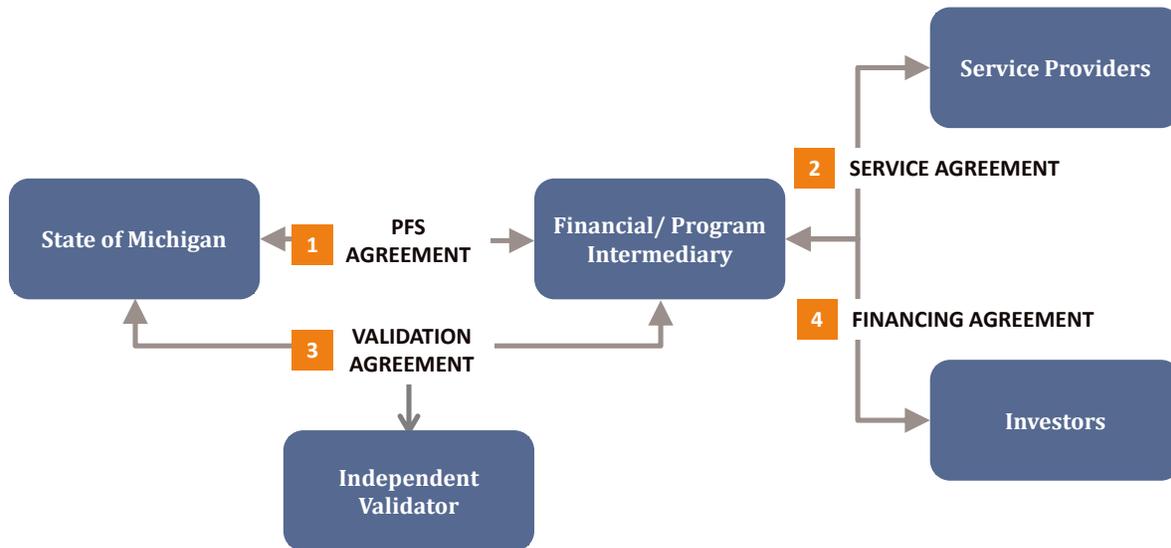
### III. Description of Governance Structure

Social Impact Bonds are fundamentally about collaborative partnerships that optimize the relationships among government agencies, nonprofit service delivery organizations, and socially-minded investors in a unique configuration to deliver the most effective and efficient outcomes for vulnerable individuals, families, and communities. There is not a one-size-fits-all governance structure for Social Impact Bonds; instead, the structure should be adapted to the strengths of partners and needs of the project. We encourage the State to work collaboratively with its selected SIB Intermediary and partners to design the structure that best fits the goals of Michigan.

Ideally, a successful SIB governance structure provides 1) the State with sufficient oversight to protect the public’s interest; 2) the Service Provider(s) with significant input in strategy and day-to-day operations of programs, 3) the Investors with confidence that their investment in social outcomes will be capably managed and implemented, 4) the Independent Validator with sufficient visibility into evaluation design and data to determine if outcome measurement is accurate; and 5) the Intermediaries with the flexibility monitor the project and work with partners to implement strategies necessary to achieve the project’s goals. Figure 2 outlines one illustrative example of such a structure.



**Figure 3. Illustrative Contractual Arrangements of a Social Impact Bond**



The interrelated sets of Agreements underpinning this recommended governance structure are (1) a Pay for Success Agreement between the State and its selected Intermediary, which could be one organization or multiple partners with financial and programmatic expertise; (2) Service Agreements between the Intermediary and the Service Providers that will carry out the intervention programs; (3) a Validation Agreement between the State, the Intermediary, and Independent Validator; and (4) a Financing Agreement between the Intermediary and Investors. The Agreements work together and cover shared expectations, allocate clear and mutually-accountable roles and responsibilities, and establish collaborative governance mechanisms and flexible decision-making processes to keep everyone focused on producing better outcomes at lower costs. The Agreements also would define the outcomes, metrics, data, measurement, reporting, payment triggers, and funds flow.

The active participation of key stakeholders in the direction and implementation of this project is also critical to its success. A Committee and Working Group structure that brings together stakeholders at different levels and frequencies to monitor and make key decisions can be effective.

**IV. Description of Other Issues or Considerations**

***Procuring Social Impact Bonds***



Social Impact Bonds represent a new way of both financing and contracting for social outcomes. Instead of procuring and paying for a set of services, governments have the opportunity to procure and pay only for the successful outcomes. In such an arrangement, the main terms that government must set are the goals that it seeks to achieve (e.g. the metric it wants to improve) and the amount it is willing to spend to achieve that goal (e.g. the outcome price and maximum budget available for outcome payments).

Our experience suggests that it may be helpful for the government to begin engaging SIB Service Providers and Intermediaries as partners in defining the terms and structure of the SIB. In order to identify the best intervention and create the optimal financing structure for achieving the government's desired social outcomes, government is a critical collaborator. A "fully-formed" SIB proposal developed without the government's input and submitted for a procurement may fail to take important factors that require insight from government leaders (e.g. jurisdiction-specific social issue and budget context, administrative data system capacity, etc.) into account. Structuring procurement processes in such a way that allows for government to engage directly with partners in the early stages of SIB development, may more constructively lead to a SIB that aligns with the goals of the partners. One approach is to release a Request for Qualifications for partners with whom to collaboratively design a Social Impact Bond.

## **Conclusion**

Communities In Schools has been shown to be cost-effective and has proven to both reduce high school dropout rates and increase graduation rates. Investing in this program up front could yield very high long-term return on investment for the taxpayers of Michigan of up to \$22 million. Not only could Michigan see savings but the State can expect to see increased revenue collection if students are successful and graduate on time due to the increased tax base of employed graduates and their contribution to the State's economic growth. We see a compelling opportunity to use a Social Impact Bond to scale the CIS model to reach significantly more high-need youth across Michigan. If the State decides to pursue such a financing, Social Finance and the Communities In School are prepared and committed to supporting Michigan in structuring a SIB focused on delivering the best outcomes for the target population and the highest return on investment for the State.