

Response to Michigan Request for Information
PROJECT NUMBER: #0071141113B0000535
Social Impact Bonds
Nurse-Family Partnership National Service Office

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Executive Summary

Nurse-Family Partnership® (NFP) is an evidence-based, nurse home visiting program for first-time mothers living in poverty and expecting their first child. Built on the pioneering work of Dr. David Olds over four decades, NFP has consistently produced significant and sustained outcomes for families and communities as evidenced by rigorous evaluations.

We propose that Michigan use innovative financing mechanisms such as Pay for Success (PFS) to bring NFP to scale in selected high risk communities throughout the State, resulting in improved outcomes for low- income, first-time mothers and their children. PFS can be an efficient financing mechanism for proven initiatives like the NFP where the evidence of effectiveness has been rigorously tested, expected outcomes are predictable, and a return on investment is certain within a defined period of time. An NFP PFS project can have a positive impact on government by encouraging public-private partnerships that can significantly expand proven beneficial initiatives that the State alone might otherwise not be able to afford. Such expansions, if carried out properly, should multiply NFP's positive impact and result in improved outcomes for affected families and communities, cost savings for the State, and a return on investment for investors. As the NFP National Service Office (NSO) and Social Finance detail later in this response, ***a SIB-financed expansion of NFP has been estimated to generate state and other societal savings of approximately \$6.03 for every \$1 invested.*** By strengthening families now through NFP, we will be investing in Michigan's future.

I. Background Information

Nurse-Family Partnership (NFP) is an evidence-based home visiting program that supports first-time mothers living in poverty by pairing expectant mothers with a nurse who provides home visits from early in pregnancy until the child's second birthday. The goal of the NFP program is to improve pregnancy outcomes, child health and development, and life course development for its clients and their families. The model is implemented by independent, local agencies that are coordinated by the NFP National Service Office (NSO).

The NFP model is a product of almost four decades in the research laboratory and over a decade of field implementation. Early investments in low income, first-time mothers through the NFP result in enduring and significant impact for the entire family across the following domains: 1) health; 2) cognitive and educational outcomes; 3) and socio-economic returns.

NFP National Service Office (NSO) is a 501(c)(3) organization located in Denver, CO, with the mission of helping communities implement and scale the NFP program through contracts with independent, local implementing agencies. Since 1997, when the program was first offered for public investment, NFP has grown rapidly to serve more than 181,232 families. The NSO contracts with and provides support to states and agencies that deliver the NFP program. These agencies are State and local health departments, non-profit community-based organizations, hospitals, visiting nurse agencies, federally qualified health centers, universities and school districts. These agencies are funded by a mosaic of public and private funding entities, representing the diversity of NFP interests. These funding sources include:

- *Federal sources:* Maternal, Infant and Early Childhood Home Visiting (MIECHV) Program, Medicaid, Temporary Assistance for Needy Families (TANF), Title V Maternal and Child Health Services Block Grant;
- *State sources:* Tobacco Settlement funds, state, city and county general funds, early childhood/school readiness funding;
- *Federal and state funding streams focused on* child abuse prevention, juvenile justice/delinquency prevention, and substance abuse and mental health; and
- *Philanthropic sources.*

The NFP NSO is organized around four primary functions: a) nurse training and development, b) state/site development; c) monitoring fidelity and continuous quality improvement, and d) policy, advocacy, and communications. The NFP NSO has established service delivery standards, developed Visit-by-Visit guidelines, designed on-line and on-site training programs for NFP nurses, and created an Evidence-to-Outcomes (ETO) system that collects, analyzes, and monitors data and outcomes at the individual, nurse, and site level. Data from ETO are used to monitor program fidelity and outcomes.

Currently, the NFP NSO serves a network of over 238 sites in 43 states, 1 U.S. territory and 6 native entities, reaching 511 counties and 26,000 families at any point in time. In Michigan, NFP currently serves fewer than 1,000 low-income, first-time mothers annually across nine implementing agencies in Detroit, Pontiac, Berrien, Calhoun, Genesee, Ingham, Kalamazoo, Kent, and Saginaw. With increasing numbers of families falling into poverty, an estimated 845,000 Medicaid-eligible women give birth for the first time each year. Of those mothers, NSO estimates that 20,700 live in Michigan. The ultimate goal is to make the NFP program available to all eligible mothers in the U.S.

The NSO traditionally has had extensive experience working collaboratively with State governments both on NFP program implementation and funding and, more recently, in responding to requests for information on Pay-for-Success initiatives in several states.

Social Finance, Inc. (Social Finance) is a 501(c)(3) nonprofit organization dedicated to mobilizing investment capital to drive social progress. Social Finance’s vision is that everyone deserves the opportunity to thrive, and that social impact financing can play a catalytic role in creating these opportunities. As a market intermediary, Social Finance structures partnerships by aligning the unique interest of all stakeholders – service recipients, service providers, government and investors – to create innovative social financing solutions. At the core of its work is the Social Impact Bond, a PFS financing mechanism that is a multi-stakeholder partnership that enhances government efficiency, funds effective social programs at scale, and achieves positive returns for investors. Social Finance has the expertise to work collaboratively with public, private, and provider partners to develop, structure, and raise investment capital for high-quality PFS projects.

II. Description of Nurse-Family Partnership

Social Issue

As Governor Snyder pointed out in a policy address on Health and Wellness, “to build a stronger Michigan, we must build a healthier Michigan.” At the same time that governments are facing significant budget constraints, we are also facing a human capital crisis: far too many children and

families are suffering from chronic poverty, poor health, diminished educational achievements, and other social conditions that carry a high price tag in both human and fiscal costs. As noted by New York Times columnist Nicholas Kristof, “perhaps the most widespread peril children face isn’t guns, swimming pools or speeding cars...[but] ‘toxic stress’ early in life, or even before birth” and that “if we want to chip away at poverty and improve educational and health outcomes, we have to start earlier.”¹ Throughout Michigan and the country, there is a huge need for preventive measures that provide early childhood interventions to those that need it most. NFP is an evidence-based model that can meaningfully and dramatically impact the lives of mothers and their children in Michigan.

The Intervention

NFP is an evidence-based, nurse home visiting program for first-time mothers living in poverty. The intervention is offered early in pregnancy continuing through the child’s second birthday. The transformational work of NFP occurs when registered nurses partner with eligible mothers during regularly scheduled home visits to achieve three goals:

- Improve pregnancy outcomes by helping women engage in good health-related behaviors, including reducing use of cigarettes, alcohol, and illegal drugs;
- Improve child health and development, and life prospects by supporting new parents in providing responsible and competent care for their children; and
- Improve economic self-sufficiency of families by assisting parents to develop a vision for their own future, plan future pregnancies, continue their education, find work, and, when appropriate, strengthen partner relationships.

NFP is a voluntary program that complements obstetrical and pediatric care. Because NFP nurses visit pregnant women in their homes, the relationships developed with the client result in modification of her individual behavior and lifestyle, as well as a reduction of risk factors which contribute to early-term births, closely-spaced subsequent births and other adverse health outcomes that lead to costly Medicaid expenditures. In addition, the NFP nurse’s presence ensures the early identification, referral and treatment of problems that might complicate a pregnancy or impede the health and development of a newborn child. Each NFP nurse home visitor is expected to carry a maximum caseload of 25 families at any given time.

III. Nurse-Family Partnership’s Outcomes and Evidence Base

Over a 35-year period, ongoing evaluations of the NFP model, including three well-designed randomized controlled trials that began in 1977, 1988, and 1994 with different populations and geographies, have demonstrated that NFP achieves significant and sustained outcomes for high-risk families. Independent analyses of NFP evaluations have validated NFP’s track record. For example, in an August 2011 report, the non-profit, non-partisan Coalition for Evidence-Based Policy evaluated the eight models then available to states through the new MIECHV Program. NFP was the only model receiving the highest ranking, earning a “strong” level of confidence indicating the program will produce meaningful improvements for society.

¹ Kristof, N. Poverty Solution That Starts With a Hug. New York Times, January 7, 2012.

In addition to these evaluations, the NSO has invested in a well-designed performance management information technology system that allows the NSO to access and analyze outcome metrics for the implementing agencies that replicate NFP throughout the country on a real-time basis.

Based on the rich outcomes data available from the 30 evaluations conducted on NFP and national replication data, the NSO is able to predict that, on average, enrolling 1,000 low-income families in NFP in Michigan will result in²:

Outcome	Change	Evidence
Smoking During Pregnancy	24% reduction in tobacco smoked	(Olds et al. 1986, Elmira, NY); (Olds et al. 2002, Denver, CO); (Rubin et al. 2009, PA)
Complications of Pregnancy	27% reduction in pregnancy-induced hypertension	(Olds et al. 1986, Elmira, NY); (Kitzman et al. 1997, Memphis, TN)
Preterm First Births	15% reduction in births below 37 weeks gestation (37.2 fewer preterm births per 1,000 families served)	(Olds et al. 1986, Elmira, NY); (Kitzman et al. 1997, Memphis, TN); (Olds et al. 2000, Denver, CO); (Nguyen et al. 2003, Orange County, CA); (Carabin et al. 2005, OK); (Allen et al. 2010, OH); (Behrman & Butler 2007, NSO)
Infant Deaths	60% reduction in risk of infant death (3.4 fewer deaths per 1,000 families served)	(Olds et al. 2007, Memphis, TN); (Carbin et al. 2005, OK); (Cox 2006, OK); (Donovan et al. 2007, Cincinnati, OH)
Closely Spaced Second Births	31% reduction in births within 2 years postpartum	(Olds et al. 1988, Elmira, NY); (Kitzman et al. 1997, Memphis, TN); (Olds et al. 2002, Denver, CO)
Very Closely Spaced Births	24% reduction in births within 15 months postpartum	(Rubin et al. 2011, PA); (NYC Nurse-Family Partnership E-News, 2011); (Kitzman et al. 2000, Memphis, TN); (Olds et al. 2002, Denver, CO)
Subsequent Birth Rate	31% reduction in second teen births (73.1 fewer children per 1,000 families served within 2 years postpartum & lifetime)	(Ikramullah et al. 2011, Elmira, NY, Memphis, TN, Denver, CO)
Subsequent Preterm Births	37.3 fewer subsequent preterm births per 1,000 families served	Computed estimate
Breastfeeding	14% increase in mothers who attempt to breastfeed	(Olds et al. 1983, Elmira, NY); (Kitzman et al. 1997, Memphis, TN); (NYC Nurse-Family Partnership E-News, 2012)
Childhood Injuries	38% reduction in injuries treated in emergency departments, ages 0-2	(Olds et al. 1986, Elmira, NY); (Kitzman et al. 1997, Memphis, TN); (Sonnier 2007, LA); (Matone et al. 2011, PA)
Child Maltreatment	31% reduction in child maltreatment through age 15	(Eckenrode et al. 2000, Elmira, NY); (Zielinski et al. 2009)
Language Development	39% reduction in language delay; 0.14 fewer remedial services by age 6	(Olds et al. 1994, Elmira, NY); (Olds et al. 2004b, Memphis, TN); (Olds et al. 2002, Denver, CO); (Olds et al. 2004a, Denver, CO); (Olds 2010, Denver, CO); (Olds et al. 2010, Memphis, TN)
Youth Criminal Offenses	46% reduction in crimes and arrests, ages 11-17	(Eckenrode et al. 2010, Elmira, NY)
Youth Substance Abuse	53% reduction in alcohol, tobacco, & marijuana use, ages 12-15	(Olds et al. 1998, Elmira, NY); (Eckenrode et al. 2010, Elmira, NY); (Kitzman et al. 2010, Memphis, TN)
Immunizations	23% increase in full immunization, ages 0-2	National Committee for Quality Assurance, 2011); (Kitzman et al. 1997)
TANF Payments	7% reduction through year 9 post-partum; no effect thereafter	(Olds et al. 1997, Elmira, NY); (Olds et al. 2010, Memphis, TN)
Food Stamp Payments	9% reduction through at least year 10 post-partum	(Olds et al. 1997, Elmira, NY); (Olds et al. 2010, Memphis, TN)
Person-months of Medicaid Coverage Needed	7% reduction through at least year 15 post-partum due to reduced births and increased program graduation	(Olds et al. 1997, Elmira, NY); (Olds et al. 2010, Memphis, TN)
Costs if on Medicaid	12% reduction through age 18	N/A
Subsidized Child Care	Caseload reduced by 3.5 children per 1,000 families served	Computed estimate

The power of the NFP model to successfully improve maternal and child health outcomes has resulted in NFP’s inclusion as a key element in Michigan’s Infant Mortality Reduction Plan. Additionally, in September 2011, Governor Snyder referred to NFP as a “bright spot” and a “best practice” for the State that “successfully brings at-risk young families in to the health care system.” The Governor pointed out that NFP has “demonstrated improved prenatal health, reduced childhood injuries and abuse, and lessened mental health problems for the children” and has also “resulted in cost reductions to government and society, as well as better lives for families starting out on the lowest rungs of the economic and health care ladders.”

² Meta-analysis report available at: http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Costs_and_ROI_report.pdf

IV. Availability of Performance Measures for Assessing Outcomes

The NFP National Service Office maintains an extensive electronic records system that allows evaluation of client characteristics, home visit encounters, and the early program outcomes identified in Table 1. Utilizing a standardized set of electronic forms, NFP Nurse Home Visitors update records following each home visit. From these data, assessments of program fidelity and outcomes related to birth, child health and development, and mother’s life course development can be determined. The NSO would work closely with the State to develop any necessary enhancement to the current data system to capture additional data items important to the State for the PFS project.

Table 2 below highlights the program outcomes currently captured through the NSO data systems. In addition to the data NSO collects, obtaining access to the State’s birth certificate, Medicaid claim, encounter data, or other administrative State data would provide an opportunity to validate NFP outcomes for a PFS project.

Table 2: NFP Outcomes Tracked by NSO Data Systems		
Birth Outcomes		
Initiation and Frequency of Prenatal Care	Incidence of Gestation Diabetes or Hypertension	Incidence in and Reduction of Tobacco, Alcohol, or other Substance Use
Incidence of Premature Births	Incidence of Low Birth Weights	Incidence and Duration of Neonatal Intensive Care Unit Utilization,
	Incidence of Infant Mortality	
Child Health and Development		
Initiation and Duration of Breastfeeding	Completion of Child Immunizations	Frequency of Baby Check-Ups and Other Health Care Utilization
Attainment of Communication	Psychomotor Developmental Benchmarks	
Mother’s Life Course Development		
Educational Attainment	Employment Status	Governmental and Community Assistance Utilization
Subsequent Pregnancies	Emergency Department or Urgent Care Visits	Reports of Child Abuse or Neglect
	Reports of Intimate Partner Violence	

Utilizing site-level population descriptors and client-specific demographic characteristics, program effectiveness can be appraised through contrasts with appropriately adjusted comparison samples. Coupled with cost-benefit considerations, the social impact of the implementation or expansion of the NFP program in a given community can be readily determined through a variety of evaluation methodologies. For over 30 years, NFP has been tested through rigorous evaluations, including randomized controlled trials and propensity score matching, which have proven the model’s ability to produce significant and sustained benefits for first time low income mothers. The NSO and Social Finance are confident that NFP has the evidence base and the access to measureable outcomes data necessary to develop a PFS project that will attract impact investors, meet the State’s objectives, and meaningfully change the lives of Michigan families.

V. Well Defined Participant Base and Ability to Scale

Target Population

Over the course of almost four decades of the NFP model being tested in the research laboratory and over one decade of field implementation, the NSO has the ability to target and identify specific populations that will most benefit from NFP services. The typical NFP mother in Michigan is:

- Young: the median age is 19 and 97% are under age 30;
- Unmarried: 93% of clients are single mothers;
- Under-educated: just 50% of clients have completed high school;
- Low income: a median household income of \$9,000 (based on national data); and
- Dependent on government's safety net programs: at intake, 80.9% were on Medicaid, 39.6% on food stamps, and 81.4% on the Special Supplemental Nutrition Program for Women, Infants and Children (WIC).

The Need in Michigan

In Michigan, the lead agency for NFP is the Michigan Department of Community Health (MDCH) in collaboration with the Department of Education and Department of Human Services. Currently, Michigan NFP programs are funded through a variety of sources, including:

- Approximately \$2 million in State General Revenue funds;
- Federal Maternal, Infant and Early Childhood Home Visiting Program funds;
- Local/private funds from a variety of sources; and
- Medicaid funds, where authorized.

While the present funding supporting Michigan's NFP programs represents a strong endorsement of the program's need and value, this funding is insufficient to meet Michigan's need. In 2012, there were approximately 20,700 first-time Medicaid births statewide. With current funding, NFP is only able to reach 4.8% of the eligible target population. To serve 25 percent of the currently unserved first-birth Medicaid population (4,925 births), an additional \$41 million investment would be required. New sources of capital are needed to invest in first-time, low-income mothers, as the social and economic benefits far exceed the service costs. A PFS project can help direct new, private sector capital to fund these critical services and provide a unique opportunity to leverage Michigan's public and philanthropic commitment to youth development and success.

NSO's Ability to Scale

The NSO was established to replicate and scale NFP services while maintaining fidelity to the NFP model. With this mission, the NSO has established a replication model to effectively support communities in scaling NFP throughout the country. The NSO contracts with independent, local implementing agencies to deliver services in their communities consistent with the model. Among a range of other services, the NSO supports implementing agencies by providing tailored education and development programs for Nurse Home Visitors, and within the context of a robust quality framework, deploying Nurse Consultants to monitor model fidelity and drive continuous improvement. This business model has allowed the NSO to successfully expand NFP services to reach families in a

network of 238 sites, 511 counties, in 43 states, one U.S. territory, and six tribal entities, with over 181,232 families served to date.

Nationally, the NSO has proven its ability to bring NFP to scale with access to adequate funding sources. Below are two examples:

- **Colorado:** NFP is a statewide initiative managed by a four-part team: Colorado Department of Public Health and Environment; National Center for Children, Families & Communities, University of Colorado Denver; the NSO; and Invest in Kids. The success of this partnership resulted in the Colorado General Assembly passing the Nurse Home Visitor Act in 2000, which allocated a portion of Colorado's tobacco settlement proceeds to NFP each year.
- **Pennsylvania:** Launched in 1999 through the Pennsylvania Commission on Crime and Delinquency, in 2001, the Governor and the Pennsylvania Department of Public Welfare (DPW) made an unprecedented decision to shift nearly \$20 million in unspent Temporary Assistance for Needy Families (TANF) funds to expand NFP. NFP is supported primarily through state funding administered by DPW and the Department of Education, with Medicaid reimbursement for eligible services, and recent MIECHV-supported expansion.

In Michigan, NSO anticipates facing continued budget constraints in the next five years despite strong public and private support. One future option for sustainability may result from the federal Strong Start evaluation, which is examining the extent to which NFP and another home visiting program can reduce preterm births and improve infant health outcomes. CMS has indicated that successful results from this evaluation could lead to the creation of a new Medicaid coverage category for evidence-based home visiting services. Results of the Strong Start evaluation will not be available until 2017 at the earliest. These future revenue streams could provide funding for NFP following a PFS Project.

The NSO has the operational infrastructure and relationships in place to expand operations at Michigan's nine NFP implementing agencies (Detroit, Pontiac, Berrien, Calhoun, Genesee, Ingham, Kalamazoo, Kent and Saginaw). In particular, there is strong interest and capacity for expansion in Pontiac and Detroit, where there is also a large population of first-time Medicaid births (estimated first-time Medicaid births are 335 in Pontiac; 1,576 in Oakland County; 2,117 in Detroit; and 4,426 in Wayne County). As the Pontiac NFP program is currently serving only 100 families and the Detroit program is serving only 125 families, both communities have considerable untapped capacity. Further, there has been significant interest generated in expansion of the Detroit NFP. The Detroit NFP kickoff event, held in March of 2013, was attended by numerous philanthropic and healthcare entities, as well as a diverse range of state and local organizations.

Based on preliminary analysis, the NSO believes a PFS project could scale NFP services from current levels to serve an additional 1,000 families. Please see Section VII for more details.

VI. Clear and Identifiable Savings

A NFP PFS project could be highly effective in supporting and scaling NFP while also bringing cost savings to the State of Michigan. Independent analyses by the Brookings Institution, RAND Corporation and Washington State Institute for Public Policy have documented that NFP produces a

positive return on investment for society and for government. A recent model developed by Dr. Ted R. Miller of the Pacific Institute for Research and Evaluation estimates a benefit-cost ratio for NFP of 6.03 to 1, when taking into consideration all State and local government budgetary savings (including reduced TANF payments, increased Medicaid graduation, lower costs if on Medicaid, less remedial education, fewer cases of child abuse, fewer arrests, fewer crimes, fewer substance abusers, etc.) and other societal benefits that do not accrue to the government’s budget, but bring real value to constituents and communities (including gains in wages and work, quality of life, etc.). Dr. Miller’s analysis predicts that when NFP serves a Michigan family, government entities at the local, state and federal levels each save money.

In Michigan, NFP costs an average of \$8,213 per-family served. This figure represents 100 % of costs to deliver NFP services. On average, Michigan families are enrolled in the program for 503 days and receive 24 visits. Costs are distributed as follows: 31% are incurred prenatally, 44% in the first year after birth, and the remaining 25% in the child’s second year.

Total Government Budgetary Benefit

State budgetary savings generated by NFP exceed the cost. By the time a child reaches age 18, the State government budgetary benefit per family served averages \$8,808 (present value) when accounting for offsetting expenditures for Medicaid, criminal justice, special education and other forms of government assistance such as TANF. Table 3 below itemizes the estimated direct State budgetary cost savings:

Table 3: Michigan NFP State/Local Government Savings		
Years	Total	% of Total
TANF Payments	\$1,667	19%
Medicaid Costs	3,602	41%
Special Education and Child Care	1,004	11%
Maltreatment	1,243	14%
Criminal Justice	1,292	15%
Total	\$8,808	100%
Return on \$1 Invested	\$1.07	

Total State Societal Benefit

However, NFP also generates other societal benefits (e.g., gains in wage work, household work, and quality of life of NFP families and of people who avoid becoming crime victims). We present the estimated values of these other societal benefits in the chart below.

Table 4: Michigan NFP Other Societal Savings		
Cost Savings	Quality of Life	% of Total
Reduced Infant/Child Mortality	\$18,436	45%
Reduced Child Maltreatment		
CPS-confirmed Cases	2,662	7%
Other Cases	9,016	22%
Reduced Nonfatal Child Injuries	174	0%
Reduced Youth Crime	6,941	17%
Reduced Youth Substance Abuse	20	0%
Non-Government Tangible Resource Savings	3,487	9%
Total Other Societal Benefits Savings	\$40,736	100%
Return on \$1 Invested	\$4.96	

When non-budgetary societal benefits are considered with direct budgetary cost savings, NFP generates \$49,544 of State benefits per family enrolled.

Total Federal Budgetary Benefit

Additionally, a significant portion of the program’s budgetary and societal benefits are realized by the federal government. We detail the per family federal cost savings generated by NFP in the table below:

Table 5: Michigan NFP Federal Government Savings		
Years	Total	% of Total
Food Stamps	\$3,640	30%
Medicaid Costs	6,927	56%
Child Care Costs	54	0%
Maltreatment	1,557	13%
Criminal Justice	138	1%
Total	\$12,316	100%
Return on \$1 Invested	\$1.50	

At these federal savings levels, NSO and Social Finance, in conjunction with the State, would seek to gain support from other federal departments in any potential PFS project in Michigan. The Federal government has already taken action to catalyze the SIB market at the state level and has proposed

various policy measures to increase support of the SIBs, including a new \$300 million incentive fund to help state and local governments implement PFS programs in partnership with philanthropies.

VII. Illustrative Term Sheet

We propose the following term sheet for a PFS project to illustrate the value of an NFP PFS project. We have structured the proposed NFP PFS project against State budgetary and other societal savings alone and have not included federal savings into the structure. Since any federal collaboration would improve the return on investment for the State, the results assuming the structure below are conservative. ***In this illustrative model, a PFS investment would double NFP’s reach in Michigan to serve 2,000 families. Moreover, the State would realize a \$6.03 return for each dollar it invests.*** This would allow the State to support SIB outcome payments to investors as well as generate net benefits to the State.

Parameters	Comments
Intervention Model	Nurse home visitation during pregnancy and after birth up to age 2
Individuals Served	1,000 low-income, first time mothers and their families (2 cohorts of 500 families each)
SIB Investment Required	\$10 million
Term of Financing	5 Years
Timing of Repayment	Years 4 and 5 (3 years after entry of each cohort)
Outcomes metrics	<ol style="list-style-type: none"> 1. Reduction in preterm births 2. Reduction in subsequent births
State return on investment	\$6.03 for every \$1 invested (sufficient to cover an investor return and produce net benefits to the state)
Source of outcome payments and return	Direct Michigan budgetary savings and other societal benefits

The NSO and Social Finance would look forward to working closely with the State to determine the appropriate structure, scale, scope, and potential outcome metrics of a NFP PFS project.

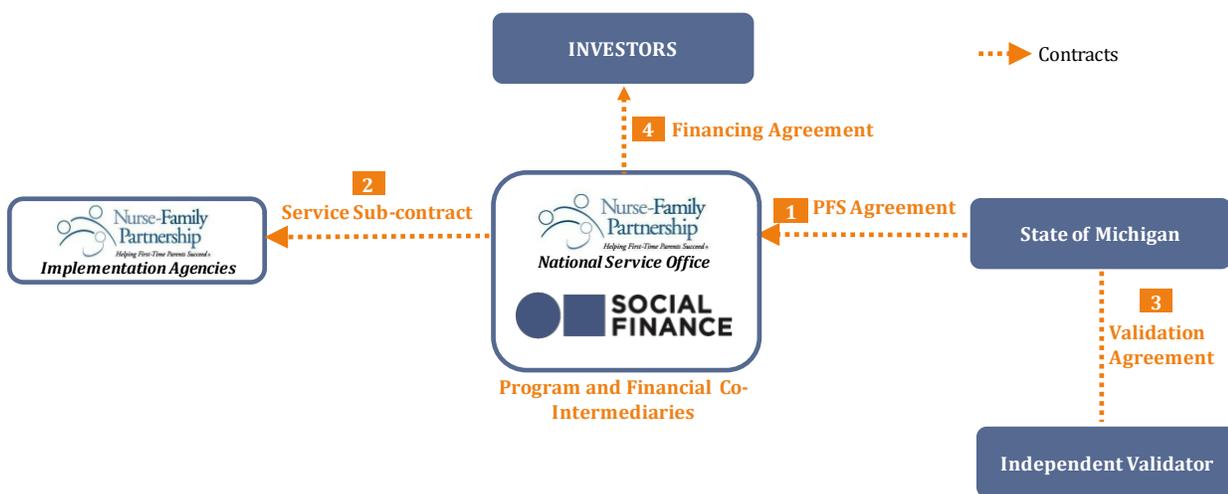
VIII. Description of Governance Structure

PFS projects 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. Ideally, a successful PFS 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 Intermediary(ies) with the flexibility monitor the project and work with partners to implement strategies necessary to achieve the project’s goals.

There is not a one-size-fits-all governance structure for PFS projects; instead, the structure should be adapted to the strengths of partners and needs of the project. We encourage the State to work collaboratively with the PFS stakeholders to design the structure that best fits the goals of Michigan. Figure 1 below highlights one illustrative example of such a PFS governance structure.

Figure 1. Illustrative Contractual Arrangements of a Social Impact Bond



The NSO is uniquely positioned to serve as an operational or programmatic intermediary for implementing NFP agencies in Michigan to provide quality control for implementation that would guarantee a strong return on investment. The NSO has established service delivery standards; training and development modules; output metrics to monitor program fidelity; and the IT infrastructure to collect, analyze, and monitor data and outcomes at the individual, nurse, and site level that can be leveraged for scale up in Michigan through a SIB structure. The NSO could serve as the central contracting point with the State of Michigan and in-turn sub-contract with NFP implementing agencies and Social Finance as the financial intermediary.

Social Finance is best positioned to partner with the NSO to meet the State’s objectives. Drawing on experience as the intermediary for the State’s Federal Department of Labor Workforce Innovation Fund PFS solicitation, Social Finance has the experience and qualifications required to manage the successful execution of this Project. Specific expertise include financial structuring, developing necessary financial projections, undertaking cost-benefit analysis, constructing risk models required to attract both philanthropic and impact investors, and collaborating with the NSO to monitor success, measure outcomes, and ensure targeted outcomes are achieved.

IX. Description of Other Issues or Considerations

Paying for Performance

In paying for performance, the government may choose to pay only for ‘savings’ or the cost avoided by achieving a given outcome (e.g. the cost avoided by reducing recidivism and being able to close the wing of a prison) 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). There are benefits to both strategies of paying for performance. While paying exclusively for cost avoided assures that there are funds available for success payments, paying for improved outcomes allows the government to encourage performance that will generate longer term value for the taxpayers. By paying both for cost avoidance and improved outcomes, the government can consider a wider range of PFS application areas. This strategy is currently being employed in the United Kingdom where the Department of Pensions and Work initiated procurement around youth employment that specified a list of outcomes and the amount they were willing to pay for a given outcome (e.g. improved behavior at schools, arresting of chronic truancy, passage of a mandatory test).³

X. Conclusion

The NSO and Social Finance are excited that the State of Michigan is pursuing PFS projects, and look forward to the potential opportunity to work with the State to use the innovative power of PFS financing to advance early childhood development policy objectives. The NSO and Social Finance are confident in our collective ability to effectively develop and execute a NFP PFS Project in Michigan that aligns the interests of the State, private investors, NFP implementing agencies, and first-time, low income mothers. The Partners are flexible in our approach to PFS financing and are willing to discuss alternatives to this response to best fulfill the State’s preferences and objectives.

³ 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>.