

Contact Information:

Governor's Press Office
NYC Press Office: 212.681.4640
Albany Press Office: 518.474.8418
press.office@exec.ny.gov



Andrew M. Cuomo - Governor

Governor Cuomo Announces New York the First State in the Nation to Launch Pay for Success Project in Initiative to Reduce Recidivism

Private Sector Raises \$13.5 Million to Invest in Project to Employ the Formerly Incarcerated

Public-Private Partnership Can Generate Millions in Savings and Benefits for Taxpayers

Albany, NY (December 30, 2013)

Governor Andrew M. Cuomo today announced that New York has launched the nation's first state-led Pay for Success project, an initiative to train and employ formerly incarcerated individuals. Private sector and foundation investors raised \$13.5 million in less than six weeks to fund the initiative. This project follows through on the Governor's commitment in his 2013 State of the State address to develop innovative programs to reduce recidivism while saving money for New York taxpayers.

"We are proud to be the first state in the nation to launch a Pay for Success public-private partnership project to help put formerly incarcerated New Yorkers to work," Governor Cuomo said. "This project is a win-win for our state, facilitating the reentry process of individuals into the community by boosting employment opportunities and thereby reducing recidivism rates, but requiring payment for services only if these goals are met. By assisting these individuals, who are often at risk of becoming repeat offenders, to become productive members of society, we can make New York's communities safer and more prosperous for years to come."

A Pay for Success Project, also known as a Social Impact Bond, is a contract between government and an intermediary organization. Under the contract, objectives are set by the

State, and the intermediary raises operating funds from private and philanthropic investors for the program. The State will pay investors based on the program's performance increasing employment and reducing recidivism. Even at the greatest level of success, the State's savings will exceed the amount the State pays to investors.

The project begins this month and will provide services to 2,000 formerly incarcerated individuals, who are at high risk of reoffending, soon after they are released from prison. By connecting these individuals immediately to intensive employment training and job placement services, the State will aid their reintegration into the community, boosting their employment and thereby reducing crime. Services will be provided over four years in Rochester and New York City by the highly respected non-profit Center for Employment Opportunities (CEO).

Success is measured based on two factors: recidivism (whether the person is sent back to prison) and employment. For investors to be repaid, the project must reduce recidivism by at least 8 percent and/or increase employment by at least 5 percentage points.

If the program performs even better than these targets, investors can earn a positive return on their investment that is proportionate to the savings and benefits achieved by the public sector. No payment is made if the program does not meet goals, ensuring that taxpayer dollars are only spent if a meaningful impact was attained.

If the project achieves all performance measures, the public sector will realize \$7.8 million in savings.

In September, the State received a \$12 million grant for the project, the largest award made by the U.S. Department of Labor under its national competition for Pay for Success. Additional funds were included in the 2013-14 state budget.

New York State has partnered with Chesapeake Research Associates as the independent validator and with Social Finance Inc., as the intermediary organization, which brought the partners together, structured the investment and supported the capital raising effort. Bank of America Merrill Lynch has raised \$13.2 million from investors, of which \$1.3 million is backstopped by the Rockefeller Foundation, and the Robin Hood Foundation has invested \$300,000.

Marta Nelson, Executive Director of CEO New York City, said, "CEO is thrilled and honored to be part of this innovative partnership to provide expanded opportunities for success through employment for formerly incarcerated people. We believe that this public/private

approach will provide CEO with the flexible, long-term funding it requires to focus our efforts on delivering the right program, to the right people, at the right time.”

“We commend New York State and are proud to have been its partner in bringing this landmark transaction to fruition. This partnership represents an uncommon alliance among the public, private and nonprofit sectors in pursuit of a common vision,” said Tracy Palandjian, CEO and Co-Founder of Social Finance. “It is a critical advance toward building a financial market for social outcomes, in which capital flows to high-performing organizations like CEO, investor returns are directly linked to improved lives and New York State pays only for success.”

“We commend New York on becoming the first state in the nation to put the Social Impact Bond to work – demonstrating the power of public-private partnerships to provide sustainable funding for critical social services. Philanthropy has a unique ability to take chances where others cannot, and we’re proud to use our risk capital to guarantee deals like this one,” said Dr. Judith Rodin, President of The Rockefeller Foundation. “The Rockefeller Foundation supported Social Impact Bonds from their very early days in the UK, and has invested millions to build the ecosystem for Social Impact Bonds here in the U.S. We are hopeful that today’s announcement will continue to encourage government, private investors, and non-profits to explore the potential of Social Impact Bonds.”

“Social Impact Bonds present a potentially replicable model for expanding proven solutions to challenging social issues,” said Suzi Epstein, Managing Director of Robin Hood. “We recognize that by joining with other funders in the Social Impact Bond instrument, Robin Hood can work to expand a successful NYC-based program in a way that is more successful than what we could otherwise accomplish on our own.”

“We are proud to join New York State, Social Finance and others in this landmark program. Through partnerships such as this, and the preferences of today’s investors, innovative social finance has truly come of age,” said Andy Sieg, head of Global Wealth and Retirement Solutions for Bank of America Merrill Lynch. “One of the most pronounced trends among our clients is for their investments to not only earn a return but also to help drive social change in their communities and in society. We are unlocking the potential for this type of investing, enabling clients to direct capital to programs and organizations proven to produce positive outcomes, and taking an important step toward a scalable new marketplace.”

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