

Social Innovation Financing

Budget Proposal for the 2013-2015 Biennium

Every year, 45,000 children are born in Oregon. Forty percent of these children are exposed to a well-recognized set of socio-economic, physical or relational risk factors that adversely impact their ability to develop the foundations of school success. These risk factors include poverty, unstable family backgrounds, substance abuse, criminal records and negative peer associations.

Overcoming these challenges early is the key to avoiding and having to pay for the all-too-familiar problems down the road: educational underachievement, social dependency and/or involvement in the criminal justice system.

The Prevention and Wellness Health Demonstration Project (PWHD), is supporting the collaborative design and development of comprehensive early childhood initiatives, directed by the Oregon Legislature, to achieve early childhood development goals: ensure that children are raised in stable families, enter school ready for kindergarten, and leave third grade reading at grade level.

Oregon's early childhood system, outlined in statute, consists of the following mutually-reinforcing elements:

- Comprehensive detection, intervention, education, care and support.
- Community-based, individually focused services to target physical, emotional, intellectual and social health at the earliest stages of child development and family formation.
- Performance measurement and accounting to inform near term service delivery improvements, and long-term scaling to serve more Oregon children and families.

Performance-based contracting can also be used to attract meaningful private philanthropic investments. Services can be financed, in part, through private social impact financing attracted by "pay-for-success" service contracts, and "returns on investment" that reflect avoided public costs and anticipated economic and fiscal benefits of improved life-long performance by children and families.

The Governor's proposed budget for the 2013-2015 biennium includes \$800,000 to test this concept. These resources are specifically intended to leverage as much as \$4.5 million in private social impact financing for a test of social impact financing in Oregon's new service delivery system. The initiatives outlined below are essential to establish the necessary legal, financial and administrative foundations required to support social impact financing. In addition, these same foundations are necessary to support measureable and transformative change to provide a path to success for Oregon's at-risk children and their families. All of the proposals are aligned with, and complement, reforms initiated by agencies of state government. A summary of each item in the budget proposal follows:

Economic Research \$300,000

Oregon requires a rigorous cost-benefit analysis of investments in comprehensive early childhood care and education. Such research is essential to guide the development of Oregon's new system of early childhood investments, as well as social impact financing structures. Findings can be used to guide long-term (10+ year) budget development for the state. PWHD will work closely with Oregon's Early Learning Council, Oregon Office of Economic Analysis, State Treasurer's Office, Legislative Fiscal Office, State Economist and others deemed appropriate by the Legislature to document the following:

- Estimate and characterize Oregon's population of children between the ages of birth and eight years ("cohort"). Provide specific details on at-risk children within the larger cohort.
- Estimate the percentage of the cohort that will require reactive state-supported services prior to adulthood (21 years) and throughout adulthood.



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- Estimate the present-value costs of providing reactive state-supported services to the cohort throughout their lifetime, detailed by type of service.
- Estimate the present-value of serving the cohort with a proactive and preventative service delivery model outlined in statute and overseen by Oregon's Early Learning Council.
- Estimate the amount of income tax and other state and local tax revenue that may be generated by the cohort based on two service delivery regimes (reactive-only and proactive/preventative).

Performance Measurement, Accounting and Reporting \$300,000

Oregon's new service delivery approach as well as the financing system to be tested by PWHD require the development and deployment of a performance accounting system to track and report on the progress and performance of providers, and lay the foundation for long-term performance research as Oregon's early childhood initiatives evolve and take hold.

Working with the Oregon Early Learning Council, PWHD will identify metrics to track on an individual basis, socio-economic, cultural and wellness characteristics, specific interventions and services, and specific developmental outcomes from birth through age 18. The metrics will be made available to support (1) individual developmental planning, (2) program and systems planning and continuous improvement, (3) contracting and compensation for pay-for-performance service providers, and (4) financing by state, community and private impact investors in the Oregon's early childhood development programs. PWHD will also produce a data-driven predictive model to estimate children and families most likely to benefit from intervention and provide a return on investment indicated by the economic research.

Capacity Building \$200,000

Oregon's new service delivery system for at-risk children and their families is dependent on providers with the capacity to deliver outcome-based services, participate in performance contracting, and communities that are engaged and supportive of providers, children and families. Capacity building will assist with the development and delivery of training and support to providers and community partners identified to "test" social impact financing. In cooperation with state and local agencies, community organizations, foundations and businesses, PWHD will focus on the development of community-based service delivery networks, capable of providing comprehensive, outcomes-based services to at-risk children and families, and the necessary infrastructure to support outside financing opportunities.

PWHD will develop evidence-based diagnostic tools to determine the readiness of service providers and communities to deliver specific and measurable outcomes for at-risk children and their families, as well as community-specific training and support services that reflect the social, cultural and economic diversity of communities in Oregon. Capacity building will include use of data and predictive modeling to ensure the greatest likelihood of success.

This budget request covers essential capacity building in support of communities testing the social innovation finance "proof of concept" only, although at legislative direction could be expanded through webinars and other means to additional communities.



Project Initiation & Purpose

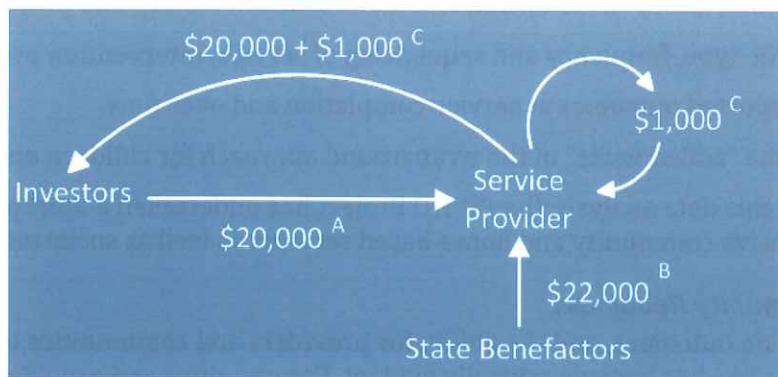
The Prevention & Wellness Health Demonstration Project (PWHD) was conceived of in the summer of 2009 at a meeting hosted by the Oregon Community Foundation. The founding purpose was to 1) demonstrate whether Oregon communities could deliver community-based, child-focused services that prevent poor health and social outcomes among high risk young children; and 2) measure positive outcomes with a quantified return-on-investment that could attract private investments as a sustainable funding source for preventive services. PWHD is sponsored by a collaborative of health and philanthropic leaders, and led by a Steering Committee co-chaired by Governor John Kitzhaber and Congressman Earl Blumenauer.

PWHD was organized to advance concrete models of service delivery and sustainable financing to ensure that every Oregon child is raised in a stable and attached family, enters school ready and able to learn, and leaves third grade reading at grade level. These goals are derived from a strong evidence base that links children's early literacy and readiness to learn with later health status, educational success, economic self-sufficiency and ability to avoid problems such as involvement in the criminal justice system, and teen parenting. The project is based on the principles of prevention and return-on-investment, and seeks to apply public finance tools not typically used for social support services.

Finance Model

Project staff conducted a scan of the literature and reviewed pioneering public-finance efforts in Australia, England, Minnesota, and Massachusetts. Expert opinion was also sought from K & L Gates and the state treasurer's office. Based on the literature, expert opinion and guidance of the Steering Committee, as well as an additional advisory committee of financial experts, PWHD focused on developing an approach based on the principles of social impact financing (SIF). Using this approach, services would be financed, in part, through private social impact financing, attracted by "pay-for-success" service contracts and "returns-on-investment" (ROI) that reflect avoided public costs and anticipated economic and fiscal benefits of improved life-long performance by children and families. An Oregon specific model was designed.

SIF Model for Oregon



- Investors advance funds to a "Service Provider," secured by a contract that specifies the repayment plus ROI. Investors assume full risks of lost investment due to non-performance of the provider.
- "Service Benefactors" (public & private institutions) enter into pay-for-performance contracts with the Service Provider. Compensation includes a premium based on a portion of the avoided costs or benefits accruing to improved childhood outcomes.
- The Service Provider repays Investors based on investment or contract terms. The Service Provider retains a portion of the pay-for-performance premium to build service capacity and performance.



The example above illustrates the cost of providing intensive family services to children at high risk of entering the child welfare system¹. The pay-for-performance premium is fixed at 10% of a 2-to-1 ROI derived from avoided or significantly reduced future costs associated with poor life-long outcomes. Research suggests that the ROI of effective early childhood development are several times larger than the 2-to-1 estimate used in this example. A three-year, 300 children “proof of concept” project is planned. Avoided costs in foster care alone would yield approximately \$10,000 per child or \$2.4m. Benefit-cost models also estimate avoided public costs related to crime, high-school graduation, special education, grade repetition and alcohol and drug abuse. A full economic analysis of Oregon budget figures and tertiary system costs is needed and included in Governor Kitzhaber’s 2013-2015 proposed budget.

Service Model

The PWHD Project has focused on the statewide reform efforts for high-risk young children directed by the Legislature, rather than create an independent and isolated service approach. Oregon’s focus on young children involves comprehensive detection, intervention, education, care, and support for high-risk children and their families. Services will be community-based and use an individualized approach to target physical, emotional, intellectual, and social health at the earliest stages of child development and family formation. A primary challenge of intersecting this new service delivery approach with the innovating finance approach outlined above is the capacity of service providers to engage in performance based contracting and accountability. To address this challenge, PWHD has undertaken two tasks:

1. Data Analysis

PWHD Project has analyzed client-level data to identify the demographic and social characteristics of high-risk families with emotionally troubled children who are less than eight years of age. Analysis of state from Tennessee is complete and arrangements are currently being made to obtain Oregon data. The purpose is to determine which children benefit most from intensive wrap-around approaches to treatment, and to identify outcomes that can be appropriately linked to the SIF finance approach. The results will:

1. Identify the characteristics of the population of children, including presenting problems, demographics, family make up and risk factors, health history and presenting co-morbidities
2. Describe the type, frequency and sequencing of service/intervention provided.
3. Identify reported outcomes at service completion and over time.
4. Estimate the “added value” of the wraparound approach for children under 8.

To complement this data analysis, the PWHD Project has undertaken a literature review on the benefits of intensive community and home-based services as well as social indicators of health.

2. Identifying Community Readiness

The need to focus on outcomes, and the ability for providers and communities to contract for services based on performance, has become critically evident. Communities and providers will need capacity to successfully meet performance goals and deliver a return on investment to potential SIF sponsors. Under the guidance of its Community Advisory Committee, the PWHD Project is developing a “self assessment” to help communities and providers determine their readiness to a) provide performance-based services to children and families; and b) supply the infrastructure necessary to engage in the SIF financial model described above. The assessment includes the opportunity to identify areas that require development, including organizational and financial readiness measures.

¹ Annual cost estimated by Youth Villages for illustration purposes only. Figures from other organizations may vary.

