

Goulston Helps At-Risk Youth Program Get \$27M Funding

By Lisa Ryan



Law360, New York (November 14, 2014, 7:32 PM ET) -- An organization dedicated to keeping disenfranchised youth out of jail was able to secure \$27 million in funding through Massachusetts' landmark Pay for Success program — one of the first programs utilizing private-sector social-impact financing — thanks to the tireless work of the team at Goulston & Storrs PC.

The firm had been doing pro bono work for Roca Inc., a nonprofit that reduces recidivism in high-risk young men and women across Massachusetts, for several years before it was approached in 2012 to guide the organization through the process of applying for and receiving financing from Pay for Success, a funding model in which investors make loans to organizations, with the government later repaying the loans.

“Social innovation financing, if it works, is good public policy in that it’s bringing the private sector to the table to fund social services. It is easier on government budgets because they don’t pay unless there are cost savings that they achieve at the same time,” Goulston & Storrs director Peter Kochansky told Law360.

Roca reached out to the firm after the state issued a request for proposals for social services providers to receive funding from the program. Peter Corbett, also a director at the firm, said the Pay for Success program was a hot topic at the time, since both Massachusetts and New York City were developing social financing programs by looking at a popular, similar model utilized in England.

The state appropriated \$50 million to support the program and sought to funnel the funds to a program focused on juvenile justice and a separate program focused on homelessness, the attorney said.

“Roca’s focus for 20 years now has been on high-risk young men — age 17 to mid-20s — who have either been in jail or in the juvenile justice system and, if they don’t get services, have ... an 80 or 90 percent probability of getting incarcerated again,” Corbett said. “They focus on the hardest of the hard-core cases.”

Once Roca’s proposal, which outlined a plan to increase the number of young men it helped from 494 up to 929, was accepted, the lawyers stepped up to help the group navigate its way through a sea of contracts.

“The next step was working on all of the contract documents that would fit together all of the different

parts of the deal,” Kochansky said. “The central document is the Pay for Success contract that Roca entered into with the Commonwealth of Massachusetts.”

The attorneys also set up contracts between Roca and Youth Services Inc., an affiliate of Third Sector Capital Partners, which was acting as a financial intermediary for the organization.

Under the agreement, Roca will serve troubled young men through intensive outreach and life-skills and employment training, to reduce recidivism and help the men become assets to their communities, the firm said.

Through the program, Roca received a \$9 million senior loan, a \$3 million junior loan and \$6 million in grant funding, with the organization also contributing \$3.6 million by deferring 15 percent of its fees, which will be paid back only if results are achieved. The state has also agreed to make up to \$27 million in success payments, Kochansky said.

In total, the firm dedicated nearly 500 hours to helping Roca through the process from mid-2012 through January 2014. Corbett said his team was grateful to have the opportunity to work with such a groundbreaking program.

“This was one of those unique situations in which you really start with a blank piece of paper as a lawyer because this had never been done before,” he said. “We ... really had a unique opportunity to create a structure that didn’t exist before and, if it works, will really have the potential to benefit a lot of people.”

The program is getting a lot of attention nationally, according to Kochansky, as it provides a new model for social services organizations to receive funding without depending entirely on the government.

“The logic behind the Pay for Success social bonds is that the investors benefit by getting a portion of what the commonwealth saves. They also take the risk that the results aren’t achieved. The government doesn’t pay unless the results are achieved,” he said.

Even though the funding deal was only just completed at the beginning of the year, the organization is already seeing results. It’s been able to reach more young men and was able to open up an office in Boston just a couple of weeks ago because of the funding.

“We are gratified that ... our client Roca will have this new solid, stable, large funding source to continue to expand what they do, to many more young men,” Kochansky said.

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--Editing by Kat Laskowski and Edrienne Su.