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MONEY-BACK GUARANTEE

A STAFFING AGENCY FOR THE SOCIAL SECTOR

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Staffing firms have long provided a high-value, outsourced approach to recruiting and retaining talent. Businesses hire staffing firms to help them assess their personnel needs, source promising candidates, conduct initial interviews, and handle contracting and payment. Staffing firms maintain databases of talented employees, enabling them to offer businesses easy access to a large pool of prescreened candidates. For individuals, staffing agencies increase the chance of getting hired, offer coaching and training, and minimize time between jobs. In many cases, individuals placed by staffing firms remain on the payroll of the staffing firm.

Most of the roughly 25,000 staffing firms in the U.S.[1] are for-profit entities with healthy profit margins. The typical staffing firm does not have a social mission and, therefore, rarely works with candidates who lack traditional qualifications or require significant support to enter the workforce successfully.

First Step Staffing (FSS) is similar to other staffing agencies in the services it offers to employers, but its clients are quite different from those of its peers. FSS helps housing-insecure and justice-involved individuals access jobs. A nonprofit workforce development agency, FSS brings a social enterprise model to the staffing firm space. In addition to offering the traditional services of a staffing agency, FSS provides wraparound services that enable individuals with unstable life circumstances to succeed in job placements.

A SELF-SUSTAINING MODEL TO HELP INDIVIDUALS EXPERIENCING HOMELESSNESS OBTAIN AND RETAIN JOBS

FSS serves individuals who face chronic challenges to obtaining and retaining work—primarily military veterans, housing-insecure individuals, and formerly incarcerated individuals. FSS provides support to ensure both that clients successfully obtain financial stability through paid work and that employers are satisfied with the talent placed by FSS. To help individuals mitigate persistent barriers to rejoining the workforce, FSS offers a cadre of wraparound services through local partners.

1 "Staffing Industry Statistics," American Staffing Association, accessed February 12, 2021, https://americanstaffing.net/research/fact-sheets-analysis-staffing-industry-trends/staffing-industry-statistics.

In each city where FSS has launched, it has done so by acquiring a for-profit staffing firm and converting that firm to a social enterprise. It is very uncommon for mission-based organizations to take this approach, and FSS defines this practice as critical to its success. FSS obtains two key assets by acquiring and converting existing firms: staff and employer partners. Experienced staffing firm professionals bring deep knowledge of the staffing field as well as personal knowledge of the clients and their industries. While it might be hard for a social service agency such as FSS to market itself to corporate clients, the agency has been highly effective in retaining the employers of the acquired agencies and proving the ability to fulfill their needs effectively over time.

Operationally, FSS pays clients weekly while receiving payment from employers according to the 30-to-45-day terms standard to the staffing industry. Therefore, apart from the capital necessary to purchase a staffing firm and establish operations, FSS needs to raise initial working capital in each market to ensure that, from the start, clients are paid in a timely fashion while the firm awaits employer payments.

After building its brand and experience in Atlanta, FSS obtained loans to expand. When FSS expanded to Philadelphia, it borrowed funds to cover 90% of its capital costs and secured grants and government contracts to cover the balance.

SHARING RISK AND RESPONSIBILITY TO BRING FSS TO SAN BERNARDINO

In recent years, the need for innovative employment solutions for homelessness in Southern California has grown more and more urgent. According to San Bernardino County's annual point-in-time homelessness assessments, the number of homeless individuals has increased from 2,118 in 2018 to 2,607 in 2019. We believed employment could be one part of the solution to help people permanently exit homelessness.

FSS sought to expand into San Bernardino by purchasing part of OS4Labor, a for-profit staffing firm that held contracts with thousands of employers to provide temporary, temp to hire, and direct hire placements across roles including industrial, transportation, administrative, managerial, and professional positions. Through the acquisition, FSS could gain access to nearly 2,000 positions, primarily with employers in the light industrial and logistics sectors. The county of San Bernardino would refer people experiencing homelessness to FSS, and FSS would place these individuals as natural turnover occurred in positions under contract with the staffing firm. The key question for FSS was how it would access the working capital necessary for the acquisition and launch.

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The county of San Bernardino had long focused on helping homeless individuals obtain housing through cash assistance, access to Temporary Assistance for Needy Families (TANF), and behavioral health services. The county sought to expand its partnerships to help these individuals achieve independent living by securing and maintaining jobs well-suited to their talents and needs. Philip Mangano, advisor to the county on homelessness and CEO of The American Round Table to Abolish Homelessness, reflected, "Part of the work in homelessness and the restoration of peoples' lives is the rebuilding of social capital. Nothing, not even housing, rebuilds that social capital more quickly and in a more fulsome way than having a job."

When FSS approached San Bernardino County, it was evident that FSS' unique approach to job placement and support was closely aligned with the workforce development and human services priorities of the county. The county saw FSS as a natural addition to its set of partners serving homeless, housing-insecure, unemployed, and justice-involved populations.

That's when San Bernardino County decided to do something innovative: Provide funding for the program with a money-back guarantee. The county built on emerging thinking from the Pay for Success ecosystem around "social impact guarantees" and designed a contract driven by results.[2] A social impact guarantee, a concept introduced by Third Sector Capital Partners, offers governments a money-back guarantee in the case that a social service program fails to achieve its desired outcomes. Prior to beginning conversations with the county, FSS had secured

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[2] George Overholser, "Social Impact Guarantees Could Enable Pay for Success Contracting to Scale More Rapidly," in *What Matters: Investing in Results to Build Strong, Vibrant Communities*, by Federal Reserve Bank of San Francisco and Nonprofit Finance Fund (Federal Reserve Bank of San Francisco, 2017), 156–61, https://investinresults.org/chapter/social-impact-guarantees-could-enable-pay-success-contracting-scale-more-rapidly.html.

other sources of capital to support startup costs. FSS required additional funds to acquire an existing staffing firm and establish physical operations. The county was open to providing financial support for the program—but only if it had a guarantee that its funds would yield significant impact in employment outcomes. For its part, FSS wanted to ensure that the county would also be responsible for providing the necessary referrals.

FSS and San Bernardino County arrived at an agreement. San Bernardino would provide a one-time transfer of $1.5 million to FSS, and FSS committed to place at least 70% of referrals received, up to a maximum obligation of 2,000 individuals placed per year. If FSS failed to achieve the target performance metrics, the county would be entitled to "claw back" a portion of the funds.

In performance-based contracts elsewhere, service providers have found it particularly challenging to secure sufficient referrals to achieve target metrics; such problems can leave service providers on the hook financially, even when they have served the clients who were referred well. To align incentives and to protect FSS in the case of low referrals, the contingency was tied to the percentage of referrals placed as opposed to an absolute minimum number of placements. At the same time, the inclusion of a maximum number of required placements protected FSS from financial consequences in the case of a very high number of referrals.

If the actual placement rate was under 70% and the total number of placements was under 2,000 in a given year, FSS would be required to return a portion of funds. In such a case, the amount owed by FSS would be calculated according to the following formula:
((Percentage of Referrals Placed)/0.7) – 1) * $375,000.

To secure potential claw-back payments, FSS provided the county with $300,000 in collateral funds to be held by the county in a noninterest-bearing account for the duration of the contract. In the case of underperformance, these funds would be used toward FSS' repayment obligations. In the case that FSS achieves the 70% placement rate and/or at least 2,000 placements per year every year, the $300,000 would be returned to FSS at the completion of the contract.

The county's funds for these job placement services came from multiple sources: 50% ($750,000) from identified savings of existing Discretionary General Funding in the Human Services claim budget unit, 25% ($375,000) from the Law and Justice Group from the Southwest Border Prosecution Initiative, and 25% ($375,000) from the 2011 Realignment-Local Innovation subaccount funds.

The creation of this innovative contract was enabled by leadership from county officials, by collaboration between county legal counsel and FSS' CEO and assistant executive officer, and by the existing infrastructure of social service agencies. Support from Human Services, Workforce Development, and other county agencies, as well as from community and faith-based partners, was essential to the execution of this project. This existing infrastructure and the county's belief in FSS' model generated confidence that FSS would meet the placement targets. At the same time, no social service program is guaranteed to achieve its desired results; building the contract around results allowed the county to reclaim taxpayer dollars if things did not work out as hoped.

Individuals referred to FSS typically require ongoing support services to succeed. In San Bernardino County, existing interagency partnerships have proved successful in supporting FSS clients. FSS coordinates with the county and community and faith-based organizations to provide transportation, job coaching, housing placement assistance, and mental health resources as needed. These services are also offered at no cost to the job seeker and are paid for by county and community partners.

EARLY SIGNALS

It is too early to know whether FSS will hit the targets established by this collaboration, particularly given the labor market upheaval caused by COVID-19.

To date, FSS and the county have demonstrated a powerful model of collaboration and have set the program up for success. Strategies adopted to date include:

- **Implementation of structures to facilitate collaboration:** The county and FSS meet weekly and communicate regularly by phone and email regarding referrals and job placement matters. In addition, they share referral data every week.
- **Relationship building:** The county has proactively introduced FSS to key stakeholders. The county and FSS collaborate on efforts such as hiring events at partner work sites and expanding employment opportunities in remote areas of the county.
- **Marketing:** The county has organized countywide presentations to create awareness surrounding FSS' offerings and recruit new referring partners.

On an anecdotal level, placements to date have been well-received by both employers and clients. A transitional assistance client reported: "I was referred to the program … and was called right away [by] FSS. I went in to apply; [that] same day I was hired and [I] started working the next day. I was able to get income right when I needed [it]." Similarly, another client shared: "Working with FSS, I got a phone call and the next day I went in and applied for a job. They quickly took my information and called me back by the next day and had me working within that week."

In the markets where it is more established, FSS has achieved strong results. In Atlanta, where FSS first acquired and converted a for-profit staffing firm in 2016, FSS currently employs 1,250 individuals, 750 of whom were homeless at the time of enrollment. In Philadelphia, which FSS entered in 2018, the firm converted 64% of the 700 acquired jobs into opportunities for clients experiencing homelessness. FSS has demonstrated not only its effectiveness in serving customers and employers but also its sustainability as an enterprise, earning $17 million in revenue in Philadelphia, achieving 100% employer retention, and adding new employers.

Apart from the direct employment outcomes the contract was designed to deliver, COVID-19 has highlighted the value of the strong cross-sector partnerships supported by the structure of the FSS/San Bernardino contract. Over the two years since the contract was signed, workforce development agencies and community-based providers have deepened their knowledge of the offerings of other members of the ecosystem, strengthened their referral network, and established tools for collaborating regarding clients. Increased communication among peer organizations has also enabled entities to identify and begin to address gaps in services, a particularly critical practice given the rapidly changing landscape of needs, funding streams, and services during COVID-19. The workforce ecosystem has grown even more innovative in coordinating with supportive services to ensure they are lowering barriers and increasing worker success. More generally, the tightened safety net has effectively helped the county's most vulnerable individuals weather the turbulence of COVID-19.

The contract offers governments a way to provide startup funds with an outcomes-based contingency that ensures that taxpayer dollars are achieving their goals. Governments assure a certain level of referrals, and service providers take on the financial risk if targets are not achieved.

CONSIDERATIONS FOR OTHER JURISDICTIONS

The contract that FSS and San Bernardino established may be a model both for FSS as it expands to other jurisdictions and for other social service programs seeking to collaborate with governments.

Three components of this contract are particularly powerful.

First, the contract offers governments a way to provide startup funds with an outcomes-based contingency that ensures that taxpayer dollars are achieving their goals. Governments assure a certain level of referrals, and service providers take on the financial risk if targets are not achieved. Such a structure is appropriate only for a social service provider that is financially stable enough to withstand the potential hit to its balance sheet if it is necessary to repay the upfront investment. And of course, it is possible that a service provider could execute brilliantly and yet fall short of targets for reasons beyond its control, such as unanticipated macroeconomic forces.

Second, the nature of the claw-back provision aligns incentives among stakeholders. FSS must meet the necessary placement targets to retain the $1.5 million in funds provided by the county, and the county must provide sufficient referrals to maintain the applicability of the claw-back provision. The structure not only provides protection for both parties but also creates mutual incentives to complete sufficient referrals to hit the targets within the contract.

Third, kickstarting sustainable programs like FSS can be a particularly impactful target for public dollars. Governments and philanthropists are often wary of committing to programs that will require continual infusions of capital. Social programs such as FSS that can generate sufficient revenue to cover their operational costs and require only startup capital present a cost-effective way of expanding high quality programs.

Additional outcomes and lessons learned will emerge over the coming years. In the interim, the structure of the partnership itself is already demonstrating its power. The importance of this kind of approach—and the collaboration and transparency it ensures—has been accentuated as the nation confronts the unprecedented challenges posed by COVID-19. The contract structure promotes shared responsibility, clearly defined shared goals, and a set of shared strategies to translate those goals into positive outcomes for the community. As stated by Curt Hagman, chairman of the San Bernardino County Board of Supervisors, "The program is designed to have a lasting impact—it's an innovative approach to disrupt the cycle of poverty by providing employment opportunities that lead to upward economic mobility and hope for a better future."

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This chapter came from the book *Workforce Realigned: How New Partnerships are Advancing Economic Mobility.*

Learn more at workforcerealigned.org