

# Prison Entrepreneurship Program

Philanthropy Investment Team Portfolio Update

*Presented by The USIT Foundation in Spring 2022*

*Originally Presented in Spring 2021*



# Prison Entrepreneurship Program

## *Overview*

- Overview on Prison Entrepreneurship Program
  - Founded in 2004, PEP provides business education and logistical support for prisoners to help them to set up a new, business-oriented life after prison
  - PEP currently has a program staff, transition team, and around 50 partners for volunteer assistance
  - It costs \$2,817 (weighted average) per individual served through PEP's business school
- Original donation thesis
  - PEP is focusing on expansion via automating its curriculum and outreach, but will need a budget of \$7 million to handle its expansion by 2026
  - PEP is a model for other entrepreneurship programs in a country, with an industry leading SROI of 68.9x
  - The USIT foundation has an opportunity to partner with PEP in the long term through our financial expertise
- Original donation
  - **Original Donation: \$29,500**
  - **Original Analyst Team:**
    - Angela Yang (Senior Analyst)
    - Nilay Gandhi (Junior Analyst)

# Charity Summary

## Charity Overview

- **Founded in 2004, PEP provides business education and logistical support for prisoners to help them to set up a new, business-oriented life after prison**
  - PEP currently has a program staff, transition team, and around 50 partners for volunteer assistance
  - PEP's current receipts total \$2.62m, which falls short of its \$2.9mm annual expenditures
  - It costs \$2,817 (weighted average) per individual served through PEP's business school
- **Management has been extremely data driven, focusing on empirical verification for ideas**
  - The charity tracks six economic indicators of its graduates
  - Three independent studies have been conducted on PEP, all concluding it is the top model for education
- **PEP is primarily backed (90.6%) by contributions from individuals and corporate partnerships**
  - The charity is backed by major colleges including Baylor, Rice, and UT as well as companies such as Goldman Sachs and Chevron

## Donation Thesis

- **PEP is currently focusing on expansion via automating its curriculum and outreach**
  - By 2026, the American Enterprise Institute projects that PEP will need a budget of \$7 million to handle its expansion
- **PEP's is a model for other entrepreneurship programs in the country, such as Defy Ventures**
  - The SROI for capital deployed to PEP's entrepreneurship project is estimated to be 68.9x
- **The USIT Foundation has an opportunity to partner with PEP in the long term**
  - Management has been eager to provide information and PEP's curriculum plays into the USIT Foundation's core competency of finance and entrepreneurship

# Theory of Change

*As of Spring 2021*

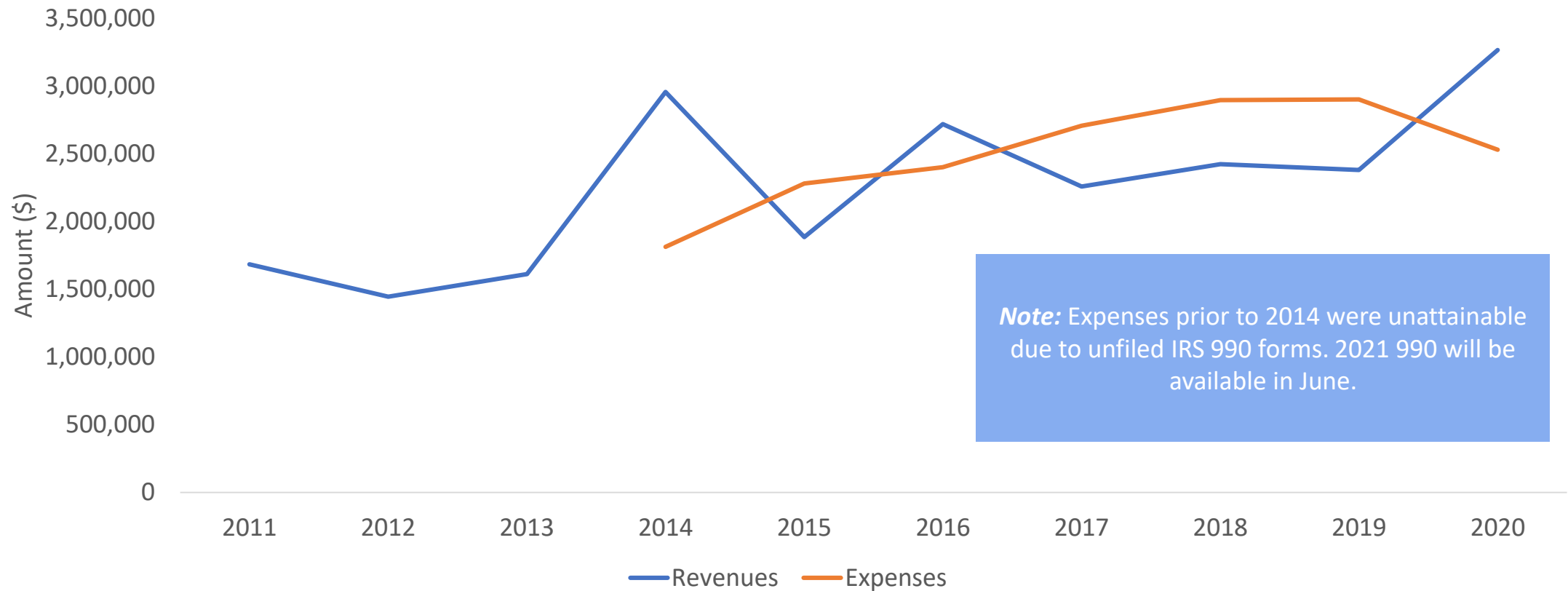
Inputs	Activities	Outputs	Outcomes	Impacts
<ul style="list-style-type: none"> <li>• 5-member management team with a combined total of 40 years of re-entry experience</li> <li>• Program staff, transition team, and volunteers create curriculum and provide re-entry education</li> <li>• 2019 inflows: \$2,595,150</li> <li>• Partners: Texas colleges, churches, MBA programs, corporations, tens of miscellaneous re-entry partners</li> <li>• Cost per graduate: \$6,759<sup>1</sup></li> <li>• Cost per individuals (weighted average): \$2,817<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Selection process to reach out to thousands of prisoners, and from this select 500-700 people to participate in program</li> <li>• Mini MBA program, business pitch competition, graduation, and certification</li> <li>• Re-entry with family liaisons, transitional housing, counseling, medical services, etc.</li> <li>• E-school, business centers, informal reunions, and online networking</li> </ul>	<p><i>All time numbers</i><sup>3</sup>:</p> <ul style="list-style-type: none"> <li>• 2,180 graduates</li> <li>• 500 small businesses created, 5 generate \$1m+ in revenue annually</li> <li>• 59 owned beds for transitional housing</li> <li>• 471 jobs, 389 more supported jobs</li> <li>• \$46.3m total annual income generated by participants</li> <li>• \$67.1m total economic value added</li> <li>• \$122.5m total output</li> <li>• \$4.3m saved for government in one year alone</li> </ul>	<ul style="list-style-type: none"> <li>• 7% three-year recidivism rate</li> <li>• 100% employed in 90 days</li> <li>• \$17.17-\$21.19 average hourly wage, with steady increases over 3 years</li> <li>• ¼ released graduates start a business</li> <li>• 20 days from prison to paycheck</li> <li>• Soft results such as 10 driving values, better family relations, and a group of friends from PEP class</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce recidivism rate among Texas men</li> <li>• Build stronger families and communities for those who participate</li> <li>• Put money back into community to create economic growth for disadvantaged areas</li> </ul>

1. Indicates total cost divided by number of graduates  
 2. Indicates total cost divided by total number of participants  
 3. Figures provided by charity

# Financial Snapshot

*Revenues spiked up in the past few years, along with a decrease in expenses*

**Inflows and Outflows Over Time (2011-2019)**



# General Charity Updates

## *Notable Highlights in 2022*

- **COVID-19 Updates**

- COVID continues to be a disruptive environmental factor. In May 2021, TDCJ resumed visitation and unit-to-unit transfers based on a decline in COVID infections from early 2020. PEP anticipated this resumption and projected participants served assuming this full resumption of unit-to-unit transfers continued.
- With the COVID spikes from the Delta (August – September 2021) and Omicron (December 2021 – January 2022) variants, TDCJ again suspended most unit-to-unit transfers.
- The suspended transfers reduced PEP’s pipeline of accepted participants during the reporting period. In late February 2022, TDCJ resumed its normal transfer practice. With the mask-mandate lifted, PEP expects to have substantially more participants transferred in 2022.

- **In-Prison Updates**

- 68 men graduated the Business Plan competition and correspondence expanded to 815 individuals
- BPC moved to team approach (rather than individual plans) with a blind draft for team member skills sets. This improves peer-to-peer interaction/collaboration and allows the participants to maximize volunteer engagement. Very well received by participants and volunteers.
- Learning Management System (LMS) and Video Management System have server- clients prototyped. Supply chain issues delayed delivery of computer lab client machines until late February 2022. Installation expected to be complete by May 2022.

# General Charity Updates

## *Notable Highlights in 2022*

- **Re-Entry Updates**

- PEP continued 100% employment within 90 days of release for graduates who use re-entry services
- Speed to employment was 24 days (below benchmark of 25 days).
- Average starting wage after release grew to \$14.20 up from \$12.62 two years ago.
- 3-year recidivism rate for 2018 releasees (out three full years of 2019-2021) fell to 4.5% bringing PEP's cumulative rate since inception to 8.4%.
- Relocated Houston office to East End Maker Hub (EEMH), a 307K square foot facility , TXRX Labs as the anchor tenant. This is to have more job training in house.
- Building the PEP Collider at the EEMH to intentionally foster volunteer-participant interactions. Volunteers act as catalysts to nurture and strengthen the transformation in men.

- **Entrepreneurship Updates**

- 2nd “Shark Tank” event. In Houston in September 2021, three participant business owners pitched to social impact investors.
- Entre Capital received Community Development Financial Institution (CDFI) certification on January 31, 2022.
- Entre's CDFI certification enables a bank to partner with Entre more easily through the bank's Community Reinvestment Act (CRA) program. Collaborating with a bank will provide both a wholesale line for Entre's general lending and a participatory relationship for larger loans that are greater than Entre's capital structure alone would allow.

# KPI Tracking

## *Historical Performance*

	2017	2018	2019	2020	2021
Number of People Served	945	1,030	1,058	886	1,022
Number of Graduates	289	279	302	278	68
Approximate Cost per Person	9,373	10,449	8,840	9,191	38,283
Yearly Recidivism Rate	7.5%	8.3%	8.4%	9.1%	8.4%
Average Wage Post-Release	\$12.20	\$12.60	\$12.62	\$13.03	\$14.20
Total Monetary Outflows	\$2,705,492	#2,894,000	\$2,900,107	\$3,264,329	Unknown



# Forward Trajectory

## *Progress Update*

- Outlook

- PEP's financial growth is on the uptick in the future after a major bump during COVID-19
  - Record revenues (\$3.5M) , profit (\$914K) and unrestricted liquidity (\$2.0M) for a consecutive year.
  - At the outset of COVID PEP made a strategic move to pivot our model anticipating there would be long-term COVID turbulence. PEP is fully implementing this strategic pivot (a 2-year process) in the lanes of technology, curriculum, volunteer engagement and entrepreneurship support.
  - Goal is to finish online program by early 2023 and start expansion to other states by mid/late 2023
  - In December 2021, United Way of Greater Houston awarded PEP a 3-year grant for Houston-area work in low-income neighborhoods.
- Top goals:
  - Complete LMS/VMS implementation on prison unit campuses
  - Hire/onboard two new positions for volunteer recruitment and donor engagement
  - Leverage Entre Capital's CDFI certification with a bank partner. Currently discussing with a long-time PEP banking partner in Dallas for a larger participatory lending relationship.
  - Finish PEP Collider facility at EEMH

- USIT adding value

- The next initiative is a Mentor Volunteer Platform (MVP) to connect our post-release participants with volunteers and track success on a long-term basis. USIT alumni in the IT sector would be helpful with this.

# USIT Foundation Relationship

## *Analyst Verdict*

- Donation Use
  - The ~\$30k donation from USIT was used for funds for server and client infrastructure (hardware and software) for our LMS/VMS initiative.
- Contact
  - We contact the charity around once a month. Main point of contact is CFO Tim Hamilton and Allison Sheeder.
  - The nature of the contact is through email, and we tend to receive updates when we reach out– this is typically monthly with updates to the VC program, recidivism rates, and COVID plans.
  - Ariel (Portfolio Manager) and Nilay (Senior Analyst) are the main analysts involved in staying connected with PEP
- Analyst Verdict
  - I think the charity **did use our money well**.
    - Building out the online program in Texas prisons is important for bringing PEP to other states, so our funding has a much greater return on investment than we realize because its paving the way for future expansion.
    - They used the money on exactly what we intended, which was to continue to expand the program as COVID continued. Board seat – deadline, requirements, etc.
  - Other Updates
    - We're in the process of getting a board seat on PEP with a roundtable scheduled for 4/26.

# Relevant Links

- 2021 relevant links
  - Form 990 is not out yet.
- Original relevant links
  - [Website](#)
  - [All 990s](#)
  - [Charity Navigator Ranks](#)
  - [GuideStar](#)
  - [PEP High Level Drive](#)
- Original deck found on USIT Foundation Website
  - [PEP Final Deck](#)

# Appendix

# Program Summary

*Participants undergo two stages of programming: in-prison and out-of-prison*

## **In-Prison Entrepreneurship Program**

- Occurs first and usually lasts 9 months
- Provides business knowledge and character development workshops for PEP inmates
- The purpose is to teach prisoners how to adjust to society and provide them transferable skills to find and create jobs, solving a root cause of recidivism
- 69.3% of participants graduate this program
- 91.6% of in-prison program individuals go on to participate in the post-prison program
- Costs, on average, \$2,225 per graduate<sup>1s</sup>

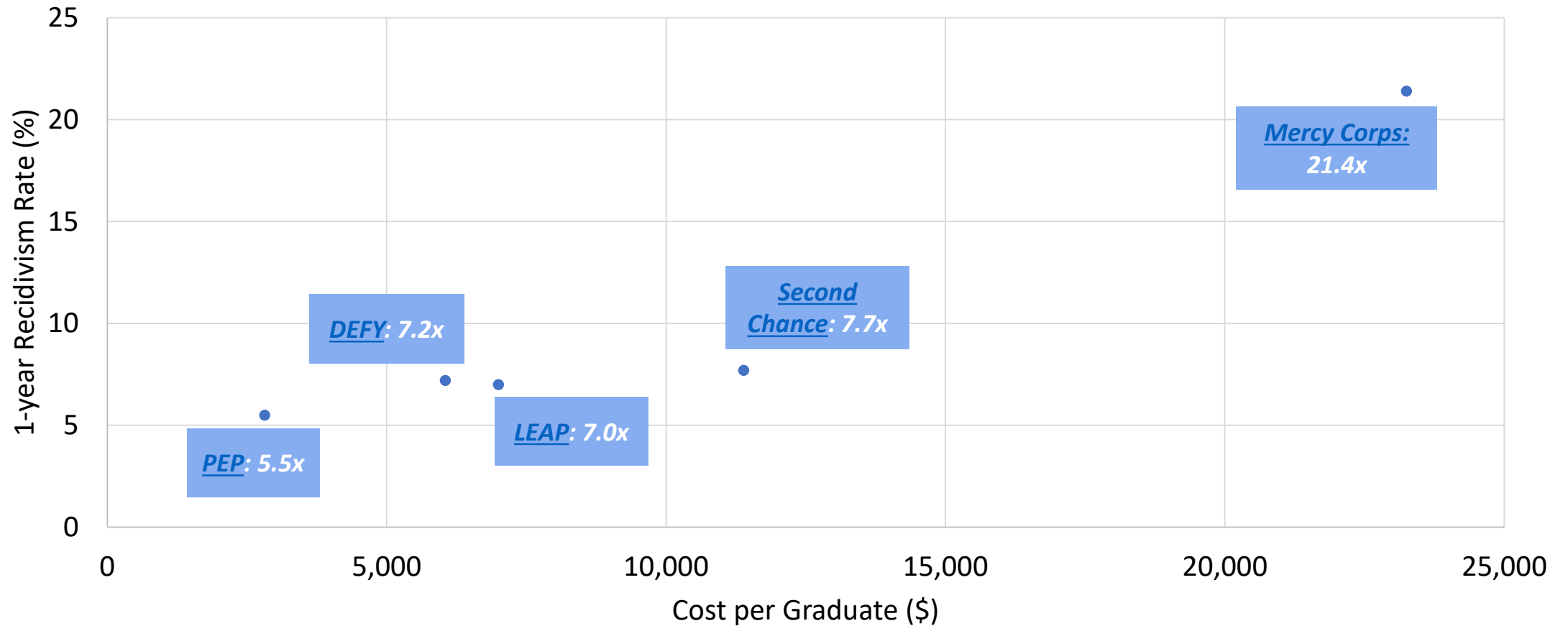
## **Post-Prison Program**

- Occurs after inmates are released and usually lasts 6-9 months
- Meant to provide prisoners essentials for life after incarceration, including housing, employment, and a personal life coach
- Includes PEP's "graduate school" and business accelerator, wherein participants are granted up to \$250,000 in seed funding
- The purpose is to provide materials for prisoners to find stable employment and expand their business skills to reduce recidivism
- Costs, on average, \$3,573 per graduate

1. Internally calculated, not all inmates complete full program

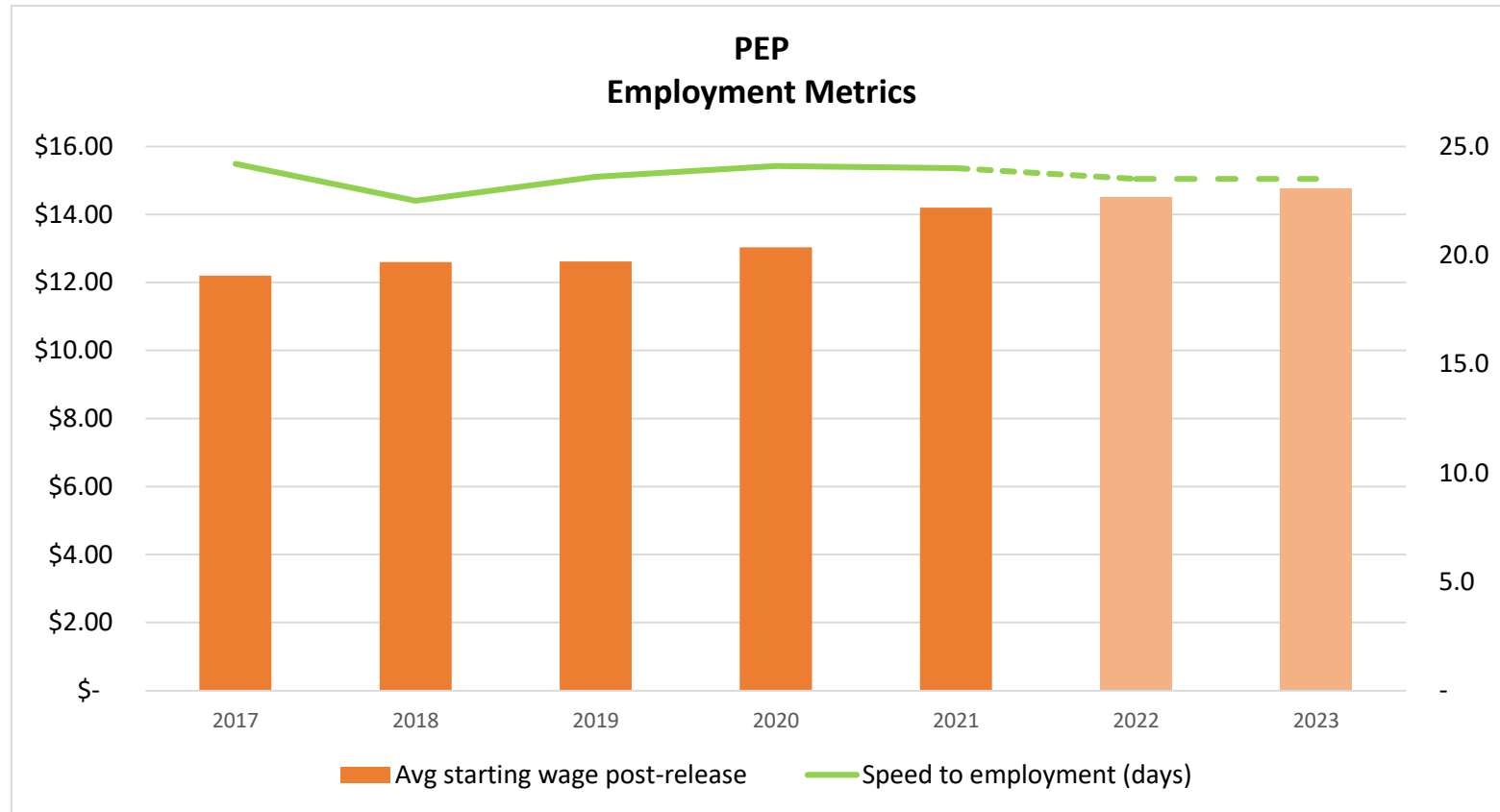
# Best in Class Numbers

## Comparable Charity Efficiency

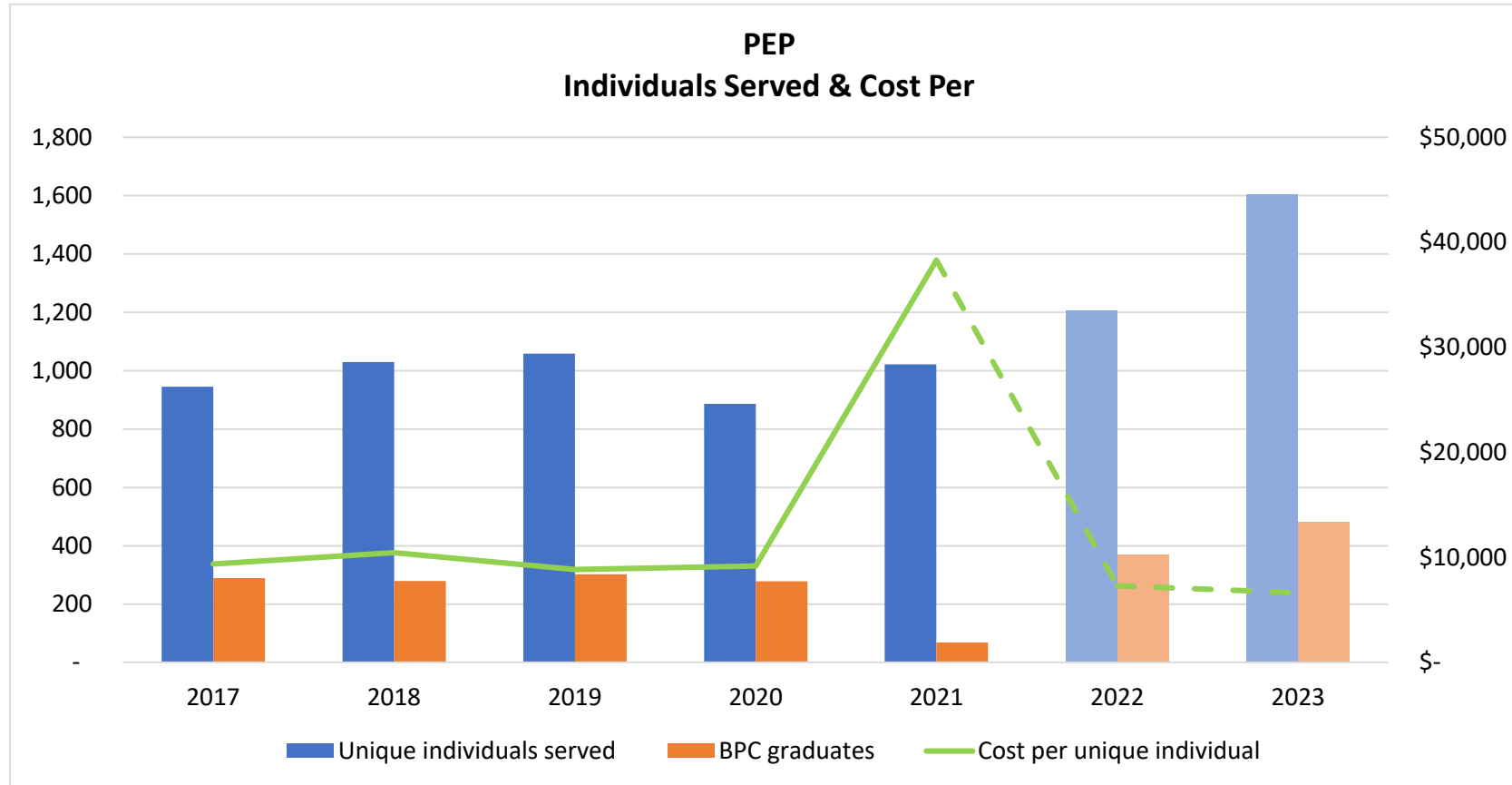


Note: Figures for comparable charities were calculated using publicly available expense and recidivism data.

# PEP Employment Metrics

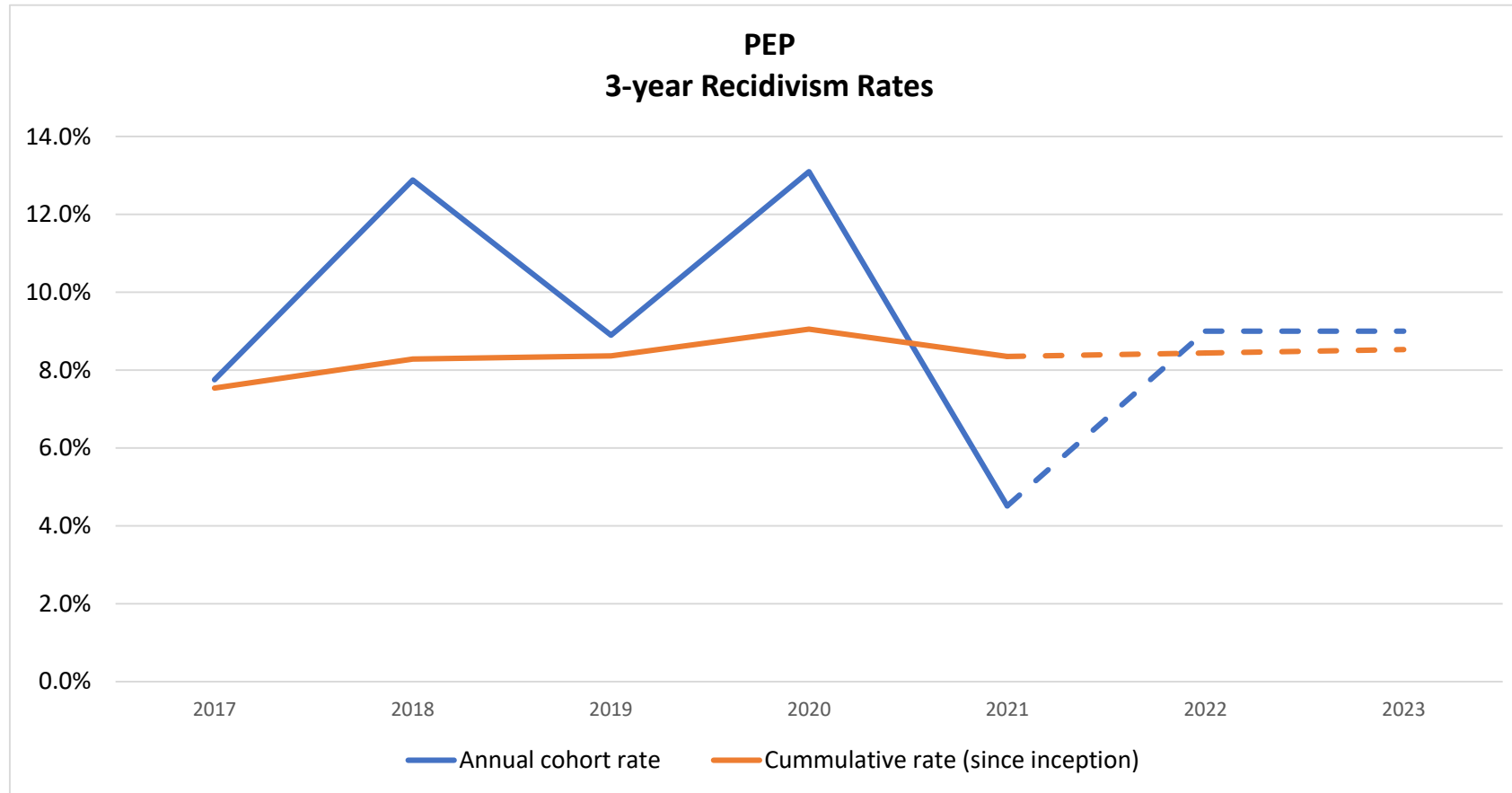


# PEP Individuals and Cost Graph





# PEP 3-Year Recidivism



# PEP Projections

<b>Prison Entrepreneurship Program Historical and Projected Metrics</b>							
	2017	2018	2019	2020	2021	2022	2023
	Actual	Actual	Actual	Actual	Actual	Projected	Projected
Unique individuals served	945	1,030	1,058	886	1,022	1,207	1,605
BPC graduates	289	279	302	278	68	368	480
Cost per unique individual	\$ 9,373	\$ 10,449	\$ 8,840	\$ 9,191	\$ 38,283	\$ 7,310	\$ 6,645
Annual cohort rate	7.8%	12.9%	8.9%	13.1%	4.5%	9.0%	9.0%
Cumulative rate (since inception)	7.5%	8.3%	8.4%	9.1%	8.4%	8.4%	8.5%
recidivism cohort year of release	2014	2015	2016	2017	2018	2019	2020
Avg starting wage post-release	\$ 12.20	\$ 12.60	\$ 12.62	\$ 13.03	\$ 14.20	\$ 14.50	\$ 14.75
Speed to employment (days)	24.2	22.5	23.6	24.1	24.0	23.5	23.5

# Key Risks and Mitigating Factors

## Risk

## Mitigants

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### *Large Corporate Base*

- Implicit verification of PEP's effectiveness, signaling a personable and flexible management team
- Greater donor base powers faster expansion and a larger growth potential
- Despite a growing corporate base, PEP has not been slowed down by bureaucracy

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### *Replicability*

- PEP is completing a shift towards an online system that allows it to access Texas prisons during the pandemic
  - Management seeking to expand to a volunteer center and use LMS/VMS technology
- PEP's management has deep experience in non-profit expansion

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### *Geographic Expansion*

- Non-profits are willing to buy into the PEP model in a franchise fashion
  - Example: Pittsburgh non-profit has been in talks to implement the PEP model
- PEP has expanded to two new prisons in Texas via distribution of curriculum
- The management team is cautious and risk-averse
  - Currently planning specific cities and areas in which to expand with data driven decisions on where a PEP model would be most effective

# 2021 SROI Overview

*The PEP program offers a 68.9x lifetime return for each dollar invested*

## Analysis

### Unit Economics

Per Person Lifetime Benefit	\$ 145,795,899
Per Person Lifetime Investment	\$ 2,115,699

### SROI

Decreased Recidivism Total Lifetime Benefit	\$ 8,015,297
Public Welfare Costs Total Lifetime Benefit	\$ 3,671,782
Income Increases Total Lifetime Benefit	\$ 111,420,437
Business Creation Total Lifetime Benefit	\$ 22,344,783
Parental Presence Total Lifetime Benefit	\$ 343,600

**Cumulative Total Lifetime Benefit** \$ **145,795,899**

Total Uncertainty factor 1.00

**Total Adjusted Return Calculation** \$ **145,795,899**

**Cumulative Total Lifetime Cost** \$ **2,115,699**

<b>SROI</b>	<b>68.9x</b>
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*Note:* Calculations were conducted as a weighted average of “complete graduates” (both in-prison and post-prison) and “partial graduates” (only in-prison).

### Lifetime Benefits

Decreased Recidivism Total Lifetime Benefit	\$20,422
Public Welfare Costs Total Lifetime Benefit	\$9,355
Income Increases Total Lifetime Benefit	\$283,892
Business Creation Total Lifetime Benefit	\$198,784
Parental Presence Total Lifetime Benefit	\$47,722

*\* Note that lifetime benefits are calculated based on those who receive them.*

*Not all clients served may receive all benefits.*

# SROI: Benefits

## *Description and underlying assumptions of each benefit line item*

<b>Benefit</b>	<b>Description</b>
<i>Decreased recidivism</i>	<ul style="list-style-type: none"> <li>• Single time benefit of reduced court fees, which amount to \$559 per person on a weighted average basis (American Journal of Criminal Justice, 2017)</li> <li>• Yearly incarceration savings, which amount to \$18,538 per person in Texas (Texas Policy, 2018), applied to the differential between the average Texas 3-year recidivism rate (21.4%) and PEP's 3-year recidivism rate (8.3%)</li> </ul>
<i>Decreased welfare costs</i>	<ul style="list-style-type: none"> <li>• PEP graduates experience a 20% decrease in welfare usage (Baylor, 2013)</li> <li>• Monthly Texas SNAP benefit amounts to \$125 (Kaiser Family Foundation, 2019) and yearly Texas TANF benefit amounts to \$6,311 (ICIC, 2018)</li> <li>• One-time benefit of WOTC amounts to \$9,600 and applies to 5.8% of all prisoners (Brookings, 2018)</li> </ul>
<i>Income increases</i>	<ul style="list-style-type: none"> <li>• Wage growth: differential between average 3-year post-incarceration income of \$28,158 (Brookings, 2018) and average 3-year PEP post-incarceration income of \$115,480 (ICIC, 2018) applied to prisoners who would have already been employed</li> <li>• Employment growth: average 3-year PEP post-incarceration income applied to prisoners who would not have been employed based on a national post-incarceration unemployment rate of 47.5% (Brookings, 2018) <ul style="list-style-type: none"> <li>• PEP's 3-year post-incarceration unemployment rate is 5% (Baylor, 2013)</li> </ul> </li> </ul>
<i>Business creation</i>	<ul style="list-style-type: none"> <li>• Added economic value from business creation: ten-year added economic value of the average PEP business is \$185,873 (provided by charity), and 16.6% of PEP graduates start a business <ul style="list-style-type: none"> <li>• From 2004-2014, 361 PEP graduates started a business out of 2,180 total graduates</li> </ul> </li> <li>• Wages from new business job creation: each PEP business employs on average 4.55 employees (ICIC, 2018), the Texas 3-year minimum wage is \$42,240</li> </ul>
<i>Parental presence</i>	<ul style="list-style-type: none"> <li>• 63% of Texas prisoners have one child (Bureau of Justice Statistics, 2010) and 51% of PEP graduates experience family reunification (AEI, 2016)</li> <li>• High school dropout rate is 25% for children of incarcerated parents (COIP) and 5% for COIP who experience family reunification (JAMA, 2019)</li> <li>• Average increase in annual earnings upon high school graduation is \$24,000 (Northeastern, 2020)</li> </ul>

Note: Benefits were calculated based on the proportion of participants who partially graduated (i.e., only underwent the in-prison program, 59%) and completely graduated (i.e., finished the in-prison and post-prison programs, 41%).

# Exclusions and Qualifications

## *Intangible benefits not included in SROI calculations*

- Volunteer Mobilization
  - Unable to track the amount of volunteering completed by PEP graduates and other volunteers or translate its financial impact
  - 40-person mobilization after 2017 Hurricane Harvey in Houston
- Mental Health Improvement
  - Unable to quantify improvement in mental health or track ripple effects on communities after inmate release
  - There is likely a mental health improvement for *any* progress in PEP despite graduation status
- FICO Scores and Home Ownership
  - Unable to calculate the quantitative economic impact of home ownership and a higher FICO score
  - 41% of graduates own a home, 3-year FICO score is 653 (573 average)
- Business Advice & Consulting
  - Unable to track who is getting advice or the economic impact of consulting provided
- Post-Release Mentorship
  - Unable to calculate impact of mentorship on business performance or personal quality of life improvement
  - 37% of PEP grads start a business
- Accredited Institution Education Certificate
  - Unable to calculate the impact of a certificate attainment on employment and retention
- Job Networking
  - Unable to track how much networking is done per person
  - 100% of PEP graduates have a job after 90 days
- EQ and Leadership
  - Unable to quantify the increase in leadership skills and emotional intelligence of inmates, and unable to quantify its financial benefits
  - Participants receive 20 hours of class every week, five days a week, for 12 weeks
  - PEP claims all graduates leave with a “character transformation”

# Alternative SROI Methodologies

*Calculations completed as part of impact reports by Baylor University and ICIC*

## Baylor Institute for Studies of Religion (2013)

- Calculated a 340% 5-Year ROI based on recidivism economic savings, tax revenue gains, child support payment economic gains, and savings from decreased government assistance
- Does not factor in wage growth, greater employment, and business creation
- Time horizon of five years does not calculate lifetime compounding benefits

## Initiative for a Competitive Inner City (2018)

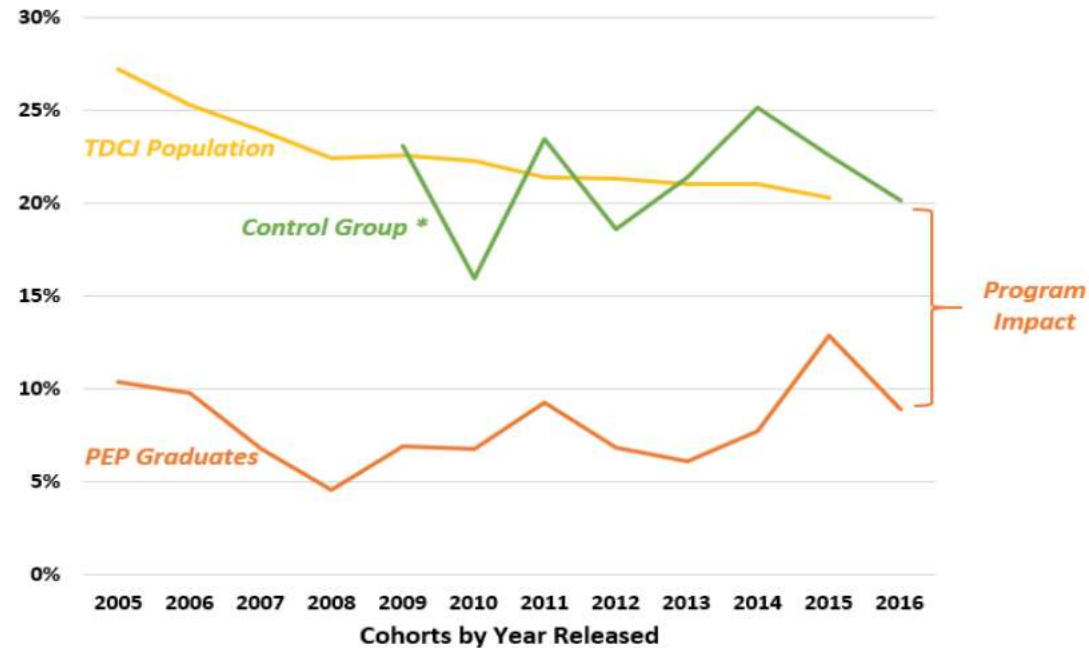
- Calculated a 794% 5-year ROI and \$4.3m in total savings to the Texas State Government and the Federal Government in 2017
- Fiscal impact analysis evaluates:
  - Tax revenue from employed PEP graduates and newly formed businesses
  - Decreased recidivism: reduced arrest, court, and incarceration costs
  - Decreased public assistance: SNAP and TANF

Sources: Baylor, ICIC

# Recidivism Reduction

*Matched data shows that PEP graduates significantly outperform control group*

### 3-Year Recidivism Rate Comparison



- \* – Applicants accepted by PEP but denied transfer by TDCJ for parole, education, medical, classification or disciplinary reasons
- Green line = 1,783 unique instances with 3-year release completed
- 815 additional unique instances not completed, still tracking

Note: Information from PEP 2019 Impact Report



# Map of Operating Area



- PEP's office is based out of Houston, where its main operations are run
- PEP reaches out to every prison in the state to find candidates
- PEP's prisons of contact include the Cleveland Unit near Houston, TX and the Estes Unit near Dallas
- PEP's halfway houses are in Houston and Dallas
- PEP's E-School and Business Centers are in Houston and Dallas, but operate online

# The USIT Foundation

[usitfoundation.org](http://usitfoundation.org) | [texasusit.org](http://texasusit.org)

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# The USIT Foundation

## *About the USIT Foundation*

The USIT Foundation is the 501(c)(3) parent organization of the University Securities Investment Team, the largest student-run investment fund at The University of Texas at Austin. Comprised of alumni who started their investing journeys with the team, the USIT Foundation works closely with student leadership in the contexts of investing, data science, and philanthropy.

The USIT Foundation supports and advises the USIT student organization and marshals and engages its alumni to promote personal and professional growth through active charitable giving. In Spring 2020, the alumni of the USIT Foundation initiated a philanthropic Giving Pledge to commit time and resources to better our communities.

## *Philosophy and Approach*

The USIT Foundation is committed to evidence-based philanthropy and continuously builds upon a model of effective, responsible capital deployment. In its months-long competitive annual process, the Foundation identifies and performs deep diligence, including client testimonials, data room modeling, and impact stress testing, on charities. In the 2021-22 academic year, the Foundation plans to provide \$100,000 in donations to several charities that operate within the three observed impact verticals, with the initial donation opening the door for years-long engagement and follow-on investments.



### *Education*

Ensuring that students of all ages receive high-quality, equitable education while community members are properly supported.



### *Justice & Opportunity*

Breaking down systemic barriers to assist the reentry transition and reduce nationwide recidivism.



### *Healthcare*

Reducing healthcare burdens through preventative measures, early childhood development interventions, and elderly care.

# Philanthropy Investment Team

## *History*

The Philanthropy Investment Team was formed in Spring 2020 at The University of Texas at Austin by request of the University Securities Investment Team (USIT) Foundation and Alumni Network, which wished to establish a partnership with the student organization to source charitable investment opportunities.

This fund generates ideas and performs diligence on charities that merit a donation with a value investing framework. Through the primary and secondary research of undergraduate Analysts, the Philanthropy Investment Team is developing a model of impact measurement, both for initial investment diligence and subsequent staged donations. Experimental in nature in its inaugural year, the Philanthropy Investment Team ultimately seeks to donate \$100,000 by Fall 2022 at the discretion of the Giving Committee. Its funds are replenished yearly, comprising 1% of the total Annual Gross Income of the Alumni Network.

## *Portfolio Manager Contact*

Ariel Johnson is a fourth-year undergraduate student at The University of Texas at Austin. She is passionate about creating impact in early childhood development interventions and hunger alleviation. For any questions about this project, you may contact her at [arieljohnson506@gmail.com](mailto:arieljohnson506@gmail.com).



## *Analyst Contact*

Nilay Gandhi is a first-year undergraduate student at The University of Texas at Austin. He is passionate about creating impact for small businesses and minority groups. For any questions about this project, you may contact him at [nilaygandhi@utexas.edu](mailto:nilaygandhi@utexas.edu).

