

# *Portfolio Update*

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## **Prison Entrepreneurship Program**

*Presented by The USIT Foundation in Spring '23*

*Originally Presented in Spring 2021*

Charity  
Summary

- **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 and transition team of 36 individuals as well as additional volunteer support
  - PEP's current receipts total \$3.2m, which fall short of its \$2.9m annual expenditures
  - It costs ~\$8,700 per individual served through PEP's business school (over ~1.5 years with ~9 months of in-prison programming and 6-9 months of post-prison programming)
- **Management has been extremely data driven and relies on empirical verification to understand the efficacy of the program**
  - The charity tracks six economic indicators for its graduates
  - Three independent studies have been conducted on PEP (Baylor Institute for Studies, Initiative for a Competitive Inner City, International Journal of Offender Therapy and Comparative Criminology), all concluding it is the top model for education
- **PEP is primarily backed 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

## Charity Summary | Donation Thesis | Theory of Change

Donation  
Thesis

- **PEP is currently focusing on expansion via moving its curriculum and outreach to an online platform**
  - PEP’s targeted focus is currently on finishing their Collider, continuing their Learning Management System and Video Management System, and creating content for tablets to increase program awareness
- **Despite COVID, PEP rebounded quickly and met previously set goals**
  - A donation from the USIT Foundation could be targeted funding for establishing their online curriculum platform
  - Previous expansion plans are being scaled up, and PEP expects 4X more graduates per year in 5 years
- **PEP has continuously proven to be a good partner for the USIT Foundation**
  - Management has been eager to provide information and PEP’s curriculum plays into the USIT Foundation’s core competency of finance and entrepreneurship
  - Upon contact, management responded quickly and provided a slide deck and information that has not been released publicly

Theory of  
Change

- **PEP unites incarcerated men and business executive volunteers through “entrepreneurial passion and servant leadership”**
  - PEP selects the top 500 men from 10,000 candidates per year, an acceptance rate of 5%
  - After testing and interviews, participants are transferred to one of the two facilities where PEP operates: the Estes Unit south of Dallas, Texas or the Cleveland Correctional Facility outside of Houston, Texas
  - Participants finish a leadership and “mini-MBA” curriculum, potentially earn seed-money, and work with past graduates and volunteers
  - Upon completion, graduates earn a Certificate in Entrepreneurship from the Baylor University Hankamer School of Business

## Charity Updates

### Notable Highlights in 2022

#### Expansion

- Added 2 new staff members to focus on replication
- By the end of 2025, two states will be test piloted (undisclosed)
- Space occupied September 1, 2022; Grand Opening October 12, 2022 for the Houston location

#### Organization

- Unit events resumed properly mid-2022 after COVID, which paused events in March 2020
- Creation of systemic volunteering program
- Collider is now active – incubator promoting “collisions” between participants, staff, alumni to maximize ideas
- The Business Coach Program provides mentoring for participants from volunteers, and it resumed in 2022

#### Operations

- **Learning Management System (LMS)**
  - Unit-based tech: Complete
  - Participant portal: delayed until Collider fully operational
  - Volunteer portal: delayed until Collider fully operational
- **Video Management System (VMS)**
  - Partnering with Securus for inclusion of PEP curriculum on Texas Department of Criminal Justice (TDCJ)-wide tablet distribution; Securus currently building unit infrastructure
  - This increases awareness of PEP for inmates and alleviates the issue of being unable to recruit inmates with an indeterminate length

#### Operations (cont.)

- **Volunteer Center**
  - Volunteer Coordinator implementing systematic engagement
  - Buy video equipment
- **Build Content**
  - Pending completion of video studio for PEP recruitment content and miscellaneous curriculum
- **Finances**
  - PEP subsidiary has the US Treasury Community Development Financial Institution Certification, direct assistance from treasury, and unlocked access to the CRA (Community Reinvestment Act) - \$200k line of credit
- **Revamped post-release program**
  - Focused on connections, networking, 90-120 days, then e-school aspirations that helps them with ideation assistance
  - Positive results include participation in the Collider and graduates returning to speak positively of PEP

## *Forward Trajectory & Challenges/Opportunities*

### Challenges/Opportunities

#### **2021**

- 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%
- PEP started building the Collider to intentionally foster volunteer-participant interactions

#### **2022**

- Staff out of prison until March, volunteers until June
- Loss of knowledge base – retrain servant-leaders and re-establish culture
- Inmates had shorter time until release
- Because PEP gains a lot of its success from a cultural/knowledgeable component, COVID heavily impacted operation plans. 2022 was a year of transitional rebuilding

#### **2023**

- Increase transition home beds (capacity for larger pipeline)
- Increase organization presence for potential applicants and nationally
- Average starting hourly wage after release grew to \$15.91 up from \$14.20 in 2022

### Future Plans

#### **Tablets**

- TDCJ partnered with Securus, which provides tablets to each inmate, to load PEP content and increase recruitment
- Package VMS content into new states
- Online platform mitigates the issue of inability to recruit indeterminate sentence length prisoners
- Curriculum can now be put on tablets and provide data
- Increases existing model's pipeline + adds new pipeline
- ~4X number of graduates per year in 5 years

#### **Virtual Community**

- Online platform/resource hub for participants, volunteers, and staff
- Replace Facebook community (older platform, adopted by older users)
- Centralized hub to eliminate staff bottlenecks
- Longitudinal tracking of volunteer-participant "Collisions" (better curriculum and volunteer training)
- Multiplicative/cyclical effect of giving back, as graduates create businesses, become involved with PEP and current participants, and feel more inclined to give back

# Unit Economics & Key Performance Indicators

	2018	2019	2020	2021	2022P	2023P
Revenues	\$2,713,000	\$2,623,191	\$3,264,329	\$3,536,172	\$3,261,000	
Expenses	\$2,916,000	\$2,900,107	\$2,528,509	\$2,536,182	\$2,891,000	
Participants	1,030	1,058	886	1,022 <sup>1</sup>	1,207	1,605
Expenses per Graduate <sup>2</sup>	\$10.5K	\$9.6K	\$9.1K	\$37.3K	~\$7.9K	~\$6.6K
Number of Graduates	279	302	278	68	368	480
Yearly Recidivism Rate for Current Cohort <sup>3</sup>	12.9%	8.9%	13.1%	4.5%	9.0%	9.0%
Cumulative Recidivism Rate (Since Inception)	8.3%	8.4%	9.1%	8.4%	8.4%	8.5%
Average Wage Post-Release	\$12.60	\$12.62	\$13.03	\$14.20	\$15.91	
Speed to Employment (Days)	22.5	23.6	24.1	24.0	23.5	

[1] Participant # in 2021 was able to return to normal due to digital programming

[2] Shown as cumulative participation costs (average program length is ~1.5 years). 2021A costs may understate deferral of graduates due to programming pauses during COVID-19

[3] Recidivism rates are only tracked for graduates, not all participants

# Appendix

## Relevant Links

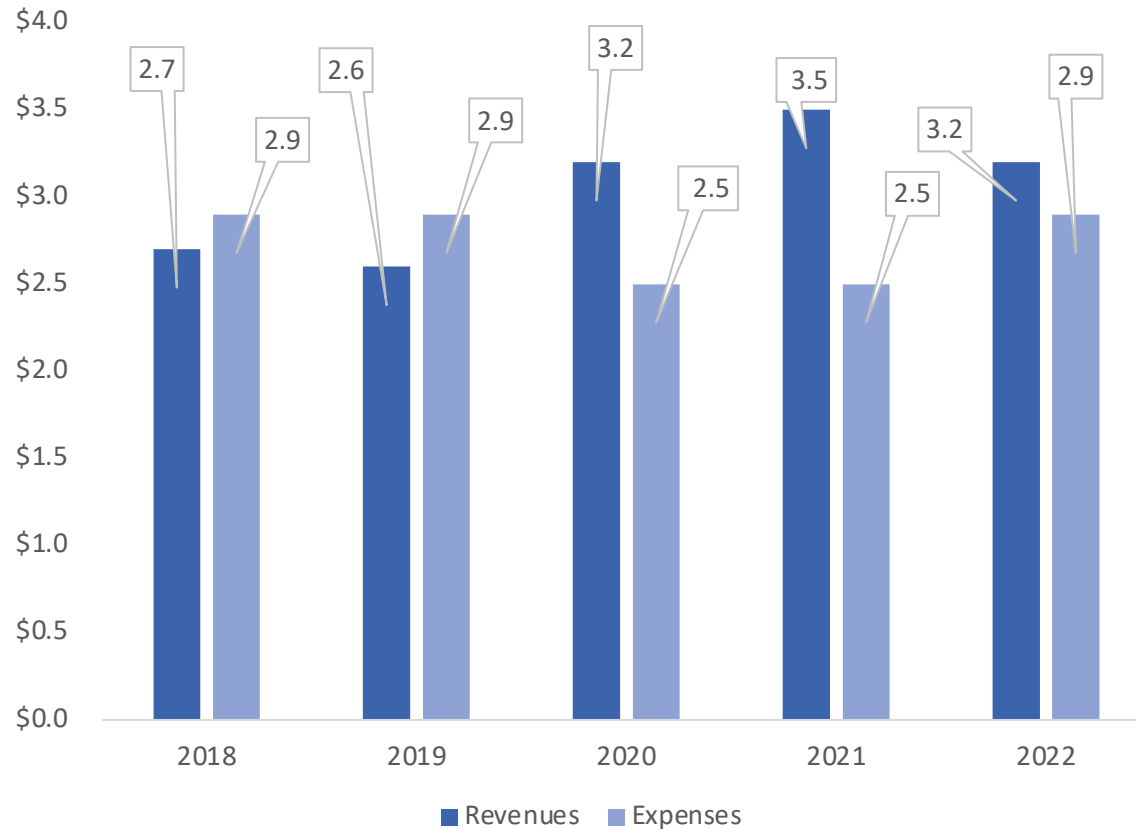
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- 2023 Relevant Links
  - [Website](#)
  - [Form 990](#)
  - [Charity Navigator](#)
  - [GuideStar](#)
  - [CauseIQ Summary](#)
- [Original Drive](#)
- Existing Decks
  - [PEP Original Presentation](#)
  - [PEP 2022 Portfolio Update](#)

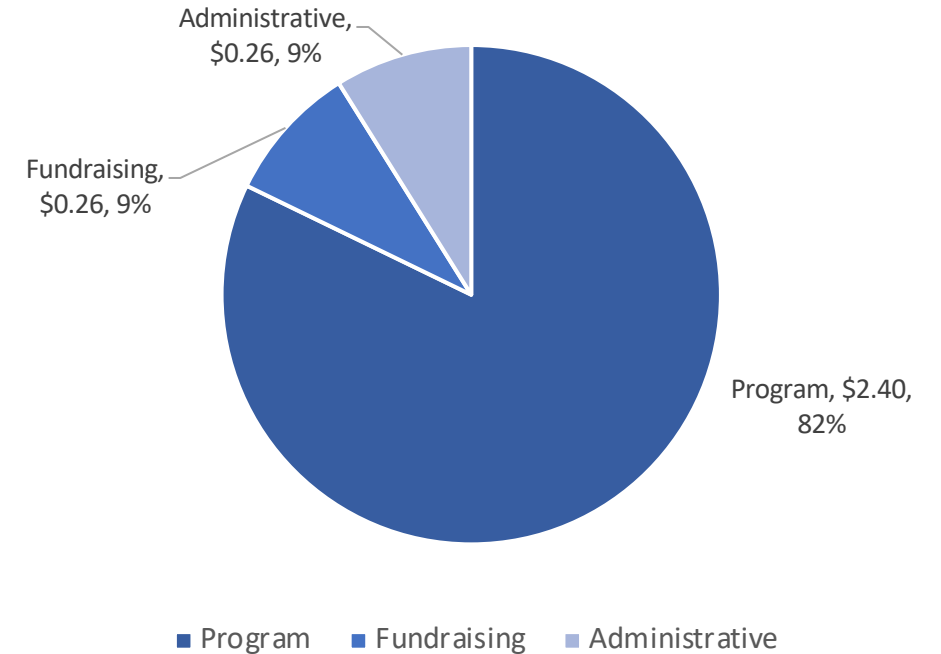


*PEP shows steady operations and a strong dedication to program funding*

### Revenues and Expenses over Time (\$M)



### 2022 Organizational Budget (\$M)



# Prison Entrepreneurship Program

## PEP proposed 2023 budget

### Prison Entrepreneurship Program Consolidated Budget - GAAP Basis (\$ in 000's)

	Actual		Budget			Change vs Prior Year		
	2021	2022	2023	2024	2025	23v22	24v23	25v24
<b>Donations by giver</b>								
Individuals	\$ 781	\$ 729	\$ 1,100	\$ 1,400	\$ 1,800	\$ 371	\$ 300	\$ 400
Foundations	1,494	1,435	2,198	3,248	3,348	763	1,050	100
Corporations	278	518	400	500	600	(118)	100	100
Churches	60	58	65	70	75	7	5	5
Government	355	-	-	-	-	-	-	-
<b>Total operating donations</b>	<b>2,968</b>	<b>2,739</b>	<b>3,763</b>	<b>5,218</b>	<b>5,823</b>	<b>1,024</b>	<b>1,455</b>	<b>605</b>
<b>Capital donations</b>	70	282	-	200	200	(282)	200	-
<b>Housing rent revenue, net of PEP paid</b>	154	167	207	244	288	40	37	44
<b>Other</b>								
Interest income	5	2	8	8	8	6	-	-
Other revenue	35	37	28	28	28	(9)	-	-
Total other	40	39	36	36	36	(3)	-	-
<b>Total revenue, programming</b>	<b>\$ 3,231</b>	<b>\$ 3,227</b>	<b>\$ 4,006</b>	<b>\$ 5,698</b>	<b>\$ 6,347</b>	<b>\$ 780</b>	<b>\$ 1,692</b>	<b>\$ 649</b>

#### Comments & Assumptions

- 1 All revenue above exclusive of Entre Capital revenue (CDFI Fund grants, restricted donations, interest income)
- 2 PEP is working with a substantial national foundation (currently requests to remain anonymous) to build an investable action plan capitalizing on TDCJ tablet technology and national scaling. Foundation revenue assumes anonymous foundation and its partner affiliates award \$500 in 2023, \$1,350 in 2024 and \$1,350 in 2025 toward PEP's action plan.
- 3 Projecting Dallas Collider built in 2025 with supporting capital campaign (\$200 in 2024 and \$200 in 2025)
- 4 Housing rent revenue assumes a 14-bed duplex is added each year in 2023, 2024 and 2025 to meet projected capacity assuming 60% of releasees request transition home service

### *Prior Engagement & Analyst Verdict*

- PEP utilized PIT's donation to fund technology that increases operational efficiency
- PEP partially completed its Learning Management System, is in-progress for completion of the Video Management System, and has implemented systemic volunteer coordination efforts, and working to complete a video studio
- PEP aims to continue their automation process through tablet donations, increase awareness through a video curriculum, and create an online platform

### Contact History

Chengxi Gang had a call with Madonna Riley, Grants Manager, on 3/1/2023

### Analyst Verdict:

PEP deserves continued funding because of its success in completing previously stated goals and steadily improving KPIs. In a transformative period, PEP displayed growth and resilience to quickly implement a virtual platform in response to COVID. Their unique model is being built upon through their need for funding for the PEP Collider and in-progress efforts for completing the Learning and Video Management System. A well-established virtual platform will serve PEP for future years to come.

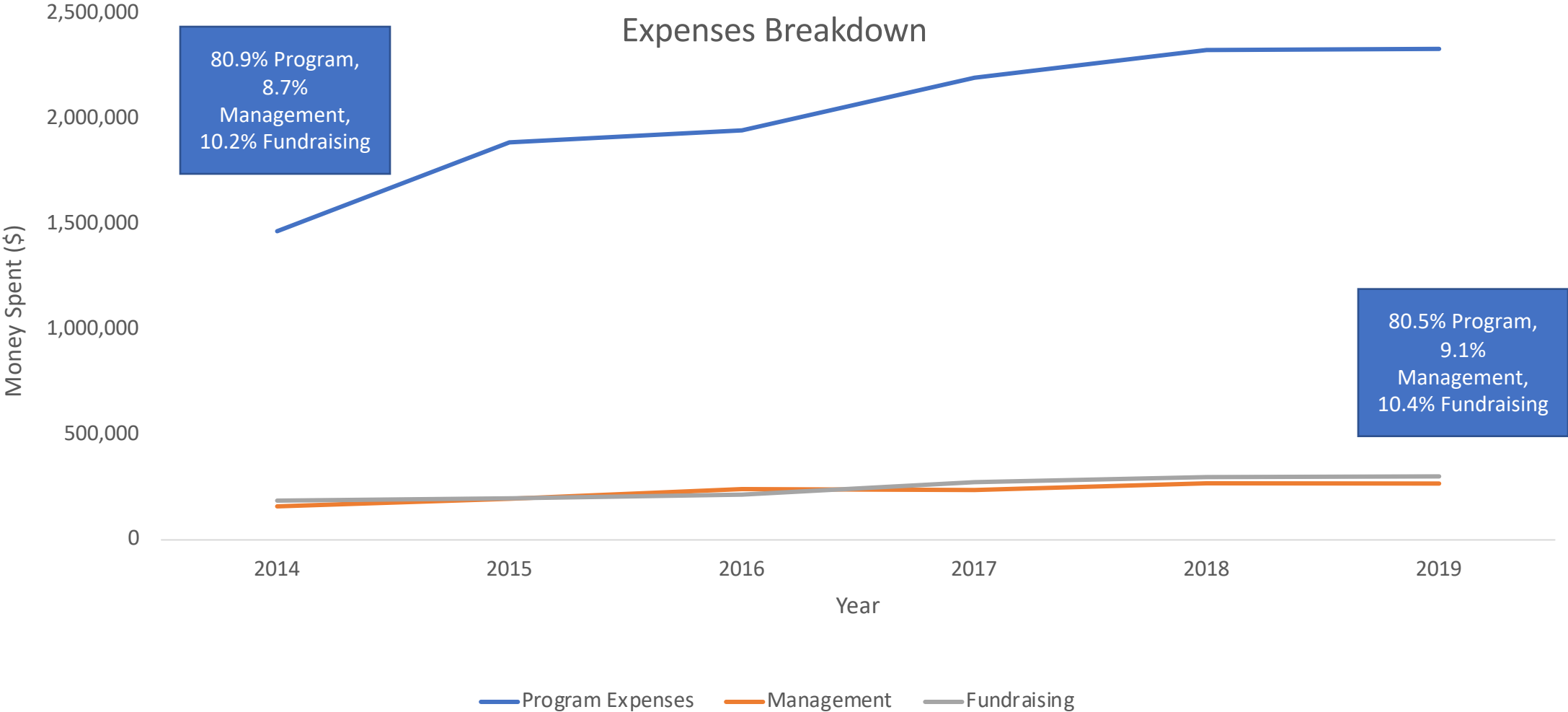
### *Benchmark Statistics*

- **Texas 3-year Recidivism Rate:** 21.4%
- **Average Cost Per Prisoner in Texas:** ~\$22,000 per year
- **Cost of Housing Prisoners Per Year:** between \$20,000 and \$40,000
- **Prison Population:** As of July 2022, a combined total of approximately 403,387 individuals were on probation, parole, or in prison. 204,426 on direct misdemeanor or felony probation; 121,102 incarcerated in TDCJ facilities; and 77,859 parole supervision

# PEP & Anchor Studies (As of Original Underwriting in 2021)

- Results match what is stated as the goal of PEP. Graduates come out as individuals who find the opportunity to contribute to themselves and society and show statistically better outcomes when compared to rejected PEP graduates and unrecruited individuals.
- **Anchor Studies**
  - University of Nairobi maximum security prison – “majority of those who are recidivists did not take part in entrepreneurship training programs, making the researcher believe **that entrepreneurship programs are effective in reducing recidivism.**”
  - John Jay College of Criminal Justice study on entrepreneurship pilot programs – “Entrepreneurship can offer a **viable path to economic self-sufficiency and successful reentry** for some of the increasing number of people coming home from prison each year. In addition, entrepreneurship can provide an opportunity for restorative justice.”
- **3 independent studies done on PEP:** Initiative for a Competitive Inner City (2018), Baylor Business School (2014), and Hofstra University
  - All indicated a **causal link between the program and a drop in recidivism** rates and an uptick in economic performance.

# Financial Snapshot (As of Original Underwriting in 2021)

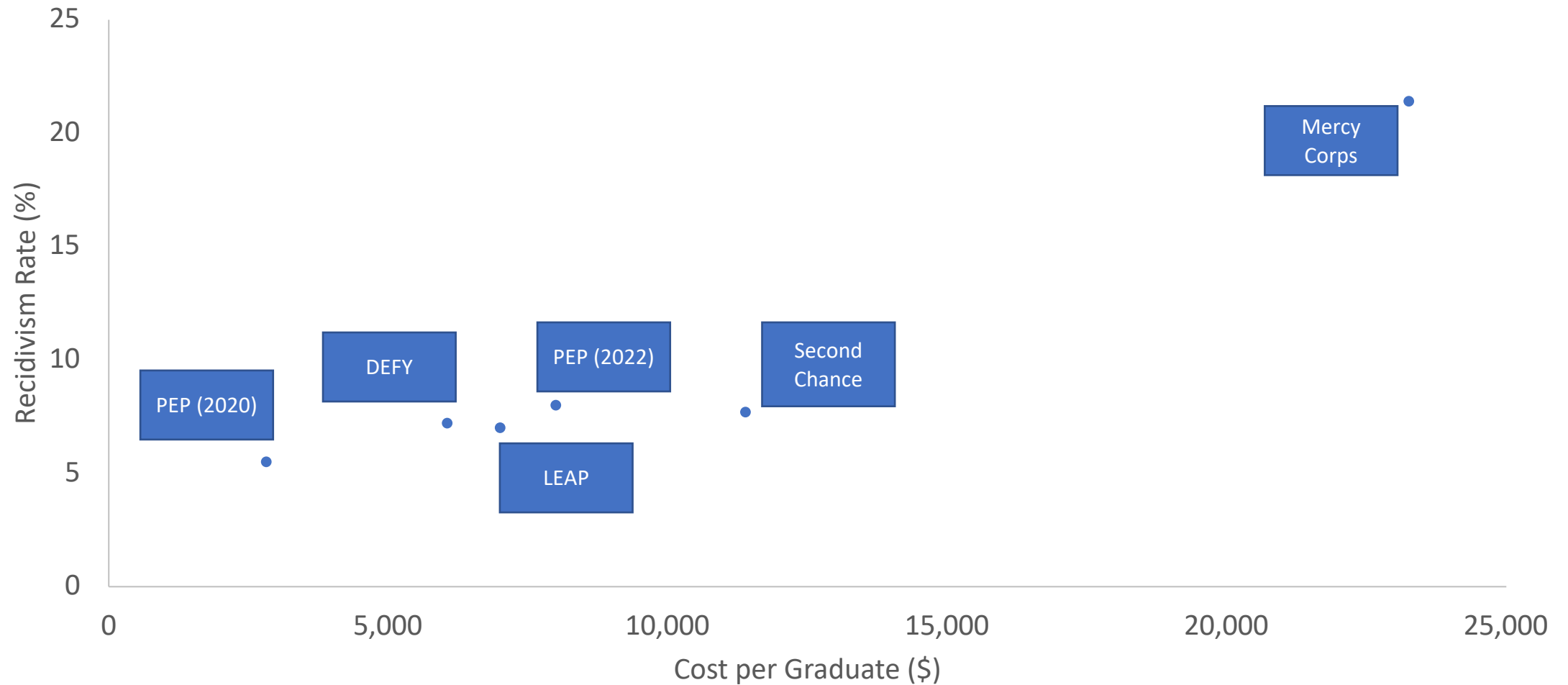


# Theory of Change Summary (As of Original Underwriting in 2021)

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 creating curriculum and providing re-entry education.</li> <li>• 2019 inflows – \$2,595,150</li> <li>• Partners: TX colleges, churches, MBA programs, corporations, tens of misc. re-entry partners</li> <li>• Cost per graduate: \$6759</li> <li>• Cost per total individuals, weighted average: \$2,817</li> </ul>	<ul style="list-style-type: none"> <li>• Selection process to reach out to thousands of prisoners for program, pick 400-500</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 for class after</li> </ul>	<p>All time numbers</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>• \$46.3 million total annual income</li> <li>• \$67.1 million total value added</li> <li>• \$122.5 million total output</li> <li>• \$4.3 million saved for government in one year alone</li> </ul>	<ul style="list-style-type: none"> <li>• ~8% 3-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 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>

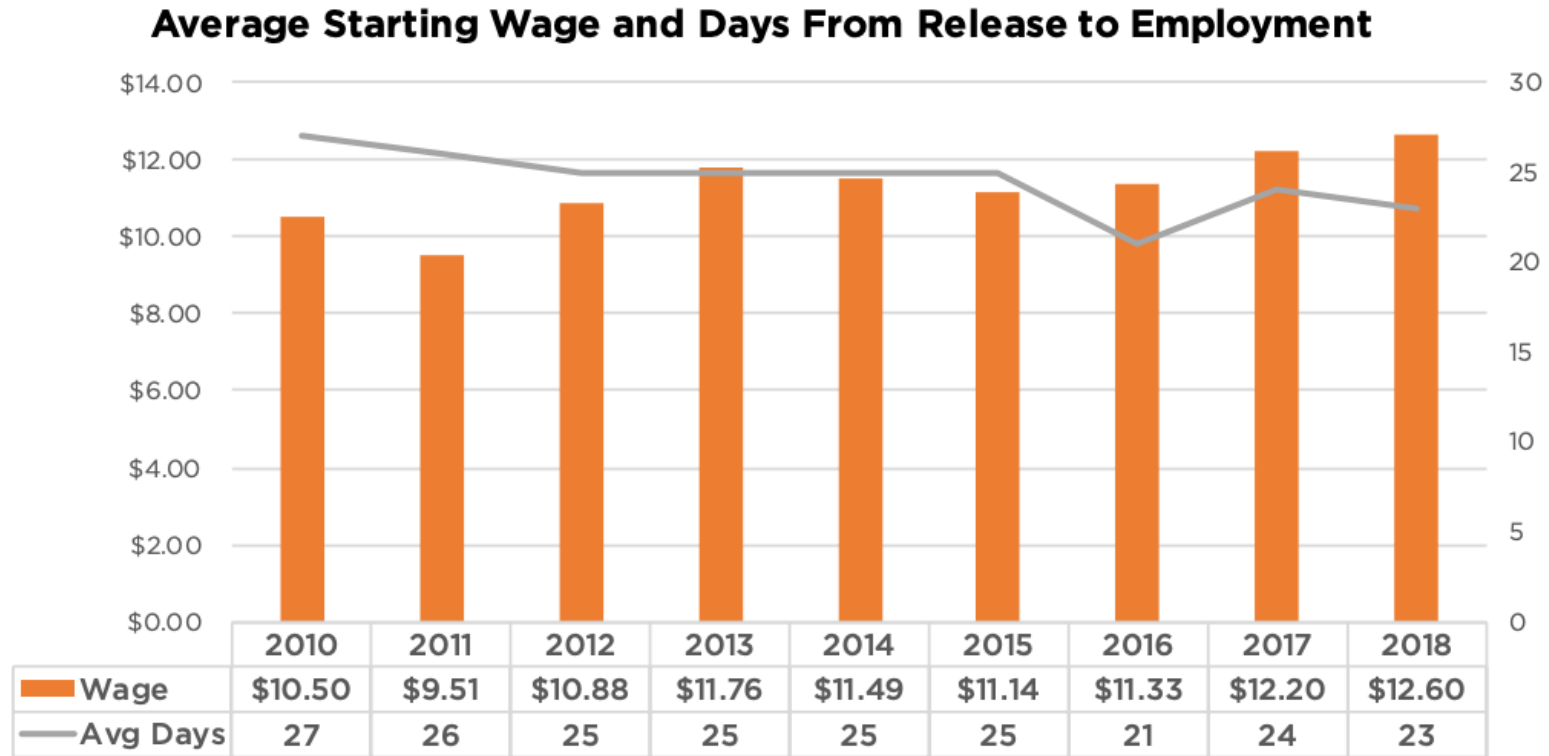
# Best in Class Numbers (As of Original Underwriting in 2021)

Cost per Graduate vs. 1-Year Recidivism Rate





# PEP's Wage Growth (As of Original Underwriting in 2021)



# PEP's Growth Plans & Expansion (As of Original Underwriting in 2021)

- PEP's plans for replication began in 2019 and 2020
  - Put on hold because of COVID; PEP realized that it needed to focus on their scalability in the past year and poured resources into it
- PEP's work on scalability
  - Switching to automated and video managed learning to increase PEP participants
  - Switching initial correspondence to virtual reduced time to contact from 4 months to 45 days
  - PEP increased its class size by 50% even during COVID-19 because of efforts to boost scalability
- PEP still expanding
  - Nonprofit buy in model – discussions with Pittsburgh nonprofit to buy curriculum and hire boots on ground in Pennsylvania to run program
  - Expanded program to Carrol Vance unit in Fort Worth
  - Cost per participation has consistently gone down – started at \$18-20k per person, and the program has improved with decreasing costs
- PEP's increase in efficiency
  - PEP has had better graduation rates, but similar recidivism rates over time
  - There has been an increase in the amount of cumulative and annual students in the program
  - By 2026, PEP projects the need for transitional housing in multiple cities for 1,500 men at any one time (currently 140-150)
  - Expand sister program in Lockhart for women's entrepreneurship

# The USIT Foundation

*usitfoundation.org | texasusit.org*

## *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. Its funds are replenished yearly, comprising 1% of the total Annual Gross Income of the Alumni Network.

## *Junior Analyst*

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## *Portfolio Manager*

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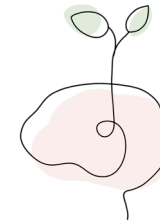
## About the USIT Foundation

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 2022-23 academic year, the Foundation plans to provide \$120,000 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.



### Climate Change

Reducing emissions and waste to invest in a cleaner planet and higher quality of life for communities.