

# Prison Entrepreneurship Program

Prison Entrepreneurship Program (PEP) is a Houston-based charity that specializes in utilizing entrepreneurial education to help prisoners find jobs, open businesses, and leave the criminal justice system.

*Presented by The USIT Foundation in Spring 2021*

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# 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

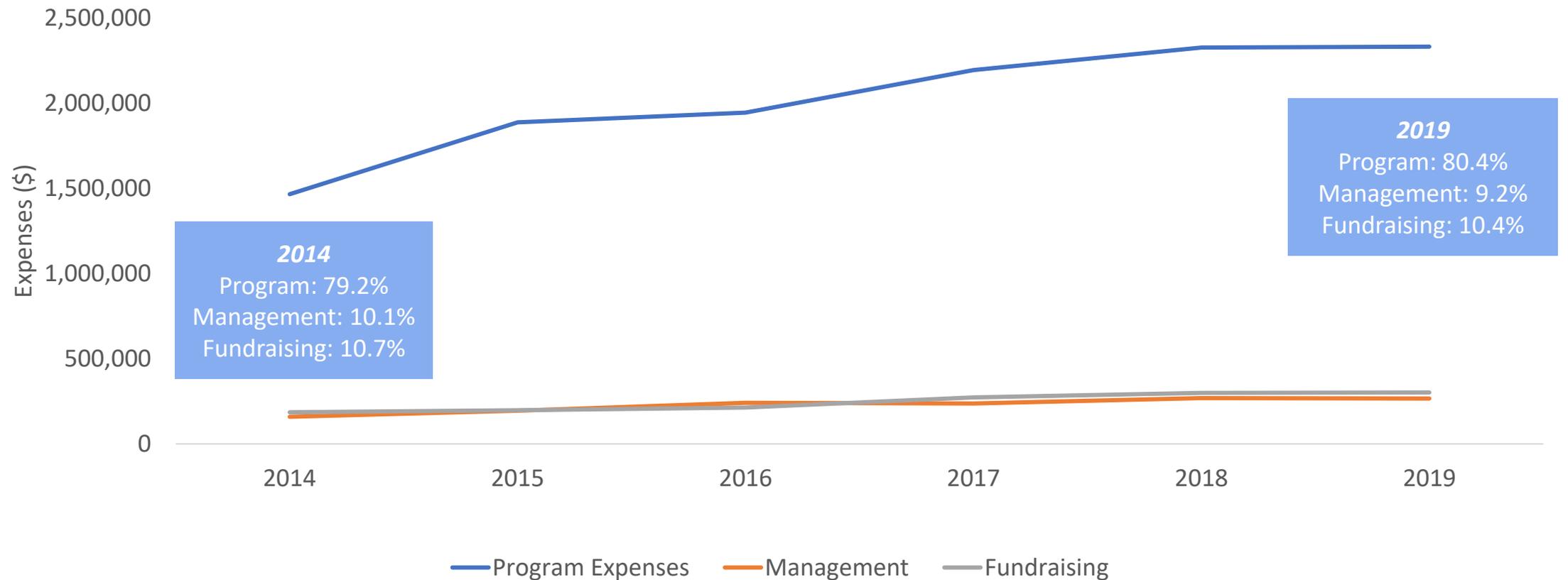
Donation  
Thesis

- **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 80.8x
- **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

# Financial Snapshot

*PEP expenditures have grown slightly more efficient over time*

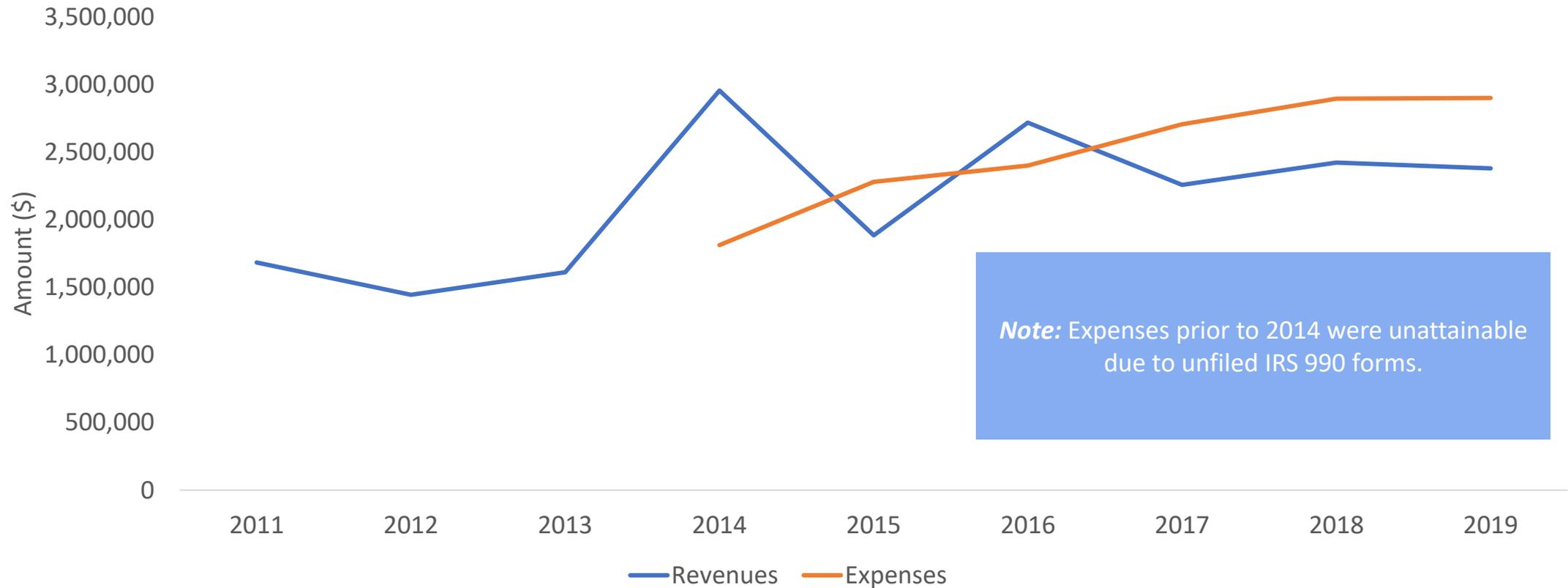
### Expense Breakdown Over Time (2014-2019)



# Financial Snapshot

*Revenues have stagnated since 2016, but costs continue to rise steadily*

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



# 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 or \$907 per participant<sup>1</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 or \$1,017 per participant<sup>1</sup>

1. Internally calculated, not all inmates complete full program

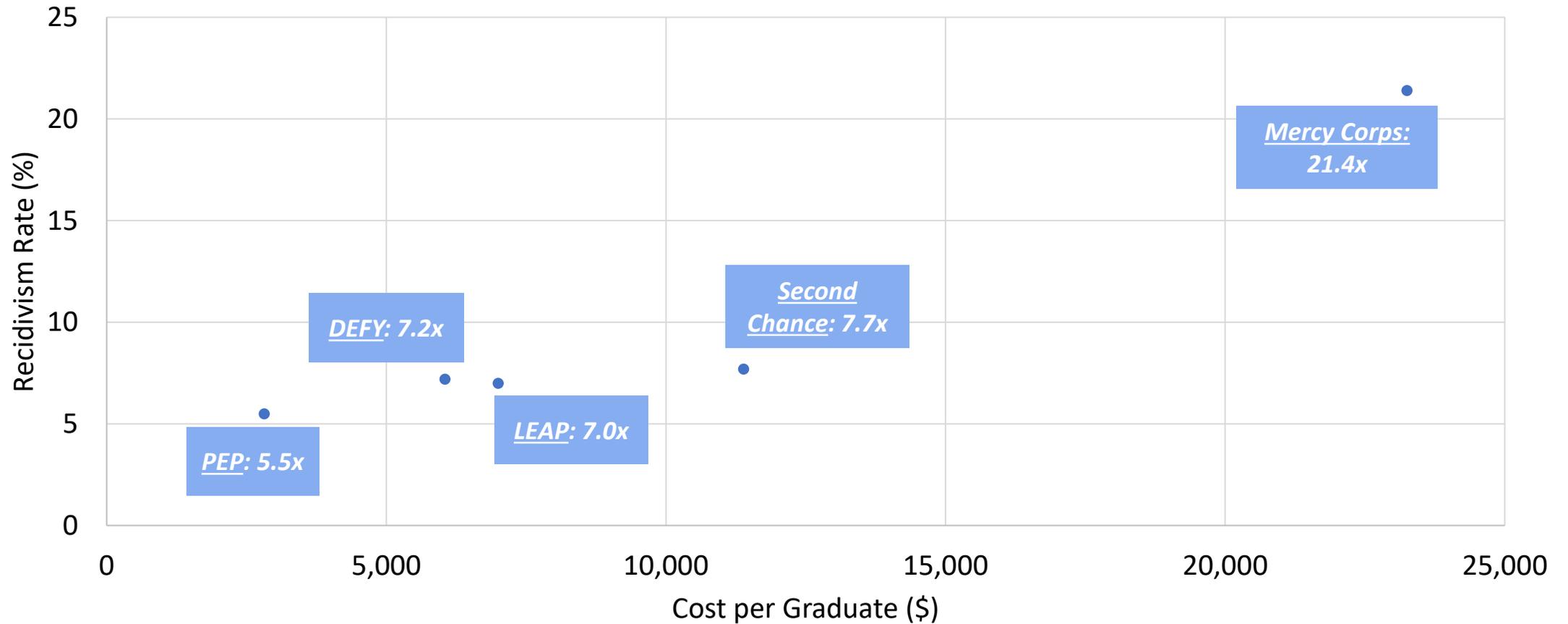
# Theory of Change Summary

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

# Best in Class Numbers

## Comparable Charity Efficiency



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

# 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 switching to an online model that allows lessons to be distributed and standardized across prisons
  - 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

# Issue Overview: Recidivism

Entrepreneurship and Education as Solutions

# Background: Incarceration in America

*The criminal justice system is currently expensive and broken*

- There are 144,000 men imprisoned in Texas
  - 1,060 men per every 100,000 are imprisoned
  - 329% increase in prison population since 1983
- It costs \$18,538 annually to imprison someone in Texas
  - “For every dollar in corrections costs, incarceration generates an additional \$10 in social costs. More than half of the costs are borne by families, children, and community members who have committed no crime.”
- Those affected have worse employment outcomes, are disproportionately homeless, often end up back in jail, and are unable to contribute to society
  - 50% of parolees end up homeless and ex-offenders commit 70% of all crimes
  - Among working age individuals who were formerly incarcerated, the unemployment rate is 27.3% as compared to 5.3% for a comparable group of non-incarcerated individuals
  - Children of incarcerated parents have a 20% higher high school drop out rate and are almost 20% more likely to be classified as low-income as adults

Sources: Prison Policy, National Institute of Corrections

# Entrepreneurship Programs

*PEP champions a novel theory of change and implementation model*

- Although there are other non-profits that operate in the prison entrepreneurship sector in America, there are no comparable regional charities
- PEP is considered “the most widely researched model” via a study by the International Journal of Offender Therapy and Comparative Criminology
- Recidivism responses tend to vary, but focus on:
  - 1) A business education program
  - 2) A business incubator
  - 3) Post-release education

Sources: International Journal of Offender Therapy and Comparative Criminology

# Comparable Charities

*PEP champions a novel theory of change and implementation model*

Charity Name	Description	Size	Similarity to PEP
<i>Defy Ventures</i>	Offers a <b>business education program</b> , a business incubator with mentors, and <b>post release alumni connections</b> to prisoners	<ul style="list-style-type: none"> <li>Inflows: \$2,408,207</li> <li>Outflows: \$2,146,821</li> <li>Served: 5,200 people</li> </ul>	One of the few programs that operates both in and out of prison
<i>BEST</i>	<b>Rehabilitation services</b> for individuals in Tennessee after they leave prison to reduce recidivism	<ul style="list-style-type: none"> <li>Inflows: --</li> <li>Outflows: --</li> <li>Served: 61 people</li> </ul>	Contains multiple phases of rehabilitation
<i>LEAP Fund</i>	<b>32-week program</b> for ex-prisoners, with a focus on women, to <b>learn about entrepreneurship</b> , start a business, and <b>receive counseling</b>	<ul style="list-style-type: none"> <li>Inflows: \$311,736, 878</li> <li>Outflows: \$321,330,733</li> <li>Served: ---</li> </ul>	Clear focus on business development and inmate education

## ***Analysis: PEP vs. Defy Ventures***

- PEP 2019: 80.4% program, 9.1% management, 11.5% fundraising
- Defy 2020: 74.6% program, 15.8% management, 9.5% fundraising
- PEP is-best-in-class in most program expenditures
  - Less administration and management overhead
  - Greatest dollars raised via fundraising expenditures

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

# Comparable Charities

## *Description of top comparable charities*

### **Second Chance (Job Readiness)**

- Post-prison, San Diego-based pre-employment and soft skill training for ex-felons
- \$1,935,890 expenses, 250 participants, totaling to a \$11,388 cost per person
- 91% job placement rate
- Second Chance has **lower job placement** rates and **higher costs** compared to PEP

### **DEFY Ventures**

- In-prison, New York based-business classes and pitch competition for ex-felons
- \$4,324,130 expenses, 3,078 participants, totaling to \$6,052 per person
- 7.2% one-year recidivism rate
- 82% job placement rate
- DEFY has a higher recidivism rate than PEP
- DEFY has **lower job placement** rates and **higher costs** compared to PEP

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

# Discussion of Root Causes

## *PEP management's philosophy on the causes of and solutions to recidivism*

- PEP's view on why a recidivism epidemic exists<sup>1</sup>:
  - **Re-entry challenges:** When an individual leaves the prison system, he is only given \$50 and the clothes on his back. People are lost when they exit the prison system due to a lack of ID and SSN access, as well as no support system.
  - **Social services:** People who grow up in areas with lower access to education, higher poverty, and less opportunities are more likely to end up in prison.
  - **Prison system:** The system wears people down rather than allowing them to plan for a life outside of prison.
  - **Social support:** The goal of PEP is to alter character. It is not just whether you are set for life, but whether you believe in a goal you have. Those in poverty lack the role models that those who are inherently well off have, which often stops them from making decisions that are optimal for the long run in their lives.
- **PEP Mission Statement:** “At the Prison Entrepreneurship Program, we are servant leaders on a mission to transform inmates and executives by unlocking God-given potential through entrepreneurial passion, education and mentoring.”
- **Takeaway:** PEP believes that its program is not a second chance, but a first chance for previous offenders. PEP's program aligns with the USIT Foundation's viewpoints regarding general root causes of and favored solutions for addressing mass incarceration.

1. Insights gained through interviews with CEOs Bryan Kelley and Tim Hamilton

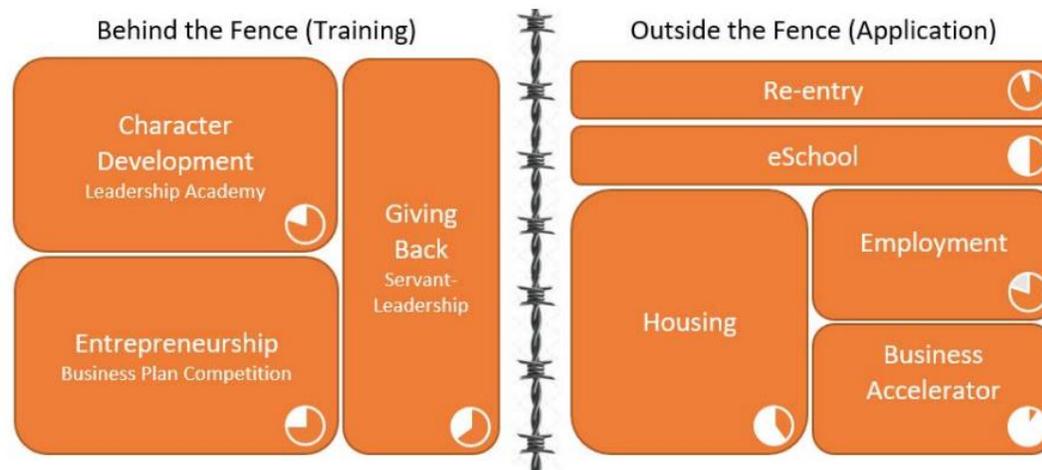
# PEP Program Activities

In Prison & Out of Prison Programs

# Overview of PEP's Model

*PEP offers a comprehensive model addressing all aspects of rehabilitation*

## Model's "8 Components"



Component development %, e.g. 75% =

## Proven Solution

- Deep, high touch, long-lasting
- "Inside the fence" & "outside the fence"
- Disciplined, character focused, accountability driven
- Core vision of entrepreneurship & self-improvement
- Focus on supporting the individual toward a "start-up life"

Note: Information from PEP 2020 Annual Impact Report

# In-Prison Programming

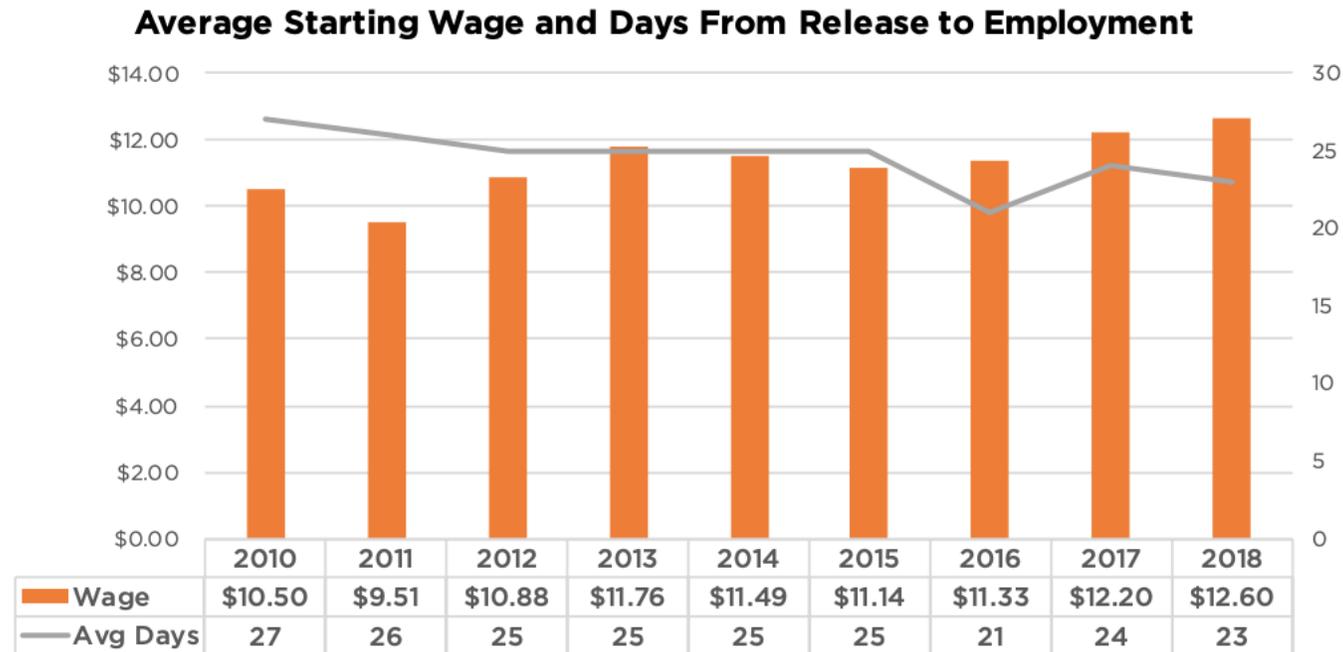
- **Before:** Selection Process
  - PEP reaches out to Texas prisoners and waits for responses
  - From those who respond, around 1/5 apply to the program
  - From there, ¼ of the men pass a final test based on PEP's study packet to continue to the program
- **First:** In-Prison Education/Leadership Academy
  - 3-month leadership development program following "The Principles of Effective Leadership" curriculum
  - One-on-one work to develop and eliminate certain character traits
- **Second:** Business Plan Competition
  - 6 month "mini-MBA" program using college textbooks
  - Conceive a business, research logistics, and pitch business over 120 times
  - Complete a financial literacy course, an employment workshop, a business etiquette course, and a Toastmasters class
- **Third:** Graduation and Certification
  - Cap and gown ceremony in prison with families
  - Baylor University provides each graduate a certificate in Entrepreneurship, along with certificates for other programs
- **Fourth:** Family Program
  - Open communication to family to strengthen ties
  - Open conference calls and tips on how to manage reintegration process

# Post-Prison Programming

- **Stage 1:** PEP Transition Team (Housing, Re-Entry)
  - Pick up participants and provide networking, social events, and emergency financial assistance
    - Take 65% to halfway homes to reunite with families
  - Post release services include transportation, paperwork assistance, counseling and advice, support, care packages with clothing and food
  - Provide bus passes, phone cards, dental services, and medical services via partners
  - Each participant gets a personal volunteer life coach to guide him or her through the transition phase
- **Stage 2a:** E-School
  - Extra education taught by MBA executives and university professors
  - \$500 completion bonus, assist with business start up costs
  - Guide to microloans from PeopleFund and Kiva
- **Stage 2b:** Communitas Business Centers
  - For low monthly fee, PEP provides internet, workspaces, a physical address, and conference rooms for business incubation
- **Stage 2c:** Business Accelerator
  - Via Entre Capital, PEP provides low interest loans, connections, and business guidance for businesses run by graduates
  - PEP is being certified as a CDFI Institution, which allows it to borrow money on low interest loans to invest into PEP graduate businesses
  - The business accelerator will use a junior debt and senior debt in conjunction with Entre Capital, a group of social investors who also want to put money into PEP's businesses
  - Funds borrowed at 3% (by PEP) and loaned to graduates at 6%
- **Family Reunification**
  - Weekend family reunifications in summer and sponsored beach outings with families in fall
  - Rebuild child-to-father relationships to reunite family

# Participant Wage Growth

*Wage upon release remains above national average and has grown slightly*



**Note:** According to national employment data provided by the Federal Bureau of Prisons, the average starting wage of individuals immediately following release is \$2.95 an hour, assuming hours are constant.

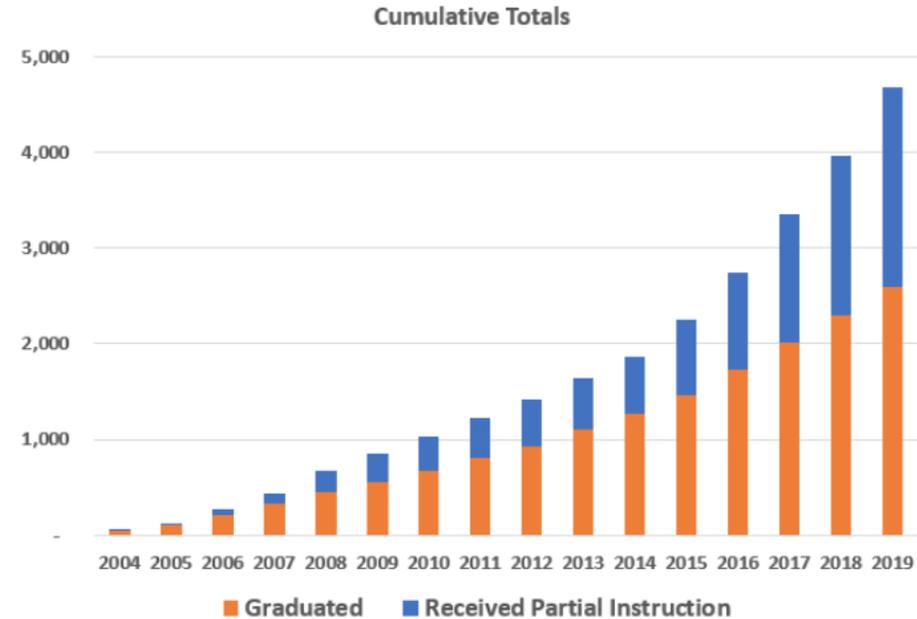
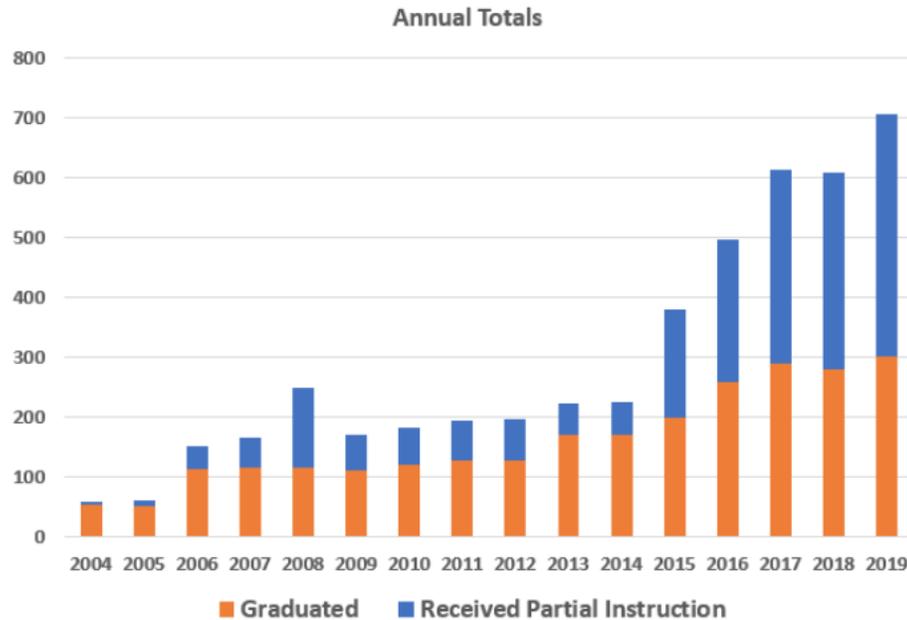
Note: Information from PEP 2018 Annual Impact Report

# Growth Plans & Expansion

- Replication Strategy
  - Focus on curriculum and model scalability to other prisons
    - Effort launched in 2019, but modified due to COVID-19
- Digital Scalability
  - Switching to automated and video managed learning to increase capacity
  - Switching initial correspondence to virtual communication 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
- Continued Expansion
  - Nonprofit buy-in model
    - Discussions with Pittsburgh nonprofit to buy PEP 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 decreased – started at \$18-20k per person and currently costs \$1,925 on average per person served, but not necessarily graduated
- Efficiency Improvement
  - PEP has had improving graduation rates, but similar recidivism rates over time
  - Since the inception of PEP, there has been an increase in the number of annual program participants
  - By 2026, PEP projects the need for transitional housing in multiple cities to be at 1,500 men at any time (currently 140-150)
  - Expanded sister program in Lockhart for women’s entrepreneurship

# Growth Trajectory

*Although annual cohorts have increased in size, graduation rates have increased*



*Note:* Costs per individual during this time period were roughly cut in half.

Note: Information from PEP Slide Deck, management calls

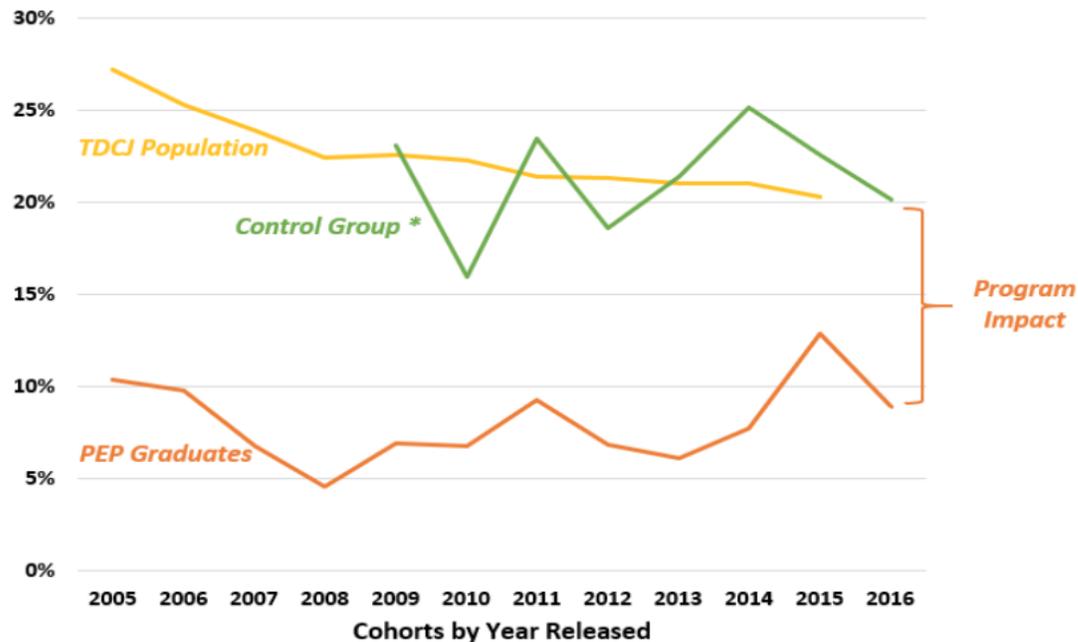
# Theory of Change

PEP provides applicable education, societal skills, and a steady reintegration process to address root causes of recidivism

# 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

## *How does this data demonstrate the efficacy of PEP?*

- 1) It's matched data. This data compares a control group of individuals with similar social, economic, and racial standing who did not enroll in PEP to PEP graduates, and it looks at the recidivism rates for both groups. The difference is the program impact.
- 2) Matched data trends persist over multiple years. Despite fluctuating year-to-year recidivism rates, the differential between PEP graduates and the control population is significant.

# Root Cause Analysis: In-Prison Programming

## *Addressing social support, education, and prison conditions*

- Lack of social support as a root cause of recidivism
  - People rely on changed character and families (social support) when they come out of prison, but most prisoners are not changed or reconnected when they leave
  - National Institute of Justice: “**social support interventions** have shown success in decreasing misconduct, **reducing recidivism**, and producing cost-avoidance benefits”
  - Davis, et al: “When that **support is available** and positive, the likelihood of **returning to incarceration decreases**”
- Lack of education as a root cause of recidivism
  - Felons who come out of prison without applicable skills struggle to support themselves
    - They disproportionately do not have applicable education or the ability to find a job (resume writing, emails, internet skills)
    - The strongest predictor of recidivism is poverty, which education addresses
  - Rand Corporation: “Inmates who participated in correctional education programs had a **43% lower chance of recidivating** than those who did not.”
    - “With vocational training, the recidivism rate drops to approximately 30%. With an Associate degree, recidivism drops to 13.7%.”
- Correctional intervention assists those who end up in prison due to a lack of education
  - Most prisons attempt to cut costs, so they do not do this
  - PEP provides participants with efficient, applicable, and credible schooling
  - PEP addresses these root issues by providing resources to maximize success when prisoners reenter society

Sources: National Institute of Justice, Journal of Clinical Psychology, Rand Corporation

# Root Cause Analysis: Post-Prison Programming

## *Addressing Re-entry Challenges, Education, and Social Support*

- Re-entry challenges as a root cause of recidivism
  - When prisoners reenter society, they do not have a support system, money, clothes, or a place to go
    - Often left homeless or without transportation and end up back in prison because of desperation crimes
  - Ex-felons often lack public assistance, jobs, loans, and even education, pushing them towards the greatest indicator of recidivism: poverty
  - Visher, et al: "Participation in the reentry program was associated with **longer time to arrest and fewer arrests** after release."
- Re-entry programs could be better funded and personalized towards each prisoner
  - PEP does this by providing participants with guidance and one-on-one help after graduation
- PEP addresses the need for education and social support
  - PEP provides connections to post-graduate school and business mentors
    - Allow participants the opportunity to acquire more skills and funds to expand businesses
  - PEP connects graduates to friends and family to give them incentive to stay out of prison

Sources: Justice Quarterly, PEP Impact Report

# Anchor Studies

*PEP goals align with research conducted on prison entrepreneurship programs*

- **Anchor Studies**

- University of Nairobi maximum security prison (2015): “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 (2017):  
“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 conducted on PEP:** Initiative for a Competitive Inner City (2018), Baylor Business School (2014), and Hofstra University (2007)
  - All indicated a **causal link between the program and a drop in recidivism** rates and an uptick in economic performance

Sources: University of Nairobi, John Jay College of Criminal Justice, Initiative for a Competitive Inner City (ICIC), Baylor Business School, Hofstra University

# Interview with PEP Business Owner

*Highlights from conversation with Rodrick Hearn, PEP graduate*

- Mr. Hearn was sent to prison and would have come out with little knowledge of business development, marketing, or a trade to focus on
- For Mr. Hearn, PEP was a lifeline that provided him with technical information about business and ideas on how to market his business
- PEP also taught him business basics such as bookkeeping, loan management, and branding
- After Mr. Hearn went through PEP, he reported becoming “more responsible” and feeling “more thorough”
- In his perspective, PEP could be more hands-on with graduates and send out people in the program to interact with graduates
- He values his PEP network and friends, some of whom are now his customers

# SROI Calculation

All calculations were internally conducted by the Philanthropy Investment Team based on raw data provided by PEP and third-party data sources

# 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

# Financials

Further details on PEP's revenue and expense breakdowns

# Revenues

## *Sources of inflows and partnerships in 2019*

- Funding breakdown
  - \$2,378,475 in contributions (91%)
  - \$197,113 in program service revenues (7.5%)
  - \$19,973 in investment income (0.7%)
  - \$12,959 in capital gain (0.4%)
- Partners include TDJC for beds and re-entry and Entre Capital for business starter fund
- Partners include Texas colleges, including Rice University, The University of Texas, and Baylor University
- Re-entry services include affordable halfway houses such as Covington House, Caleb House, and One Man's Treasure Closet
- Loan partners include Lift, PeopleFund, and Workforce Solutions
- Corporate partners include Bank of America Charitable Foundation, Goldman Sachs Philanthropy Fund, and the Perot Foundation

# Expenses

## *Outflows and funding sources in 2019*

- PEP Funders
  - Foundations: \$1,215,534 (52.5%)
  - Individuals and participants: \$517,567 (22.3%)
  - Corporations: \$282,066 (12.1%)
  - Churches: \$58,500 (2.5%)
  - Board Members: \$240,575 (10.4%)
- Program Expense Breakdown
  - In Prison/Pre-release: \$1,079,445 (51%)
  - Re-Entry: \$652,234 (30.8%)
  - Housing: \$266,099 (12.6%)
  - Other: \$117,921 (5.6%)

# Financial Tracking

## Key performance indicators

### Total revenues

**\$2,623,191** 2019



% of revenues n/a  
Yearly growth -3%

### Total expenses

**\$2,900,107** 2019



% of expenses n/a  
Yearly growth 0.2%

### Total assets

**\$3,379,167** 2019



% of assets n/a  
Yearly growth -2.4%

### Num. employees

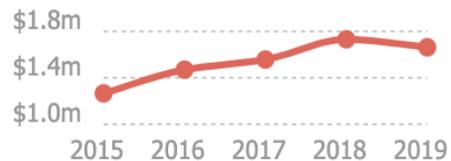
**40** 2019



% of total n/a  
Yearly growth 2.6%

### All salaries, compensation, and employee benefits

**\$1,663,176** 2019



% of expenses 57.3%  
Yearly growth -4%

### Program services

**\$197,113** 2019



% of revenues 7.5%  
Yearly growth -15.5%

Note: Data taken from Cause IQ

# Additional Information

# Outstanding Questions

- **General**

- What did PEP change in the years where it reported recidivism to dip to the lowest 3-year levels?
- What is the cause of the stagnation of funding over the past three years?
- How does PEP choose which churches and external programs to partner with through the re-entry process?

- **SROI Calculations**

- How can impact be quantified for intangible benefits, such as generational impacts for children, mental health, and networking?
- For future research into entrepreneurship, what is an effective way to research value added into community via businesses?

- **Spending**

- “Other” on Financial Audit
  - \$54,572 as salaries – uncertain as to who is this going to because it does not cover the full payment for PEP employees
- Is PEP making money back on the housing it provides?
  - If so, how much of the housing budget represents expenses vs. revenues?
- Why were there changes in the 2020 budget on pre versus post release spending?

# Comparable Charities

## Overview of top charities operating in prison entrepreneurship space

	<u>Second Chance (Job Readiness Training)</u>	<u>Defy Ventures</u>	<u>Mercy Corps Northwest (Lifelong Information for Entrepreneurs)</u>	<u>LEAP for Ladies</u>	<u>BEST Tennessee</u>
Description	Job Readiness Training provides pre-employment attitudinal and soft-skill training, job search, job placement assistance and post-placement services.	CEO of Your New Life (CEO YNL) is a 7-month program with regular classes that culminates in a Shark Tank-style pitch competition.	Course designed to empower participants with the business and personal development skills to become financially independent. Operated exclusively in an all-women facility until 2019.	LEAP helps incarcerated women by providing graduates with the tools and support necessary to sustain themselves post-release by establishing their own small business or obtaining employment.	Building Entrepreneurs for Success in Tennessee (BEST) is designed to provide opportunities for personal development and transformation, then teach business and entrepreneurial skills to better equip individuals for successful reentry.
Program Type	Post-Prison	In-Prison	In-Prison	In-Prison	In-Prison
Location	San Diego, CA	22 prisons across 6 states	Wilsonville, OR	Florida	Tennessee
Program Timing	<b>4 weeks (160 hours) + 2 years of follow up services</b>	<b>7 months</b>	<b>8 months, weekly</b>	<b>5 months, 250+ hours of coursework</b>	<b>6 months</b>
Year Established	1993	2010	2007	2009	2015
<b>Entrepreneurship</b>					
Expenses	\$1,935,890	\$4,324,130	\$697,547	\$196,761	<\$50,000
Annual Participants	250	3,078	25-30		
Graduates	170	1,429		30	20 in 2018
Jobs	154	1172			99 (cumulative), 17 in 2018
Graduation Rate	68%	46%		95%	
Job Placement Rate	91%	82%	90%	90%	
<b>Cost per Person</b>	<b>\$11,387.59</b>	<b>\$6,051.97</b>	<b>\$23,251.57</b>	<b>\$7,000</b>	
Years Remaining on Sentence		7.2			
<b>Recidivism Rates</b>	<b>N/A</b>	<b>7.2% (one-year rate)</b>	<b>21.40%</b>	<b>4-7%</b>	<b>18%</b>
Data Year	2018	2018	2015	2018	2018

Sources: Second Chance, DEFY Ventures, Mercy Corps, LEAP for Ladies, BEST Tennessee, IRS 990 Forms Database

# Management Structure

## Executive Team

- CEO: Bryan Kelley
  - Graduated with Class 21 in PEP, BS in Psychology, non-profit board experience, served in multiple roles in PEP
- COO: Phil Tran
  - Runs PEP in prison program, JDP and Panorama production founder, BA Accounting, run PEP since 2004
- CDO: Edward Amaya
  - Joined to work on expansion, non-profit and corporate leadership experience

## Our Executive Committee



**PAT GOTCHER**  
PEP Chairman  
*CEO/COB LifeSynch (Retired)*



**MIKE HUMPHREY**  
Former PEP Chairman  
*Tanglewood Investments*



**ROGER MANNY**  
Board Member  
*CFO Range Resources (Retired)*

## Our Governing Board

**ROBERT BARKLEY**  
*Managing Director (Retired)*  
*Barrow, Hanley, Mewhinney & Strauss*

**DOUGAL CAMERON**  
*President, Cameron Management*

**MIKE COFFEY**  
*President, Intex Flooring*

**STEVE HAUSMAN**  
*Executive Chairman*  
*Triumph Business Capital*

**NANCY WHITE**  
*Timex Corporation (Retired)*

## Our Management Team

*40 years combined successful re-entry experience*  
*Program graduates & peer educators*



**BRYAN KELLEY**  
CEO



**PHI TRAN**  
COO



**EDWARD AMAYA**  
CDO



**TIM HAMILTON**  
CFO



**PAT MCGEE**  
*Director, In-prison Initiatives*

# Photos of Activities



# 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

# Summary of Diligence Activities / Notes

- Contact Notes

- Called CEOs Bryan Kelley and Tim Hamilton for around two hours on 10/27/20
  - Purpose was to gain more data on charity, understand SROI calculations, and realize view on mass incarceration
- Called ICIC analyst Peter Eberhardt on 11/16/20 to discuss PEP SROI
- Called CEOs for an hour on 11/18/20 to address outstanding questions
- Called CEOs on 4/14/21 to discuss outstanding questions, data collection, and PEP's future
- Emailed CEO Tim Hamilton from 4/15/21-4/23/21 to discuss data collection
- Called Rodrick Hearn, PEP Graduate, on 4/21/21 to discuss program experience

# Relevant Links

- Links

- Website: <https://www.pep.org/>
- All 990s: <https://www.pep.org/financials/>
- Charity Navigator Ranks: <https://www.charitynavigator.org/index.cfm?bay=search.summary&orgid=18189>
- GuideStar: <https://www.guidestar.org/profile/20-1384253>
- CauseIQ PEP Summary: <https://www.causeiq.com/organizations/prison-entrepreneurship-program,201384253/>
- PEP High Level Drive: <https://drive.google.com/drive/u/0/folders/1RyMoQfJetZ-OzNUt7SLBg2WDwMRFQ-RE>
- Received the Texas Governor's Award for Criminal Justice Volunteer Service in 2007 and a "Rising Star" award from the Monitor Group/Fast Company Social Capitalist Awards in 2008.
- Ranked as a finalist in contests for the Peter F. Drucker Award for Nonprofit Innovation and the Ashoka Changemakers award.

# The USIT Foundation

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

THE  
PHILANTHROPY  
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FUND



# The USIT Foundation

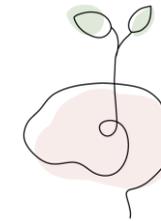
## *About the USIT Foundation*

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 2020-21 academic year, the Foundation plans to provide \$70,000 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. Being experimental in nature in its inaugural year, the Philanthropy Investment Team ultimately seeks to donate \$70,000 by Fall 2021 at the discretion of the Giving Committee. Its funds are replenished yearly, comprising 1% of the total Annual Gross Income of the Alumni Network.

## *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 [nilaygandh@gmail.com](mailto:nilaygandh@gmail.com).



## *Portfolio Manager Contact*

Angela Yang is a fourth-year undergraduate student at The University of Texas at Austin. She is passionate about understanding the intersection of impact and shareholder value creation. For any questions about this project, you may contact her at [angelajyang@utexas.edu](mailto:angelajyang@utexas.edu).



# Appendix

# FAQs

## How was PEP founded?

- The initiative was started by former private equity professional and Berkeley MBA graduate Catherine Rohr after she was given a tour of a Texas prison. Rohr “saw people who were repentant and people who had changed.” The following month, she brought together a team to pilot a business course at the prison, the success of which inspired her to start PEP.

## Is PEP a religious organization?

- PEP is not a religious organization. It accepts people from all denominations and most people who are in the PEP program are not religious. PEP, however, believes that each person has a “God given,” by which it means higher power, ability to personally develop. However, religion is not the core of any of its programs. Churches account for less than 5% of funding and function as partners because of their strong community ties.

## Are there empirics verifying PEP is the best charity in this sphere?

- When compared to other charities running entrepreneurship programs, PEP delivers a reduction of recidivism of more than 380% in comparison to other charities (Baylor, 2013). PEP is also the per capita cheapest charity that serves the most people in this sphere. The biggest verification is that PEP is widely considered the most studied, largest model for entrepreneurship program for prisoners in the country.

## Explain Ohio PEP. Why is it not mentioned?

- Ohio PEP is not an offshoot of PEP in Texas. Rather, Ohio PEP uses the name and the model to replicate PEP’s work. It is currently in the works of development but not expanding. Ohio PEP is not affiliated with PEP, contrary to popular belief. It also does not track data and financials, making it a hard comparison.

# FAQs: Programs

## What are the demographics of the average PEP enrollee?

- Average PEP enrollee: 34 years old, 33% Black, 30% Hispanic, 34% White
- Average Texas prisoner: 36 years old, 34% Black, 34% Hispanic, 32% White
- Average PEP Prison Time: around 7 years
- Average Prison Time in Texas: around 11 years

## Is an individual from this demographic likely to have better outcomes than the average prisoner?

- 85% of PEP prisoners do not have more than a high school diploma or GED, 50% had absent fathers, and 75% were arrested before age 18 at least once. 60% were convicted for violent offenses. PEP prisoners reflect the average prisoner life in that they were heavily disadvantaged before the program, and most of them are worse off than average prisoners.

## What are PEP's graduation rates?

- PEP's graduation rate from the Leadership Academy is 73.4% and the graduation rate from the business program is 69.3%. The graduation rate from both inside prison and the out of prison program is 27.8% based on 3-year weighted averages of all programs. The 2019 cumulative graduation rate was 28.5%.
- Graduation rates vary from program to program because some people do not want to commit to staying in a city they previously did not live in. Because PEP defines graduation as completing the outside of prison education program as well, graduations drop over time.

# FAQs: SROI

## Why use 2019 numbers for SROI?

- PEP has not published a final, audited report for its 2020 operating year, which means most of its 2020 financials are not accessible. Moreover, PEP's class heavily dropped off because of issues with COVID-19 in Texas prisons, regarding both lockdowns and releases. Because of this, PEP's 2020 numbers were deemed by both the CEO and by the PIT team to not be reflective of PEP's true SROI.

## Why are the benefits weighted by percentage?

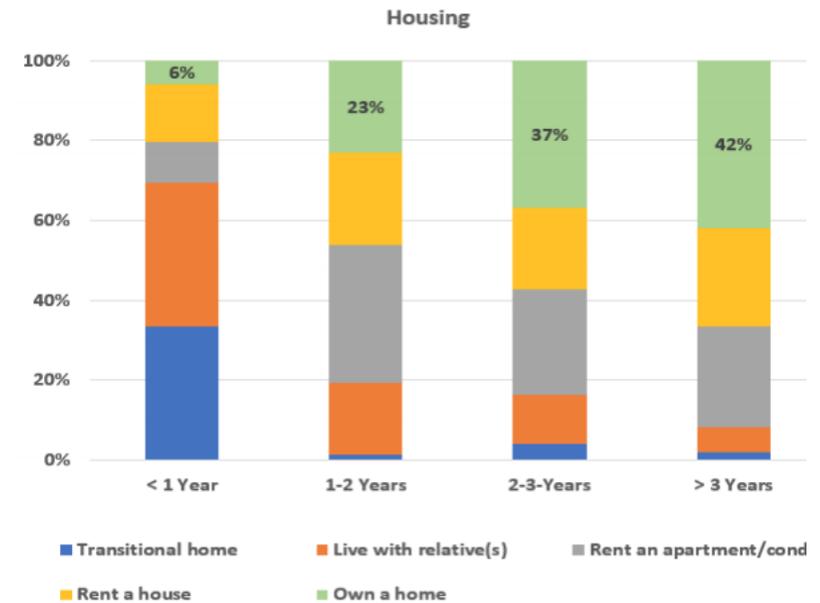
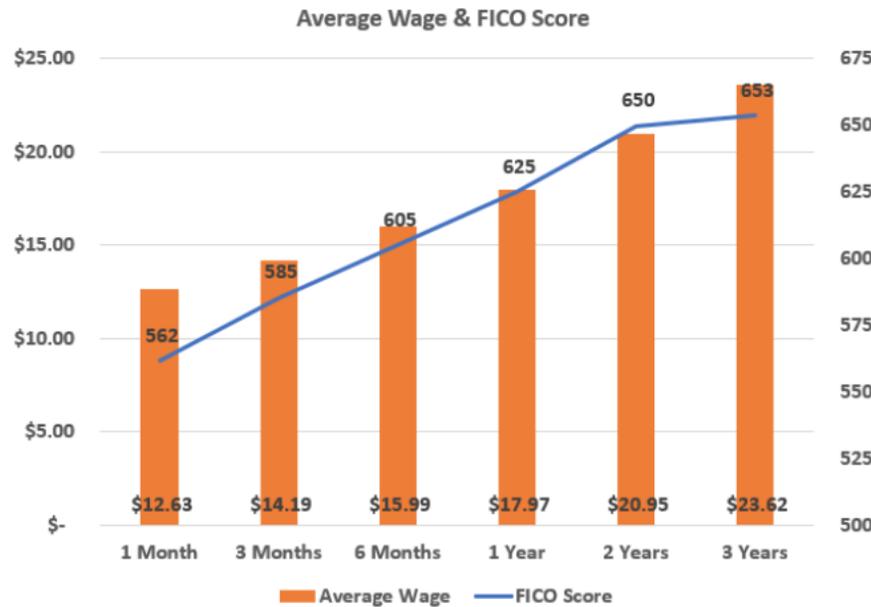
- Not all PEP graduates go through the full program, but many of PEP's tracking data only looks at people who complete the outside-of-prison E-School. Because of this, the benefits are estimated for the percentage of people who made it through the business school and the total graduates, taking their average benefit. For some of the indicators, such as business creation, this average is not needed because the people who finish E-School are the main ones starting businesses. However, people who do not go through E-School still reap the benefits of PEP, and therefore contribute to themselves and society, as captured by the SROI.

## What are the child benefits?

- A study conducted by JAMA found that having a parent in the household as compared to an incarcerated parent means makes a child 20% less likely to drop out of school when compared to the control groups. PEP tracks fathers who talk to their kids daily before and after prison and the percentage of fathers increased from 15% to a whopping 51% daily. This means that there are 36% more kids receiving frequent parent interaction after the PEP program, likely a benefit from the family connection program. We assume that 63% of men have children on the outside (the national average) and that these kids are eight years old (the national average). From here, we approximate income added from the increased chance of getting a high school diploma.

# Economic Indicators

## *FICO scores and home ownership rates*



**Survey Response Rates**

98%	74%	62%	49%	38%	39%
-----	-----	-----	-----	-----	-----

Assumed % responders reflective of nonresponders	Resulting Home Ownership Rates				
100%	6%	23%	37%	42%	
50%	5%	17%	25%	29%	
0%	4%	11%	14%	16%	

Note: Information from PEP Slide Deck

# Economic Indicators

## *Savings account utilization*

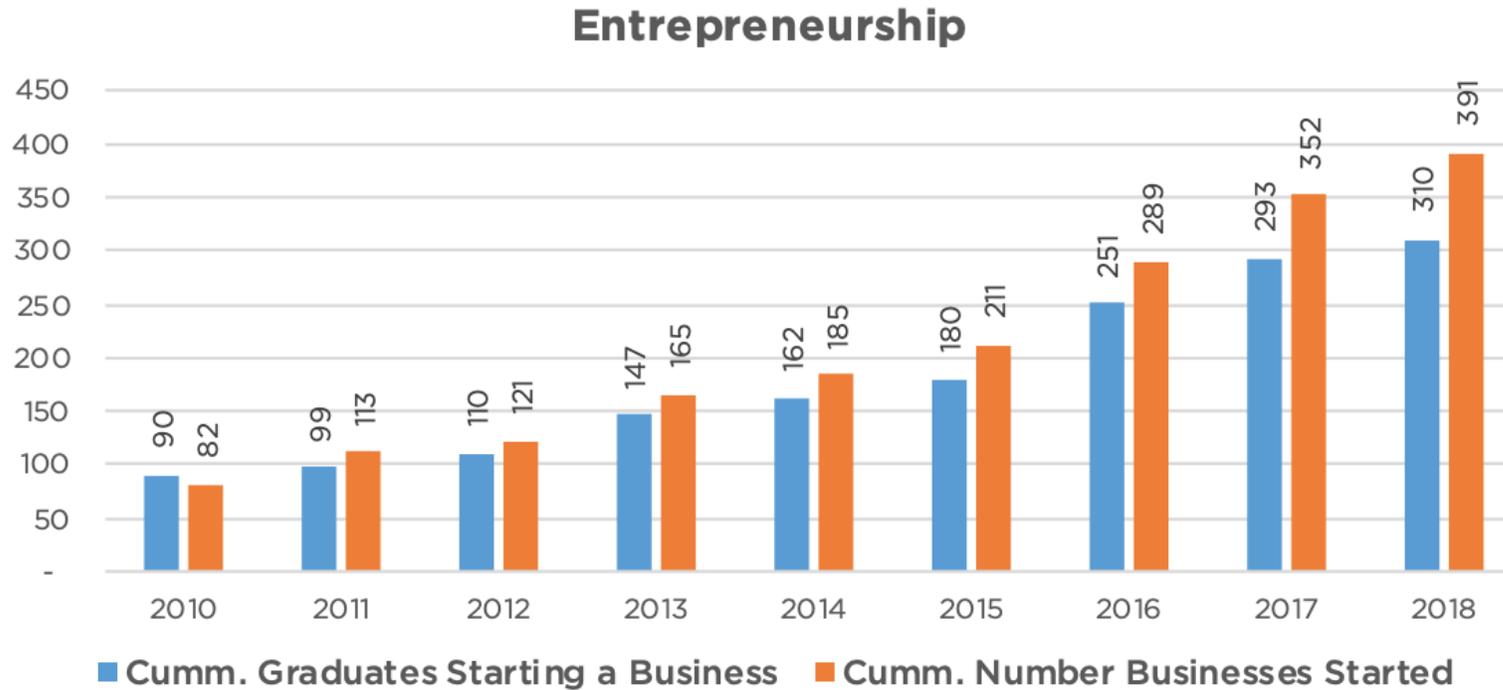
Our pre-release program emphasizes the need for savings to cover emergencies and intentionally build for a future. The following graph shows the percentage of participants with a savings account at different periods post-release.



Note: Information from PEP Impact Report

# Economic Indicators

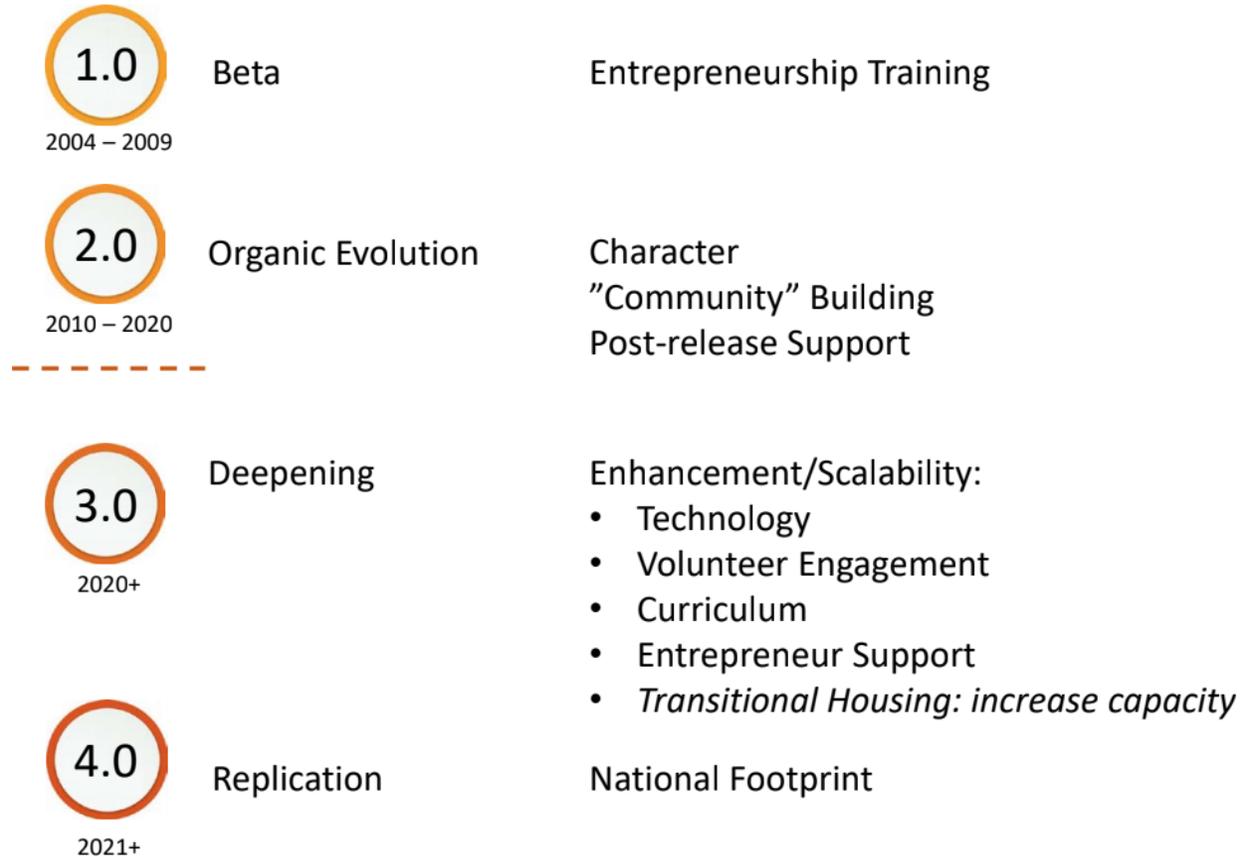
## *Entrepreneurship growth*



Note: Information from PEP Impact Report

# Expansion History

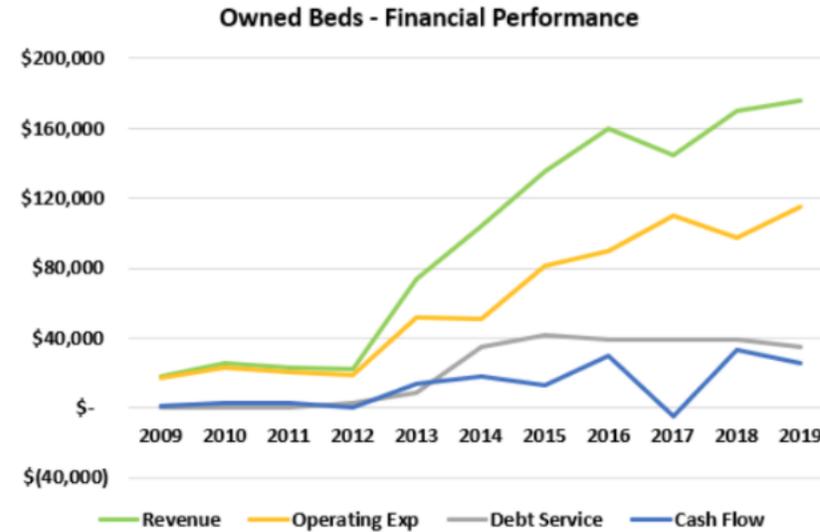
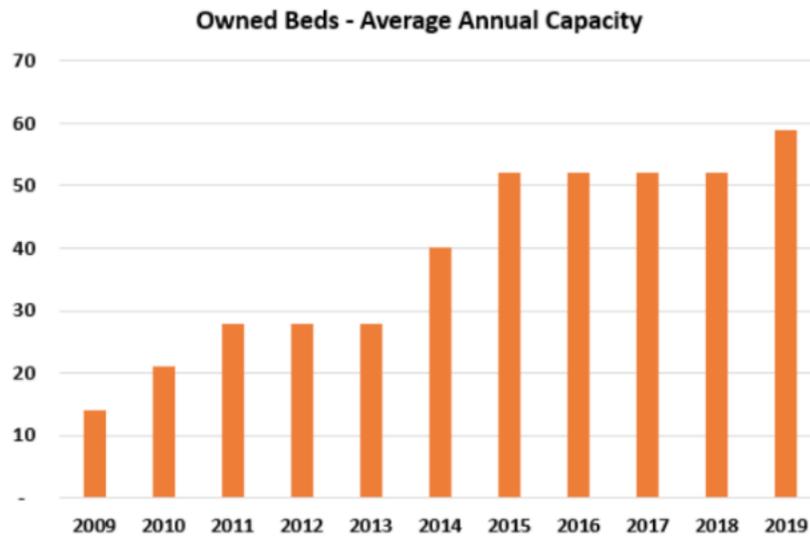
*PEP's journey of growth since its founding*



Note: Information from PEP Slide Deck

# PEP's Growth Trajectory: Housing

*Bed capacity and financial performance over time*

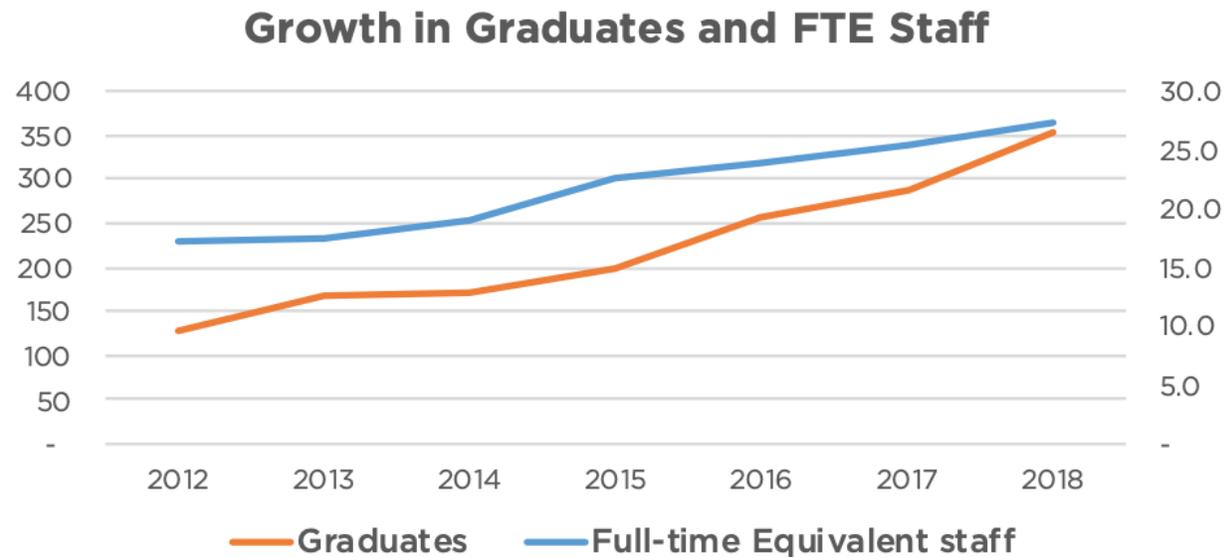


Note: Information from PEP Slide Deck

# PEP's Growth Trajectory: People

## *Growth in graduates and FTE staff over time*

PEP is a high touch point program for our executive volunteers and participants with payroll-related costs averaging 62% of all expenses for the last three years. As PEP continues to scale, we are vigilant to look for operating efficiencies to use well our donors' support. The following chart shows the significant growth in program graduates with a slower rate of increase in full-time equivalent staff.



Note: Information from PEP 2018 Impact Report

# Third-Party Comparable Charity Analysis

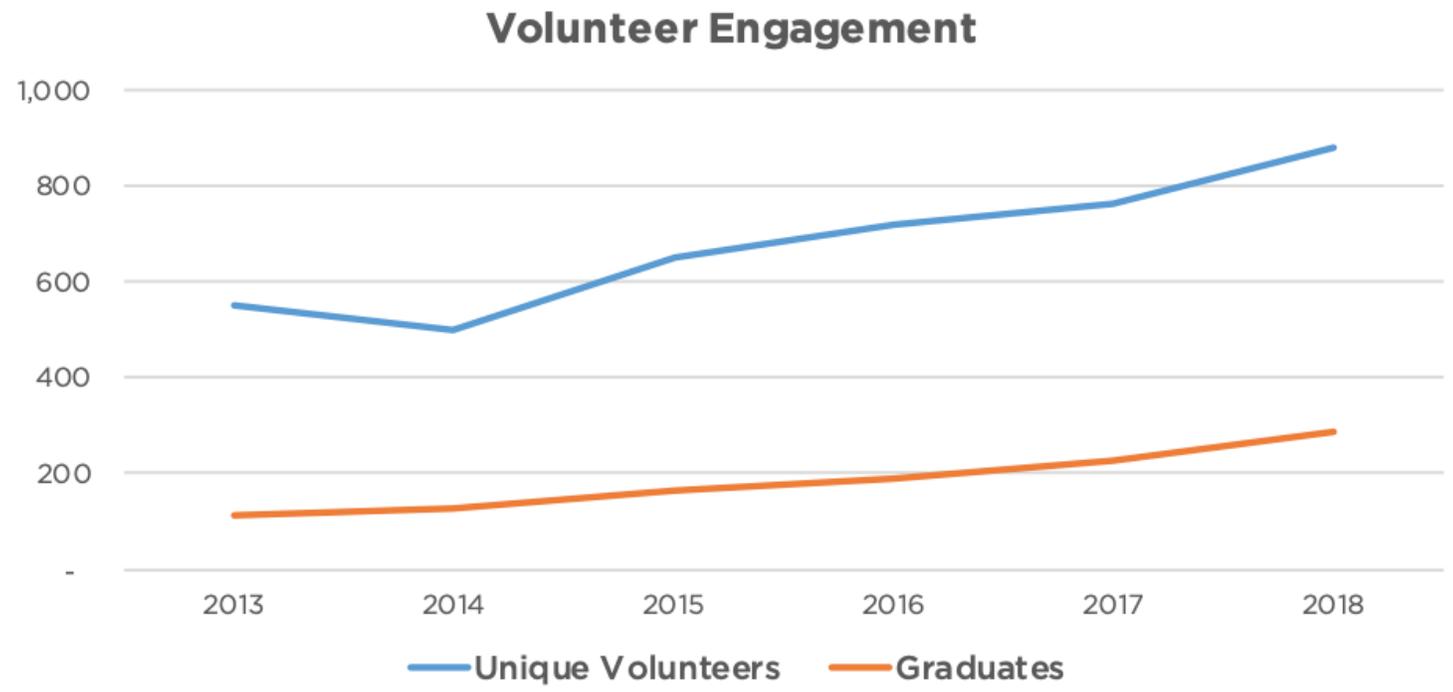
*Provided by ICIC in 2018 report*

## COMPARISON OF PRISON ENTREPRENEURSHIP PROGRAMS IN THE U.S.

	 PEP	 Defy Ventures	 BEST	 LEAP	 LIFE	 OPEP	 Resilience Education	 The Last Mile	 Inmates to Entrepreneurs	 Project ReMADE
Program Type	In-prison and post-release		In-prison						Post-release	
Location	Texas	CA, CO, CT, NE, NJ, NY	Tennessee	Florida	Oregon	Ohio	Virginia	California, Indiana	North Carolina	California
Year Established	2004	2010	2014	2009	2007	2017	2011	2010	2008	2011
Annual Participants	>1,000	>1,000	15-30	20-40	20-40	15-30	10-20	Not reported	Not reported	<10
In-Prison Program Timing	Up to 9 months	Up to 14 months	6 months	8 months	7 months	3 months	9 months	6 months	Not applicable	Not applicable
Post-Release Services Timing	Indefinite (re-entry, education)	Indefinite (re-entry, education)	Indefinite (education)	Not reported	Indefinite (re-entry)	Not reported	Not reported	Not reported	2 months (education)	3 months (education)

# Volunteer Engagement

*Growth in volunteers over time*



Note: Information from PEP 2018 Impact Report

# Partnerships

*Corporations, churches, foundations, and others*

## Companies & Corporations

- Big Bear Enterprises
- BPO LLC
- Bridgeway Capital Management
- Building Team Solutions
- FTS International, Inc.
- Goldman, Sachs & Co.
- Goldman Financial Corporation
- hGroup LLC
- Independent Bank
- Integrity Payment Systems
- Intex Flooring LLC
- JITA Printing
- Kaspar Companies
- KPMG Community Giving Campaign
- Locke Lord LLP
- McJunkin & Associates, Inc
- Newfield Exploration Company
- Petromax, LLC
- Steagall Oil Company
- TBK Bank, SSB
- Techknowledge Consulting Corporation
- Zuma Office Supply

## Churches

- Faithbridge UMC
- First Baptist Church Athens
- Gateway Church
- Memorial Drive Presbyterian Church
- St. John the Divine Episcopal Church
- St. Martin's Episcopal Church
- Wilshire Baptist Church

## Foundations

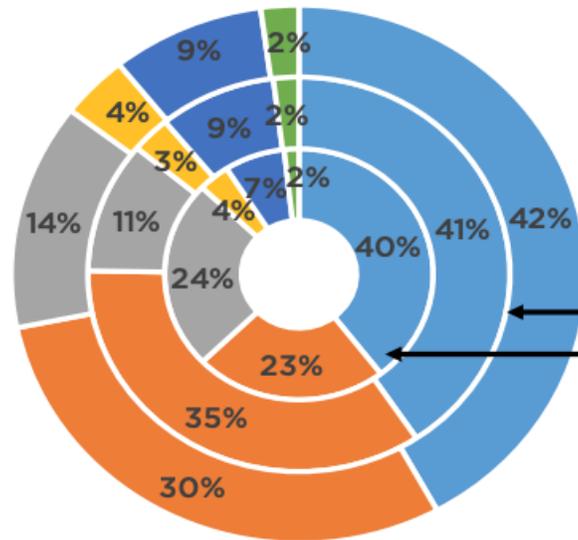
- Bank of America Charitable Foundation
- Chrest Foundation
- Clayton Fund
- Communities Foundation of Texas
- Curtis & Doris K Hankamer Foundation
- ECG Foundation
- Goldman Sachs Philanthropy Fund
- Greater Houston Community Foundation
- Guill Family Foundation
- Jesse W. Couch Charitable Foundation
- Louis Brandt Foundation
- Network for Good
- Perot Foundation
- PMI Educational Foundation
- Rockwell Fund, Inc.
- Scurlock Foundation
- Securus Foundation
- The Arena Energy Foundation
- The Brown Foundation
- The Hoglund Foundation
- The Julia & Albert Smith Foundation
- The McNair Foundation
- The Simmons Foundation
- The Tapeats Fund
- United Way of Tarrant County
- United Way of Metro Dallas
- YourCause, LLC

## Other

- Associated Students of Stanford Univ.
- Partners Group USA Impact
- West U Rotary

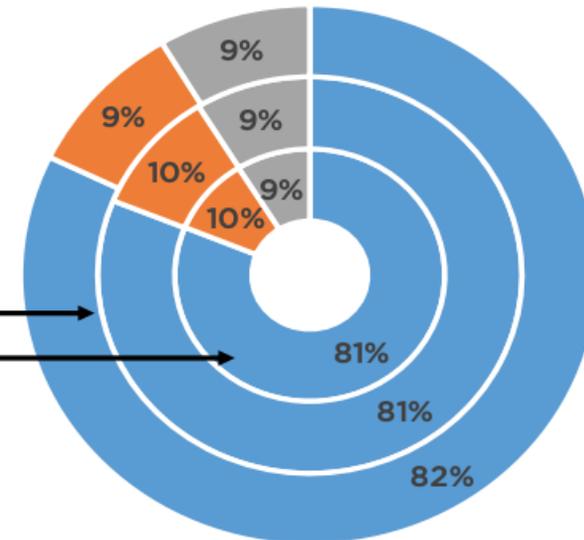
# Funding Breakdown

Where The Money Comes From



- Foundations
- Corporations
- Rental income
- Individuals
- Churches
- Interest and other

Where The Money Goes



- Program
- Fundraising
- Administrative

← 2018 →  
← 2017 →  
← 2016 →

Note: Information from PEP 2018 Impact Report