

BUILDING A SELF-SUSTAINING STAFFING AGENCY FOR THE SOCIAL SECTOR

/ AMELIA NICKERSON FIRST STEP STAFFING

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Most of the roughly 25,000 staffing firms in the U.S.¹⁰⁴ are for-profit entities with healthy profit margins. The typical staffing firm does not have a social mission and, therefore, rarely works with candidates who lack traditional qualifications or require significant support to enter the workforce successfully.

Staffing firms have long provided a high-value, outsourced approach to recruiting and retaining talent. Businesses hire staffing firms to help them assess their personnel needs, source promising candidates, conduct initial interviews, and handle contracting and payment. Staffing firms maintain databases of talented employees, enabling them to offer businesses easy access to a large pool of prescreened candidates.

For individuals, staffing agencies increase the chance of getting hired, offer coaching and training, and minimize time between jobs. In many

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

cases, individuals placed by staffing firms remain on the payroll of the staffing firm.

First Step Staffing (FSS) is similar to other staffing agencies regarding the services it offers to employers, but its clients are quite different from those of its peers. FSS helps to provide job access to housing-insecure and justice-involved¹⁰⁵ individuals. A nonprofit workforce development agency, FSS brings a social enterprise model to the staffing firm space. In addition to offering the traditional services of a staffing agency, FSS provides wraparound services designed to help individuals with unstable life circumstances to succeed in job placements. Success at work provides much-needed income for basic needs like food and shelter, but it also provides intangible benefits — like dignity, hope, and access to social capital — that are important components for First Step clients' long-term success.

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

FSS serves individuals who face chronic challenges to obtaining and retaining work — primarily military veterans, housing-insecure individuals, and formerly incarcerated individuals. FSS provides support meant to ensure that clients successfully obtain financial stability through paid work and that employers are satisfied with the talent that FSS places. To help individuals mitigate persistent barriers to rejoining the workforce, FSS offers a cadre of wraparound services through local partners. Since 2023, these services have expanded to include free upskilling training after initial placement, direct housing assistance, financial empowerment, benefits enrollment, and help with other basic needs to ensure opportunities for both economic opportunity and economic mobility. Upskilling training includes short-term training and certification programs in high-demand careers. Flexible private funding ensured that First Step had the working capital to expand these services to multiple markets after the initial pilot phases.

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Since 2015, First Step has expanded into new markets in two ways. One model involves growth through acquiring a for-profit staffing firm and then converting that firm to a social enterprise. Although this approach is very uncommon for mission-based organizations, FSS defines this

105 “Justice-involved” refers to current or prior experience with arrest and/or incarceration, including as a juvenile.

practice as critical to its success and scalability. FSS obtains two key assets by acquiring and converting existing firms: staff and employer partners. Experienced staffing firm professionals bring deep knowledge of the staffing field as well as personal knowledge of the clients and their industries. While marketing itself to corporate clients might be difficult for a social service agency such as FSS, the agency has been highly effective in retaining the employers of the acquired agencies and proving its ability to fulfill employers' needs over time.

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Adding key wraparound services, such as transportation to and from the worksite at no additional cost to the employer partner, has enabled First Step to provide well-supported and highly motivated employees. This practice has resulted in retention rates and job fill rates that outpace the industry average for similar for-profit firms. These services also create a deeper connection with the individual employee, helping to build brand loyalty and awareness among the populations First Step seeks to serve. While some for-profit staffing firms are starting to offer services such as on-the-job training and additional upskilling courses, First Step's blended revenue model of earned revenue through staffing contracts, together with philanthropic support, allows us to allocate a significant amount of funds to these services annually. For instance, the housing assistance program, which was launched in 2023, is fully funded by private philanthropy — and early data suggest it increases job retention by 50% for those enrolled in the program.

Additionally, as First Step has grown into more markets, it has increased its ability to work with larger national employers in multiple sites. This growth has allowed First Step to open smaller branches with these employers as anchor accounts and expand through sales over time. National partners choosing to work with First Step in multiple markets is a key sign that they value the service, demonstrating a strong business case for this alternative staffing model. As First Step has grown to serve more markets, it is continuing to grow into a viable national employment service provider.

Using both growth models, over the last nine years, First Step has grown from \$2 million to nearly \$70 million in annual revenue and has scaled from assisting 100 individuals each year to now employing 8,000+. Today, First Step Staffing is one of the largest alternative staffing companies in the U.S. and is in the top 25% of all U.S. staffing companies based on revenue.

Operationally, FSS pays clients weekly while receiving payment from employers according to the 30- to 45-day terms standard to the staffing industry. Therefore, in addition to requiring the capital to purchase a staffing firm and establish operations, as well as the operating capital needed for a new branch, FSS needs to raise working capital in each market to ensure that, from the start, clients are paid on time while the firm awaits employer payments. This working capital, coupled with a line of credit, fuels the future growth of the organization.

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After building its brand and experience in Atlanta, FSS obtained loans to expand. When FSS expanded to Philadelphia, it borrowed funds to cover 90% of its capital costs and secured grants and government contracts to cover the balance. With successful acquisitions in both Atlanta (2015) and Philadelphia (2018), First Step began to look at additional markets ideal for this growth model.

SHARING RISK AND RESPONSIBILITY TO BRING FSS TO SAN BERNARDINO

In recent years, the need for innovative employment solutions for homelessness in Southern California has grown more and more urgent. According to San Bernardino County's annual point-in-time homelessness assessments, the number of homeless individuals increased from 2,118 in 2018 to 2,607 in 2019. Believing that employment could be one part of the solution to help people permanently exit homelessness, First Step and San Bernardino County embarked on a unique, mutually beneficial partnership that included an outcomes-based funding mechanism and shared responsibility for the execution of the funding terms.

FSS sought to expand into San Bernardino by purchasing part of OS4Labor, a for-profit staffing firm that held contracts with thousands of employers to provide temporary, temp-to-hire, and direct-hire placements across roles including industrial, transportation, administrative, managerial, and professional positions. Through the acquisition, FSS could gain access to nearly 2,000 positions, primarily with employers in the light industrial and logistics sectors. The county of San Bernardino would refer people experiencing homelessness to

FSS, and FSS would place these individuals as natural turnover occurred in positions under contract with the staffing firm. The key question for FSS was how it would access the working capital necessary for the acquisition and launch.

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



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

That's when San Bernardino County decided to do something innovative: provide funding for the program with a money-back guarantee. The county built on emerging thinking from the Pay for Success ecosystem around "social impact guarantees" and designed a contract driven by results.¹⁰⁶ A social impact guarantee, a concept introduced by Third Sector Capital Partners, offers governments a money-back guarantee should a social service program fail to achieve its desired outcomes. Prior to beginning conversations with the county, FSS had secured other sources of capital to support startup costs. FSS required additional funds to acquire an existing staffing firm and establish physical operations. The county was open to providing financial support for the program — but only if it received a guarantee that its funds would significantly affect employment outcomes. For its part, FSS wanted to ensure that the county would also be responsible for providing the necessary referrals.

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

In performance-based contracts elsewhere, service providers have found it particularly challenging to secure sufficient referrals to achieve target metrics; such problems can leave service providers on the hook financially, even when they have delivered excellent service to the clients who were referred. To align incentives and to protect FSS in the case of low numbers of referrals, the contingency was tied to the percentage of referrals placed as opposed to an absolute minimum number of placements. At the same time, the inclusion of a maximum number of required placements protected FSS from financial consequences in the case of a very high number of referrals. This collective ownership of the long-term outcomes helped to break down silos within the county to ensure "work-ready" referrals were being made at the volume needed for the contract to succeed and that First Step had a pipeline of mission-based workers to fill the acquired jobs. Collective ownership of both the process and the outcomes created a mutually beneficial arrangement between First Step and the county. It also helped the county to streamline the incoming referral process, which was primarily led by a local champion within the county who could own the project from start to finish.

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

Since the key goal for the program was the placement of disenfranchised individuals into employment, “placement rate” was considered the key outcome and trigger for any potential financial clawback. If the actual placement rate was under 70% and the total number of placements was under 2,000 in a given year, FSS would be required to return a portion of funds. In such a case, the amount owed by FSS would be calculated according to the formula ((Percentage of Referrals Placed)/0.7) – 1) * \$375,000.

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

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

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

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

EARLY SIGNALS

The COVID-19 pandemic caused substantial labor market upheavals, including the loss of several of the businesses that had been purchased through the California acquisition. By the end of 2022, 45% of the acquired companies were no longer operating in the market or had ceased using staffing services to meet their workforce needs. Other companies were forced to eliminate jobs and faced temporary shutdowns, which affected possible placement targets within the county. To date, First Step's sales team continues to work to bring additional employer partners into the market.

San Bernardino County also faced delays in setting up its internal processes for referrals and follow-up for clients sent to First Step. However, by Q3 2020, First Step and the county had set up the program for success. Early strategies adopted included the following:

- **Implementation of structures to facilitate collaboration:** The county and FSS met weekly and communicated regularly by phone and email regarding referrals and job placement matters. In addition, they shared referral data every week, which included referrals, placements, hours worked, wages earned, and details related to job retention for each individual. During the grant period, San Bernardino County referred over 580 individuals to First Step. Of those, 288 accepted job placements and began working, while 294 individuals did not complete their referral or orientation with the program and were unable to be placed on assignments. At the same time, First Step took referrals and new hires from other partners throughout the county. In total, between 2020 and August 2024, First Step employed over 2,100 individuals who have collectively earned over \$11.5 million in wages. This return on investment from the initial \$1.5 million has demonstrated the power of effective collaboration and a mutually beneficial partnership.
- **Relationship building:** The county proactively introduced FSS to key stakeholders. The county and FSS collaborated on efforts such as hiring events at partner worksites and expanding employment opportunities in remote areas of the county.
- **Marketing:** The county organized countywide presentations to create awareness surrounding FSS' offerings and recruit new referring partners.

On an anecdotal level, placements were well received by both employers and clients. A transitional assistance client reported: "I was referred to the program ... and was called right away [by] FSS. I went in to apply; [that] same day I was hired and [I] started working the next day. I was able to get income right when I needed [it]." Similarly,

another client shared: “Working with FSS, I got a phone call and the next day I went in and applied for a job. They quickly took my information and called me back by the next day and had me working within that week.”

In the markets where it is more established, FSS has achieved strong results. In Atlanta, where FSS first acquired and converted a for-profit staffing firm in 2015, FSS employs 3,000+ individuals annually. FSS entered the Philadelphia market in 2018 and converted 80% of the 700 acquired jobs into opportunities for clients experiencing homelessness while also simultaneously growing the list of customers and job opportunities. FSS has demonstrated not only its effectiveness in serving customers and employers but also its sustainability as an enterprise, earning over \$20 million in revenue in Philadelphia, achieving 100% employer retention, and adding new employers.

Even with the loss of business due to COVID-19 in California from 2020 to 2022, First Step was still able to place over 1,300 individuals into employment in 2023 in the San Bernardino area. These individuals collectively earned more than \$1.3 million in wages during the course of the contract.¹⁰⁷ The most common reason for individuals’ lack of success after the referral to First Step was failure to show for the orientation and hiring (First Step would make three attempts to contact all referrals) or lack of attendance at the jobsite once an assignment was accepted. If First Step was able to reach the individual after they stopped reporting to work, the reasons were then relayed to the referring agency so other barriers could be addressed. These reasons could include housing, child care, or mental health needs that needed to be addressed before the individual was ready to return to work. In total, between 2020 and 2023, 590 people referred to First Step were ultimately unsuccessful in employment for these reasons.

However, since the annual placement numbers fell below the initial contract agreement with San Bernardino County, First Step paid back \$268,170 of the initial \$1.5 million grant. These funds were taken from the \$300,000 collateral held by the county during the grant period. Ultimately, the feedback we received from the county was that they were very pleased with the outcomes and success rates through the partnership. They continue to refer potential workers to First Step beyond the contract period, which ended June 30, 2023.

Apart from the direct employment outcomes the contract was designed to deliver, COVID-19 has highlighted the value of the strong cross-sector partnerships supported by the structure of the FSS/San Bernardino contract. Over the nearly five years since the contract was signed,

107 The wage data only includes the 1,300 people placed by FSS. It does not include other people employed in San Bernardino County during this same time.

workforce development agencies and community-based providers have deepened their knowledge of the offerings of other members of the ecosystem, strengthened their referral network, and established collaboration tools regarding clients. Increased communication among peer organizations has also enabled entities to identify and begin to address gaps in services, a particularly critical practice given the rapidly changing landscape of needs, funding streams, and services during COVID-19. The workforce ecosystem has grown even more innovative in coordinating with supportive services to ensure they are lowering barriers and increasing worker success¹⁰⁸. More generally, the tightened safety net has effectively helped the county's most vulnerable individuals weather the turbulence of COVID-19.

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As other regions look to potentially replicate this model, it is clear that the collaboration of multiple government agencies to provide viable referrals, more individualized support services, and a centralized referral system are all keys to success, despite the COVID-induced economic challenges. The shared relationship with both the financial and operational oversight of the program also helped to ensure mutual success and, most importantly, success for the individuals being hired. In some cities, this is already happening with the coordinated care system for homeless services. However, these services are often disconnected from other government programs, such as workforce development and services from the Department of Human Services. By creating a human-centered approach for the individuals in need of services, First Step removes the barriers and frustrations involved in seeking support at multiple agencies, thereby helping to create more success for the employee and ensuring a more work-ready worker for the employer.

For First Step, the diversification of funds was also essential as it allowed First Step to manage the necessary cash flow to support the program over the long term. The funds provided from San Bernardino County were merged with private philanthropy, social impact debt, and ongoing earned revenue through staffing contracts.

108 Jobs for the Future, "Innovative Wraparound Support Solutions That Help Workers," Jobs for the Future (JFF), March 21, 2024, <https://www.jff.org/idea/innovative-wraparound-support-solutions-that-help-workers-succeed/>.

CONSIDERATIONS FOR OTHER JURISDICTIONS

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

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Three components of this contract are particularly powerful.

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

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

Third, kick-starting sustainable programs like FSS can be a particularly impactful target for public dollars. Governments and philanthropists are often wary of committing to programs that will require continual infusions of capital. Social programs such as FSS that can generate sufficient revenue to cover their operational costs and require only startup capital present a cost-effective way of expanding high-quality programs. This powerful component was demonstrated in the case of San Bernardino in several ways. First, while First Step lost many employer contracts and revenue due to the pandemic, the variable expense model from the staffing enterprise ensured that the organization could manage its cash flow and expenses during this time. Also, the continual stream of earned revenue provided by the social enterprise model ensured that the organization continued to operate and provide services following the end of the contract period. Diverse

funding streams are essential for the long-term viability of Pay for Success models.

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

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As First Step continues to look at its various expansion models, it intends to use a variety of funding sources to support the ultimate goal of providing a pathway to employment for more individuals. These sources will include additional social impact debt, recoverable grants, philanthropy, and even unique financing mechanisms such as the New Markets Tax Credit Program (NMTC). The key will be finding communities and local partners who are invested in the alternative staffing model and view employment as a critical service in helping reduce homelessness and poverty throughout the U.S.

Amelia Nickerson joined First Step Staffing in January 2018 and was appointed as CEO in May 2020. She has more than fifteen years of experience as a fundraiser, volunteer, and board member for nonprofits across the Southeast.