2023 HOUSE HUMAN SERVICES

HB 1480

2023 HOUSE STANDING COMMITTEE MINUTES

Human Services Committee
Pioneer Room, State Capitol

HB 1480
2/1/2023

Relating to a pay for success fund; to provide for a report; to provide for a continuing appropriation; and to provide for a transfer.

Chairman Weisz called the meeting to order at 9:25 AM.

Chairman Robin Weisz, Vice Chairman Matthew Ruby, Reps. Karen A. Anderson, Mike Beltz, Clayton Fegley, Kathy Frelich, Dawson Holle, Dwight Kiefert, Carrie McLeod, Todd Porter, Brandon Prichard, Karen M. Rohr, Jayme Davis, and Gretchen Dobervich. All present.

Discussion Topics:
- Government-funded social service programs
- Pay for success programs in other states
- Financial challenges among families and individuals
- Performance-based grants
- Performance outcomes
- Targeted populations of the program

Representative Boschee introduced HB 1480 with supportive testimony (#18376) (#18377) (#18378).

Chris Jones, Commissioner of the North Dakota Department of Health and Human Services, spoke in favor of bill.

Representative Boschee answered questions from the committee regarding HB 1480.

Chairman Weisz adjourned the meeting at 10:13 AM

Phillip Jacobs, Committee Clerk By: Leah Kuball

2023 HOUSE STANDING COMMITTEE MINUTES

Human Services Committee
Pioneer Room, State Capitol

HB 1480
2/1/2023

Relating to a pay for success fund; to provide for a report; to provide for a continuing appropriation; and to provide for a transfer.

Chairman Weisz called the meeting to order at 11:12 AM.

Chairman Robin Weisz, Reps. Karen A. Anderson, Mike Beltz, Clayton Fegley, Kathy Frelich, Dawson Holle, Dwight Kiefert, Carrie McLeod, Todd Porter, Brandon Prichard, Karen M. Rohr, Jayme Davis, and Gretchen Dobervich. Vice Chairman Matthew Ruby not present.

Discussion Topics:

- Committee work
- Increasing the number of foster homes in the state

Chairman Weisz called for a discussion on HB 1480.

Chairman Weisz adjourned the meeting at 11:23 AM.

Phillip Jacobs, Committee Clerk By: Leah Kuball

2023 HOUSE STANDING COMMITTEE MINUTES

Human Services Committee
Pioneer Room, State Capitol

HB 1480
2/6/2023

Relating to a pay for success fund; to provide for a report; to provide for a continuing appropriation; and to provide for a transfer.

Chairman Weisz called the meeting to order at 4:40 PM.

Chairman Robin Weisz, Reps. Karen A. Anderson, Mike Beltz, Clayton Fegley, Kathy Frelich, Dawson Holle, Dwight Kiefert, Carrie McLeod, Todd Porter, Brandon Prichard, Karen M. Rohr, Jayme Davis, and Gretchen Dobervich. Vice Chairman Matthew Ruby not present.

Discussion Topics:
- Committee action
- Amendment (23.1007.01002)

Chairman Weisz called for a discussion on HB 1480.

Cory Peterson, Director of Family and Child Services, answered questions from the committee.

Representative Porter moved to amend HB 1480. (Pg. 2 Line 8 the dollar amount should be 2,500,000)

Seconded by Representative Anderson.

Voice vote: Motion carries

Representative Anderson moved a DO PASS as amended and referred to appropriations.

Representative Ruby Seconds motion

Roll call vote:

Representatives	Vote
Representative Robin Weisz	Y
Representative Matthew Ruby	Y
Representative Karen A. Anderson	Y
Representative Mike Beltz	Y
Representative Jayme Davis	Y
Representative Gretchen Dobervich	Y
Representative Clayton Fegley	Y
Representative Kathy Frelich	Y
Representative Dawson Holle	Y
Representative Dwight Kiefert	Y

Representative Carrie McLeod	Y
Representative Todd Porter	Y
Representative Brandon Prichard	Y
Representative Karen M. Rohr	Y

Motion carries 14-1-0

Representative Porter Moved to reconsider motion.

Representative Ruby seconded motion.

Voice Vote: Motion carried.

Representative Porter moves to amend HB 1480. (Line 7, over strike July 1st 2023 and change to Jan. 1st 2024)

Representative Ruby seconded motion.

Voice Vote: Motion carried.

Representative Prichard Moves a DO PASS as amended and rereferred to appropriations. (23.1007.01002)

Representative Anderson seconds motion

Representatives	Vote
Representative Robin Weisz	Y
Representative Matthew Ruby	Y
Representative Karen A. Anderson	Y
Representative Mike Beltz	Y
Representative Jayme Davis	Y
Representative Gretchen Dobervich	Y
Representative Clayton Fegley	Y
Representative Kathy Frelich	Y
Representative Dawson Holle	Y
Representative Dwight Kiefert	Y
Representative Carrie McLeod	Y
Representative Todd Porter	Y
Representative Brandon Prichard	Y
Representative Karen M. Rohr	Y

Motion carries 14-0-0

Bill Carrier: Representative Frelich

Chairman Weisz adjourned the meeting at 5:05 PM.

Phillip Jacobs, Committee Clerk By: Leah Kuball

23.1007.01002
Title.02000

Adopted by the House Human Services Committee

February 6, 2023

JA
2-6-23

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1480

Page 1, line 3, remove "and"

Page 1, line 3, after "transfer" insert "; and to provide an effective date"

Page 2, line 3, after the underscored period insert "A provision that a bonus payment may be provided to the recipient of the grant, contract, or agreement only after a twenty-percent cost reduction has been achieved.

e. A provision that a bonus payment may not exceed half of the cost reduction.

f."

Page 2, line 5, replace "e." with "g."

Page 2, line 8, replace "\$10,000,000" with "\$2,500,000"

Page 2, after line 11, insert:

"**SECTION 3. EFFECTIVE DATE.** This Act is effective January 1, 2024."

Renumber accordingly

REPORT OF STANDING COMMITTEE

HB 1480: Human Services Committee (Rep. Weisz, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1480 was placed on the Sixth order on the calendar.

Page 1, line 3, remove "and"

Page 1, line 3, after "transfer" insert "; and to provide an effective date"

Page 2, line 3, after the underscored period insert "A provision that a bonus payment may be provided to the recipient of the grant, contract, or agreement only after a twenty-percent cost reduction has been achieved.

e. A provision that a bonus payment may not exceed half of the cost reduction.

f."

Page 2, line 5, replace "e." with "g."

Page 2, line 8, replace "$10,000,000" with "$2,500,000"

Page 2, after line 11, insert:

"**SECTION 3. EFFECTIVE DATE.** This Act is effective January 1, 2024."

Renumber accordingly

2023 HOUSE APPROPRIATIONS

HB 1480

2023 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Brynhild Haugland Room, State Capitol

HB 1480
2/15/2023

Relating to a pay for success fund

9:26 AM Chairman Vigesaa- Meeting was called to order and roll call was taken:

Members present; Chairman Vigesaa, Representative Kempenich, Representative B. Anderson, Representative Brandenburg, Representative Hanson, Representative Kreidt, Representative Martinson, Representative Mitskog, Representative Meier, Representative Mock, Representative Monson, Representative Nathe, Representative J. Nelson, Representative O'Brien, Representative Pyle, Representative Richter, Representative Sanford, Representative Schatz, Representative Schobinger, Representative Strinden, Representative G. Stemen and Representative Swiontek.

Members not Present- Representative Bellew

Discussion Topics:

- Help the State Save Money
- Pilot Project
- Savings Payment
- State Savings Percentage

Representative Wiesz- Introduces the bill.

9:50 AM Chairman Vigesaa Closed the meeting for HB 1480

Risa Berube, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Brynhild Haugland Room, State Capitol

HB 1480
2/16/2023

Relating to a pay for success fund

5:19 PM Chairman Vigesaa- Meeting was called to order and roll call was taken:

Members present; Chairman Vigesaa, Representative B. Anderson, Representative Bellew, Representative Hanson, Representative Kreidt, Representative Martinson, Representative Mitskog, Representative Meier, Representative Mock, Representative Monson, Representative Nathe, Representative J. Nelson, Representative O'Brien, Representative Pyle, Representative Richter, Representative Sanford, Representative Schatz, Representative Schobinger, Representative Strinden, Representative G. Stemen and Representative Swiontek.

Members not Present- Representative Kempenich and Representative Brandenburg

Discussion Topics:
- State Money Savings
- Pilot Program
- SIIFT Fund

Chairman Vigesaa- Gives explanation of the bill. Performance based grant.

Committee Discussion

5:29 PM Chairman Vigesaa Closed the meeting for HB 1480

Risa Berube, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Brynhild Haugland Room, State Capitol

HB 1480
2/17/2023

Relating to a pay for success fund

11:11 AM Chairman Vigesaa- Meeting was called to order and roll call was taken:

Members present; Chairman Vigesaa, Representative B. Anderson, Representative Bellew, Representative Brandenburg, Representative Hanson, Representative Kreidt, Representative Martinson, Representative Mitskog, Representative Meier, Representative Mock, Representative Monson, Representative Nathe, Representative J. Nelson, Representative O'Brien, Representative Pyle, Representative Richter, Representative Sanford, Representative Schatz, Representative Schobinger, Representative Strinden, Representative G. Stemen and Representative Swiontek.

Members not Present- Representative Kempenich

Discussion Topics:
- Pilot project

Representative Boschee – Answered questions for the committee.

Representative J. Nelson Move for a Do Pass

Representative Strinden Seconds the motion-

Committee discussion- Roll call vote

Representatives	Vote
Representative Don Vigesaa	Y
Representative Keith Kempenich	AB
Representative Bert Anderson	Y
Representative Larry Bellew	Y
Representative Mike Brandenburg	Y
Representative Karla Rose Hanson	Y
Representative Gary Kreidt	Y
Representative Bob Martinson	Y
Representative Lisa Meier	Y
Representative Alisa Mitskog	Y
Representative Corey Mock	Y
Representative David Monson	Y
Representative Mike Nathe	Y
Representative Jon O. Nelson	Y
Representative Emily O'Brien	Y
Representative Brandy Pyle	Y

Representative David Richter	Y
Representative Mark Sanford	Y
Representative Mike Schatz	Y
Representative Randy A. Schobinger	Y
Representative Greg Stemen	Y
Representative Michelle Strinden	Y
Representative Steve Swiontek	Y

Motion Carries 22-0-1 Representative Frelich will carry the bill.

11:26 Chairman Vigesaa Closed the meeting for HB 1480

Risa Berube, Committee Clerk

REPORT OF STANDING COMMITTEE

HB 1480, as engrossed: Appropriations Committee (Rep. Vigesaa, Chairman) recommends **DO PASS** (22 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). Engrossed HB 1480 was placed on the Eleventh order on the calendar.

2023 SENATE HUMAN SERVICES

HB 1480

2023 SENATE STANDING COMMITTEE MINUTES

Human Services Committee
Fort Lincoln Room, State Capitol

HB 1480
3/14/2023

Relating to a pay for success fund; to provide for a report; to provide for a continuing appropriation; to provide for a transfer; and to provide an effective date.

9:00 AM **Madam Chair Lee** called the hearing to order. **Senators Lee, Cleary, Clemens, K. Roers, Weston, and Hogan** are present**.**

Discussion Topics:
- Success in Funding
- Pay for Success models (PFS)
- Interventions
- Measurable outcomes
- Delivery services
- Home visiting programs
- Homeless programs

9:01 AM **Representative Boschee, District 44,** introduced HB 1480 and testified in favor. #24472, #24790

9:14 AM **Chris Jones, Commissioner, North Dakota Department of Health and Human Services,** testified in favor verbally.

9:21 AM **Madam Chair Lee** adjourned the hearing.

Patricia Lahr, Committee Clerk

2023 SENATE STANDING COMMITTEE MINUTES

Human Services Committee
Fort Lincoln Room, State Capitol

HB 1480
3/22/2023

Relating to a pay for success fund; to provide for a report; to provide for a continuing appropriation; to provide for a transfer; and to provide an effective date.

3:01 PM **Madam Chair Lee** called the meeting to order. **Senators Lee, Cleary, Clemens, K. Roers, Weston, and Hogan** were present.

Discussion Topics:
- Committee action

3:01 PM **Representative Boschee** presented amendment LC 23.1007.02001. #26370.

3:02 PM **Representative Boschee** provided additional information #26371, 26372

Senator Cleary moved to adopt amendment LC 23.1007.02001.
Senator Hogan seconded the motion.
Roll call vote.

Senators	Vote
Senator Judy Lee	Y
Senator Sean Cleary	Y
Senator David A. Clemens	Y
Senator Kathy Hogan	Y
Senator Kristin Roers	Y
Senator Kent Weston	Y

Motion passed 6-0-0.

Senator Cleary moved **DO PASS** as **AMENDED** and **REFERRED** to **APPROPRIATIONS.**
Senator Hogan seconded the motion.
Roll call vote.

Senators	Vote
Senator Judy Lee	Y
Senator Sean Cleary	Y
Senator David A. Clemens	Y
Senator Kathy Hogan	Y
Senator Kristin Roers	Y
Senator Kent Weston	Y

Motion passed 6-0-0.

Senator Cleary will carry HB 1480.
3:14 PM **Madam Chair Lee** closed the meeting.

Patricia Lahr, Committee Clerk

Prepared by the Legislative Council staff for
Representative Boschee
March 21, 2023

DR
1 of 1
3-22-23

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1480

Page 1, line 2, after "fund" insert "; to provide for a legislative management study"

Page 1, line 2, after the second "a" insert "legislative management"

Page 1, line 19, replace "and" with "or"

Page 1, remove lines 21 through 23

Page 2, line 1, replace "c." with "a."

Page 2, line 3, replace "d." with "b."

Page 2, line 6, replace "e." with "c."

Page 2, line 7, replace "f." with "d."

Page 2, line 7, replace "third-party" with "formal"

Page 2, line 9, replace "g." with "e."

Page 2, after line 9, insert:

"4. The requirements of chapter 54-44.4 do not apply to the selection of a grant recipient, the grant award, or payments made under this section.

5. All moneys designated for the fund from whatever source derived must be deposited by the state treasurer in the pay for success fund. The state treasurer shall invest moneys in the fund in interest-bearing accounts as is designated by the department of health and human services and the interest earned must be retained in the fund. The state treasurer shall apply the prudent investor rule in investing the moneys in the fund. The executive director of the department of health and human services or the executive director's designee shall administer the fund."

Page 2, after line 15, insert:

"**SECTION 3. LEGISLATIVE MANAGEMENT STUDY - PAY FOR SUCCESS FUNDING MODEL.** During the 2023-24 interim, the legislative management shall consider studying the pay for success funding model as a tool to identify ways for state and local government to provide outcomes-based services. The study must review the ways the pay for success model may be implemented at the state and local level, examine pay for success programs of other states, and include input from the executive director of the department of health and human services and the state treasurer."

Page 2, line 16, replace "This" with "Section 1 of this"

Renumber accordingly

REPORT OF STANDING COMMITTEE

HB 1480, as engrossed: Human Services Committee (Sen. Lee, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1480 was placed on the Sixth order on the calendar. This bill does not affect workforce development.

Page 1, line 2, after "fund" insert "; to provide for a legislative management study"

Page 1, line 2, after the second "a" insert "legislative management"

Page 1, line 19, replace "and" with "or"

Page 1, remove lines 21 through 23

Page 2, line 1, replace "c." with "a."

Page 2, line 3, replace "d." with "b."

Page 2, line 6, replace "e." with "c."

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Page 2, after line 15, insert:

"**SECTION 3. LEGISLATIVE MANAGEMENT STUDY - PAY FOR SUCCESS FUNDING MODEL.** During the 2023-24 interim, the legislative management shall consider studying the pay for success funding model as a tool to identify ways for state and local government to provide outcomes-based services. The study must review the ways the pay for success model may be implemented at the state and local level, examine pay for success programs of other states, and include input from the executive director of the department of health and human services and the state treasurer."

Page 2, line 16, replace "This" with "Section 1 of this"

Renumber accordingly

2023 SENATE APPROPRIATIONS

HB 1480

2023 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

HB 1480
3/30/2023

A BILL for an act relating to a pay for success fund; to provide for a legislative management study; to provide for a legislative management report; to provide for a continuing appropriation; to provide for a transfer; and to provide an effective date.

2:51 PM Chairman Bekkedahl opened the hearing on HB 1480.

Members present: Senators Bekkedahl, Krebsbach, Burckhard, Davison, Dever, Dwyer, Erbele, Kreun, Meyer, Roers, Schaible, Sorvaag, Vedaa, Wanzek, Rust, and Mathern.

Discussion Topics:
- Success fund
- Outcome based
- Social impact
- Private investment
- Committee action

2:52 PM Representative Josh Boschee introduced the bill, testified in favor, testimony #27098.

3:04 PM Chris Jones, Director Department of Health and Human Services, testified in favor, no written testimony

3:10 PM Senator Mathern moved DO PASS.
Senator Roers seconded the motion.

Senators	Vote
Senator Brad Bekkedahl	Y
Senator Karen K. Krebsbach	Y
Senator Randy A. Burckhard	Y
Senator Kyle Davison	Y
Senator Dick Dever	Y
Senator Michael Dwyer	N
Senator Robert Erbele	Y
Senator Curt Kreun	Y
Senator Tim Mathern	Y
Senator Scott Meyer	Y
Senator Jim P. Roers	Y
Senator David S. Rust	N
Senator Donald Schaible	N
Senator Ronald Sorvaag	Y
Senator Shawn Vedaa	N
Senator Terry M. Wanzek	Y

Motion passed 12-4-0

Senator Cleary will carry the bill.

3:13 PM Chairman Bekkedahl closed the hearing.

Kathleen Hall, Committee Clerk

REPORT OF STANDING COMMITTEE

HB 1480, as engrossed and amended: Appropriations Committee (Sen. Bekkedahl, Chairman) recommends **DO PASS** (12 YEAS, 4 NAYS, 0 ABSENT AND NOT VOTING). Engrossed HB 1480, as amended, was placed on the Fourteenth order on the calendar. This bill does not affect workforce development.

2023 CONFERENCE COMMITTEE

HB 1480

2023 HOUSE STANDING COMMITTEE MINUTES

Human Services Committee
Pioneer Room, State Capitol

HB 1480
4/19/2023
Conference Committee

Relating to a pay for success fund; to provide for a legislative management study; to provide for a legislative management report; to provide for a continuing appropriation; to provide for a transfer; and to provide an effective date.

Chairman Ruby called the meeting to order at 9:01 AM.

Chairman Matthew Ruby, Reps. Dawson Holle, Jayme Davis, Chairman Sean Cleary, Senators Kathy Hogan, Kent Weston.

Discussion Topics:
- Committee Action

Chairman Ruby called for a discussion on the Senate amendments to HB 1480.

Senator Cleary explained Senate amendments.

Senator Cleary moves that the House accede to the Senate amendments.

Seconded by Representative Holle.

Roll call vote: Motion carries 6-0-0.

Representative Ruby will carry for the house.

Senator Cleary will carry for the Senate.

Chairman Ruby adjourned the meeting at 9:07 AM.

Phillip Jacobs, Committee Clerk

Date: 4/19/2023
Roll Call Vote #: 1

2023 HOUSE CONFERENCE COMMITTEE
ROLL CALL VOTES

BILL 1480 as engrossed

House Human Services Committee

Action Taken ☒ **HOUSE accede to Senate Amendments**
☐ **HOUSE accede to Senate Amendments and further amend**
☐ **SENATE recede from Senate amendments**
☐ **SENATE recede from Senate amendments and amend as follows**

☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: *Sen. Cleary* Seconded by: Rep. Holle

Representatives	4/19			Yes	No		Senators	4/19			Yes	No
Chairman M. Ruby	X			X			Chairman Cleary	X			X	
Rep. Holle	X			X			Sen. Hogan	X			X	
Rep. Davis	X			X			Sen. Weston	X			X	
Total Rep. Vote							Total Senate Vote					

Vote Count Yes: 6 No: 0 Absent: 0

House Carrier Rep. Ruby Senate Carrier Sen. Cleary

LC Number ______ . ______ of amendment

LC Number ______ . ______ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

REPORT OF CONFERENCE COMMITTEE

HB 1480, as engrossed: Your conference committee (Sens. Cleary, Hogan, Weston and Reps. M. Ruby, Holle, Davis) recommends that the **HOUSE ACCEDE** to the Senate amendments as printed on HJ pages 1632-1633 and place HB 1480 on the Seventh order.

Engrossed HB 1480 was placed on the Seventh order of business on the calendar.

TESTIMONY

HB 1480

The Heritage Foundation

BACKGROUNDER

No. 3550 | NOVEMBER 5, 2020

DOMESTIC POLICY STUDIES

Pay-for-Outcomes: Transforming Federal Social Programs to Expand Individual Well-Being

Leslie Ford and Robert Rector

KEY TAKEAWAYS

Federal social programs spend billions but fail to show that they meaningfully help at-risk Americans. It is time to change how these programs pay for services.

Instead of using ineffective payment models, federal social programs should reward providers for achieving verifiable outcomes that change lives for the better.

Paying directly for outcomes that show clear improvements for vulnerable Americans respects their dignity in society while using taxpayer dollars more effectively.

Every year, the federal government spends billions of dollars on social programs that are intended to help at-risk individuals, who are vulnerable to poverty and dependence on government safety-net programs, achieve self-sufficiency. Leading examples include employment and training programs ($18.9 billion in federal spending in fiscal year 2019); substance abuse treatment programs ($10.5 billion in FY 2017); and recidivism reduction programs ($68 million in FY 2015).

These and other social programs are intended to increase lasting well-being through the acquisition of education, skills, and other positive changes in behavior. They promise concrete change: for the unemployed, obtaining a job; for former inmates, lower rates of reincarceration; and for those with addictions, treatment that will enable them to live free from substance dependence. In contrast to other federal programs that offer transfer payments (e.g., cash, food, or housing assistance), these social programs are premised on helping individuals to build and maintain a meaningful and free life.

Unfortunately, most of these social programs have little to show despite steep expenditures. Many—particularly the "open grant model," which is usually one of providing federal block grants to states for social programs—do not track whether federal spending produces key outcomes such as greater employment, reduced inmate recidivism, successful substance abuse treatment, and improved self-sufficiency. Even the data available from legislative attempts to manage program performance and distribute funds to "evidenced-based" services over the past two decades do not demonstrate that those efforts produce overall meaningful outcomes.

Meanwhile, "pay-for-success" efforts during the past decade, while showing some promise, remain largely outside the federal government's main expenditures on social programs. Moreover, these efforts can be judged primarily by reductions in federal government expenditures, not direct impacts in building recipients' capacity for self-sufficiency.

Overall, these federal social programs are not demonstrating that they achieve the outcomes for which they were designed. This both disserves recipients and shortchanges taxpayers. It is time for a transformation of federal investments in social programs, and this requires a new funding model. Federal policymakers should pay directly for outcomes in social programs in a way that truly respects the dignity of vulnerable individuals by expanding their capacity and adding to their well-being.

Summary of Current Federal Social Program Payment Models

Three principal methods are currently used by federal policymakers to distribute funds to social programs that seek to increase capacities among vulnerable recipients:

- The open grant model,
- The performance management model, and
- The social impact bond or pay-for-success model.

Each of these models has shortcomings. To achieve the goals of capacity-building among recipients, a new funding model is required.

This paper proposes a new payment model to bring about transformation in these social programs: the pay-for-outcome model. Before describing this proposed model, however, a review of the current models is provided.

The Open Grant Model

The open grant model characterizes many federal programs initiated as part of the 1960s Great Society as well as others that have proliferated since then. Federal executive agencies allocate these funds to states or directly to service providers according to the intended goals set by congressional legislation. One of the aspirations of the open grant model is to allow states or direct service providers to innovate in social programs based on distinctive local circumstances or the unique needs of the vulnerable individual.

Unfortunately, the vast majority of these initiatives do not produce convincing evidence that the programs work for their intended beneficiaries. There is often no serious data tracking or evidence that the outcomes for beneficiaries are achieved. As summarized by Yale University Law Professor Peter Schuck in 2014, “less than 1 percent of government spending is backed by even the most basic evidence of cost-effectiveness.”[1] This use of federal funds is fundamentally flawed, representing both a misuse of taxpayer funds and a failure to keep the promises made to the vulnerable individuals whom federal policymakers seek to aid.

Three large federal block grants intended to reduce poverty exemplify the problems inherent in the open grant model. These include the Social Services Block Grant (SSBG); the Community Services Block Grant (CSBG); and the Community Development Block Grant (CDBG).

- The SSBG is a $1.7 billion-per-year federal block grant to states with five broad statutory goals intended to move individuals to self-sufficiency and eliminate dependence.[2] States must identify their intended uses of the funds (over a quarter of which is spent on child protective services and foster care),[3] but there is no consistent collection of

1. Peter H. Schuck, *Why Government Fails So Often: And How It Can Do Better* (Princeton, NJ: Princeton University Press, 2014), p. 391.
2. U.S. Department of Health and Human Services, Administration for Children and Families, Office of Community Services, “SSBG Legislative Authority Summary,” last reviewed June 10, 2019, https://www.acf.hhs.gov/ocs/resource/legislative-authority (accessed October 2, 2020).
3. Karen E. Lynch, “Social Services Block Grant,” Congressional Research Service *In Focus* No. 10115, updated November 1, 2018, https://fas.org/sgp/crs/misc/IF10115.pdf (accessed September 15, 2020).

outcome data that shows whether states achieve the SSBG program's intended goals.

- The CSBG distributes nearly $700 million in federal funds annually to more than 1,000 local antipoverty programs through a state formula. The programs are duplicative, poorly targeted, and not funded on the basis of their achievement of measured performance outcomes. In 2019, the U.S. Government Accountability Office performed its most recent survey and audit of the data that the U.S. Department of Health and Human Services (HHS) collects on the efficacy of the program and concluded that there is little measurable evidence that this significant funding source achieves the goals that Congress intended it to achieve.[4]

- Operated by Department of Housing and Urban Development (HUD), the federal CDBG program spends $3 billion per year, $900 million of which HUD allocates to states. The CDBG was intended to provide housing assistance for low-income families, but its funds have often been funneled to high-income communities and to wasteful pork-barrel projects. For example, $500,000 from the program was spent to expand a brewery in New York,[5] and $1 million was used to restore a Michigan hotel.[6]

When not distributed directly to states, open grant model funds are distributed through federal agencies. The agencies outline the type of recipients they seek to assist and the general aims or activities that the recipients promise to undertake. In many cases, the federal agency overseeing the open grant does not track whether the services were supplied. Even when administrative agencies collect data from grant recipients, the data collection is focused on tracking provision of services, not outcomes for the beneficiaries. Grant recipients do not have to specify the intended number of services they expect to provide or the number of beneficiaries that will be reached per federal dollar expended.

4. U.S. Government Accountability Office, "Community Services Block Grant: Better Alignment of Outcome Measures with Program Goals Could Help Assess National Effectiveness," GAO-20-25, November 2019, passim, https://www.gao.gov/assets/710/702722.pdf (accessed October 2, 2020).

5. "State Grant to Support Wilson Brewery's NT Expansion," *Lockport Union-Sun Journal*, August 24, 2018, https://www.lockportjournal.com/news/local_news/state-grant-to-support-wilson-brewerys-nt-expansion-plan/article_0e38eea0-6130-54b6-a360-781f6e449b1a.html (accessed October 2, 2019).

6. "Dilworth Hotel Project Gets $1 Million Grant," *News-Review*, December 23, 2015, https://www.petoskeynews.com/featured-pnr/dilworth-hotel-project-gets-million-grant/article_9141283b-01f6-58d4-95ae-c2ea4ed1185e.html?mode=jqm (accessed October 2, 2020).

Because open grants are largely distributed based on stated goals without outcome data collection and analysis, this model is unable to produce evidence that it achieves intended outcomes in the lives of vulnerable individuals. The overall persistence of the problems these programs seek to address suggests that they do not achieve those ends.

The Performance Management Model

Recognizing that the open grant model has significant flaws, over the past decade and a half a significant reform movement tried to improve the effectiveness of federally funded social programs.[7] Federal legislators used program reauthorizations to implement the performance management model, which can take the form of three key reforms: collecting data on service provision and program performance, mandating that services deployed be supported by evidence, and requiring third-party outcome evaluations.

One of the most significant examples of congressional reauthorization that aimed to collect data and obtain performance analysis is the Workforce Innovation and Opportunity Act (WIOA),[8] enacted in 2014 to replace the Workforce Investment Act of 1998 (WIA).[9] In this reform, Congress attempted to move federal employment and training (E&T) programs from the open grant model to an evidence-collection and performance management model. The WIOA created a common performance accountability system for six core E&T programs. Despite that, in a 2019 report on the overall effectiveness of these government training programs, the White House Council of Economic Advisers concluded that "government job training programs appear to be largely ineffective and fail to produce sufficient benefits for workers to justify the costs."[10]

Another example of service data collection and outcome feedback based on available performance metrics is the Substance Abuse Prevention and Treatment (SAPT) Block Grant, which is intended to combat substance abuse.[11] The main source of data to track these funds is the Treatment

7. David Leonhardt, "The Quiet Movement to Make Government Fail Less Often," *The New York Times*, July 15, 2014, https://www.nytimes.com/2014/07/15/upshot/the-quiet-movement-to-make-government-fail-less-often.html?abt=0002&abg=0 (accessed September 15, 2020).

8. H.R. 803, Workforce Innovation and Opportunity Act, Public Law 113-128, 128 Stat. 1425, 113th Cong., July 22, 2014, https://www.govinfo.gov/content/pkg/PLAW-113publ128/pdf/PLAW-113publ128.pdf (accessed October 6, 2020).

9. H.R. 1385, Workforce Investment Act of 1998, Public Law 105-220, 112 Stat. 936, 105th Cong., August 7, 1998, https://www.govinfo.gov/content/pkg/PLAW-105publ220/pdf/PLAW-105publ220.pdf (accessed October 6, 2020).

10. Executive Office of the President of the United States, Council of Economic Advisers, *Government Employment and Training Programs: Assessing the Evidence on Their Performance*, June 2019, p. 2, https://www.whitehouse.gov/wp-content/uploads/2019/06/Government-Employment-and-Training-Programs.pdf (accessed October 2, 2020).

11. See 42 U.S.C. §300, https://www.law.cornell.edu/uscode/text/42/300 (accessed October 6, 2020).

Episode Data Set (TEDS), a national data system of publicly funded substance abuse treatment facilities' admissions and discharges.[12] Again, this system attempts to track provision of services, not outcomes for individuals at risk of continuing addiction or, in the worst case, death through overdose. The Substance Abuse and Mental Health Services Administration (SAMHSA) within HHS also used the Performance Management Reporting Tool (PMRT) to review the effects of these funds, but "there is no empirical evidence that such feedback leads to an improvement in performance."[13]

A second key aspect of the performance management model is the requirement that direct service providers deliver "evidenced-based" services, meaning that the program should be able to provide only services that have been evaluated and shown to have made a positive, statistically significant difference for the beneficiary. Unfortunately, many "evidence-based" programs fail to produce outcomes as intended. Generally, "evidence-based" programs are approved after investigators test the effect of services at an original demonstration site.

The evidence-based paradigm involves a presumed linked chain leading from random control trials to a flourishing social program sector. In reality, however, each link in this chain is weak. Overall, the paradigm rests on the following sequence of questionable assumptions:

- In any given field, a small number of programs can be evaluated by random control trials (RCTs); among the small set of trials, a number of clearly successful programs will be found.

- These successful programs can be studied and then serve as "model" programs that can be replicated across the relevant social program sector.

- The "replicated" versions of the programs will perform as effectively as the original RCT-tested versions.

- Replicated models will readily displace other older programs.

12. U.S. Department of Health and Human Services, Substance Abuse and Mental Health Services Administration, "Treatment Episode Data Set (TEDS)," https://www.samhsa.gov/data/data-we-collect/teds-treatment-episode-data-set (accessed October 6, 2020).

13. Lawrence A. Palinkas, Suzanne E. Spear, Sapna J. Mendon, Juan Villamar, Thomas Valente, Chi-Ping Chou, John Landsverk, Shepperd G. Kellam, and C. Hendricks Brown, "Measuring Sustainment of Prevention Programs and Initiatives: A Study Protocol," *Implementation Science*, Vol. 11, Issue 1 (December 2015), https://link.springer.com/article/10.1186/s13012-016-0467-6 (accessed October 6, 2020).

- A desirable level of effective service delivery will thereby be established and maintained throughout the sector even though the operation of most individual providers will not be meaningfully measured or tested.

The evidence-based paradigm is inadequate for at least six reasons.

First, at any given time, there are thousands of individual social programs in operation in a wide variety of fields such as drug treatment, anti-recidivism, and employment services. How policymakers determine which services are evidenced-based is normally based on a single demonstration of results, which can be subject to "single-instance fallacy."[14] RCT experiments will probably examine no more than a dozen of these thousands of operations each year. Only a small fraction of those evaluated will be found to have significant effects, and those effects will often be modest. It is therefore unlikely that a handful of RCT evaluations can uncover many "hidden gems" within this myriad of programs.

Second, the performance management model also runs afoul of replication fallacy: a common assumption that if a program can be evaluated and proven to have results in the initial location, scaling up or replicating the original method in another location is both possible and advisable. Most RCT evaluations are like "black boxes." Although some programs appear successful, it is often unclear why they succeeded, and the most important factors behind their success (such as a charismatic leader) are not measurable. Even positive studies do not guarantee that cloning those programs and replicating them throughout the country will prove to be successful.

Third, even when an evaluation documents a highly successful model program, history suggests that it is nearly impossible to replicate that model effectively in other locations. Where there is evidence of original single-instance effectiveness and subsequent studies of wider implementation, the broader program results often do not live up to the promise of

14. A single study is not normally considered scientifically significant evidence. According to Food and Nutrition Administration guidance, for example, "A single clinical experimental finding of efficacy, unsupported by other independent evidence, has not usually been considered adequate scientific support for a conclusion of effectiveness." U.S. Department of Health and Human Services, Food and Drug Administration, Center for Drug Evaluation and Research (CDER) and Center for Biologics Evaluation and Research (CBER), "Guidance for Industry: Providing Clinical Evidence of Effectiveness for Human Drug and Biological Products," May 1998, p. 4, https://www.fda.gov/files/drugs/published/Providing-Clinical-Evidence-of-Effectiveness-for-Human-Drug-and-Biological-Products..pdf (accessed October 6, 2020). This is because one positive outcome could be as good as random chance (one in 20). Unfortunately, in determining which services are "evidenced-based," the policymaker looks at the evidence of one instance of services, which leaves the "evidence-based" services open to being statistical flukes. John P. A. Ioannidis, "Why Most Published Research Findings Are False," *PLoS Medicine*, Vol. 2, No. 8 (August 2005), p. e124, https://journals.plos.org/plosmedicine/article/file?id=10.1371/journal.pmed.0020124&type=printable (accessed October 6, 2020).

the original demonstration.[15] As Straight Talk on Evidence puts it, "even a well-conducted RCT with blockbuster findings...generally does not provide a sufficient basis for widespread program implementation; there is a good chance that the program would not produce the hoped-for effects if implemented in new jurisdictions."[16]

Fourth, even in the unlikely event that a highly successful, replicable model is found, it is unlikely that a social program sector will readily "retool" to follow the model. Change is difficult, and replicating the success of one model suggests that many existing organizations, skills, and workers are unsuccessful and should be replaced or reformed. Bureaucratic inertia, historic ties, institutional ethos, and the instinct for organizational self-preservation all bolster the status quo. "Replicating a new model" often means little more than inserting a new set of buzzwords into the next grant application.

Fifth, even if the effort at replication is sincere, the "evidence-based" paradigm at best establishes broad programmatic guidance within a service sector. But the paradigm does not assess the thousands of individual service providers and therefore cannot separate "gems from lemons" at the specific provider level.

The Hawaii Opportunity Probation with Enforcement (HOPE) program, for example, had initial positive findings that did not carry over to the subsequent expansion. HOPE was a probation program that was found to have a significant effect on recidivism: Participants had a 55 percent reduction in rearrests in the 12 months following release.[17] Based on this evidence, the program was quickly replicated and expanded to 28 locations in four other states (Arkansas, Massachusetts, Oregon, and Texas). However, the National Institute of Justice later commissioned another randomized controlled trial of the expansion programs and found far less effect.[18]

Another example is the Maternal, Infant, and Early Childhood Home Visiting (MIECHV) program for vulnerable mothers that has been widely acclaimed as evidence-based. Congress authorized the program in 2010,

15. Ioannidis, "Why Most Published Research Findings Are False," p. e124.

16. Larry Orr, "If at First You Succeed, Try Again!" Straight Talk on Evidence, August 16, 2017, https://www.straighttalkonevidence.org/2017/08/16/if-at-first-you-succeed-try-again/ (accessed October 6, 2020).

17. Angela Hawken and Mark Kleiman, "Managing Drug Involved Probationers with Swift and Certain Sanctions: Evaluating Hawaii's HOPE," submitted to the U.S. Department of Justice, December 2009, https://www.ncjrs.gov/pdffiles1/nij/grants/229023.pdf (accessed October 6, 2020), and Coalition for Evidence-Based Policy, "Hawaii's Opportunity Probation with Enforcement (HOPE) Program," *Newsletter Summary*, February 2011, https://www.straighttalkonevidence.org/content/uploads/2018/03/HOPE-Probation-Evidence-Summary.pdf (accessed October 22, 2020).

18. Pamela K. Lattimore, Doris Layton MacKenzie, Gary Zajac, Debbie Dawes, Elaine Arsenault, and Stephen Tueller, "Outcome Findings from the HOPE Demonstration Field Experiment: Is Swift, Certain, and Fair an Effective Supervision Strategy?" *Criminology & Public Policy*, Vol. 15, Issue 4 (November 2016), pp. 1103–1141.

despite the finding of a 2004 meta-analysis of home visitation programs that overall outcomes were not achieved.[19] As of June 2017, HHS determined that 18 individual services were "evidenced-based."[20] The program currently expends $400 million a year to fund those services.[21] However, in 2019, HHS found in its first early evaluation of program effectiveness that there was little difference in outcomes between the treatment and control groups: "No outcome area stands out as one where home visiting programs had large effects."[22]

Sixth, the third key attribute of the performance management model is the requirement for randomized controlled trials[23] and third-party evaluations.[24] However, the best application of the scientific gold standard analysis of federal programs' data still indicates that the social programs are not achieving measurable impacts for participants.[25] As summarized in a 2018 review of the 13 known large RCTs of federal programs, "Eleven of the 13 RCTs found that the programs produced either no significant positive effects on the key targeted outcomes or small positive effects that dissipated shortly after participants completed the program."[26]

19. Monica A. Sweet and Mark Applebaum, "Is Home Visiting an Effective Strategy? A Meta-Analytic Review of Home Visiting Programs for Families with Young Children" *Child Development,* Vol 75, No. 5 (September 2004), pp. 1435–1456.
20. Adrienne L. Fernandes-Alcantara, "Maternal, Infant and Early Childhood Home Visiting (MIECHV) Program: Background and Funding," Congressional Research Service *Report for Members and Committees of Congress*, updated November 21, 2018, p. 20, https://fas.org/sgp/crs/misc/R43930.pdf (accessed October 6, 2020).
21. U.S. Department of Health and Human Services, Administration for Children and Families, Health Resources and Services Administration, Maternal and Child Health Bureau, "The Maternal, Infant and Early Childhood Home Visiting Program: Partnering with Parents to Help Children Succeed," April 2020, p. [1], https://mchb.hrsa.gov/sites/default/files/mchb/MaternalChildHealthInitiatives/HomeVisiting/pdf/programbrief.pdf (accessed October 6, 2020).
22. Charles Michalopoulos, Kristen Faucetta, Carolyn J. Hill, Ximena A. Portilla, Lori Burrell, Helen Lee, Anne Duggan, and Virginia Knox, *Impacts on Family Outcomes of Evidence-Based Early Childhood Home Visiting: Results from the Mother and Infant Home Visiting Program Evaluation*, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research, and Evaluation *Report* No. 2019-07, January 18, 2019, p. iii, https://www.acf.hhs.gov/opre/resource/impacts-family-outcomes-evidence-based-early-childhood-home-visiting-results-mother-infant-home-visiting-program-evaluation (accessed October 6, 2020).
23. Tom Kalil, "Funding What Works: The Importance of Low-Cost Randomized Controlled Trials," White House Blog, July 9, 2014, https://obamawhitehouse.archives.gov/blog/2014/07/09/funding-what-works-importance-low-cost-randomized-controlled-trials (accessed October 6, 2020).
24. Coalition for Evidence-Based Policy, "Practical Evaluation Strategies for Building a Body of Proven-Effective Social Programs: Suggestions for Research and Program Funders," October 2013, http://coalition4evidence.org/wp-content/uploads/2014/05/Practical-Evaluation-Strategies-2013.pdf (accessed October 6, 2020).
25. David B. Muhlhausen, "Do Federal Social Programs Work?" Heritage Foundation *Backgrounder* No. 2884, March 19, 2014, http://thf_media.s3.amazonaws.com/2014/pdf/BG2884.pdf, and David Muhlhausen, "Evidence-Based Policymaking: An Idea Whose Time Has Come," testimony before the Subcommittee on Human Resources, Committee on Ways and Means, U.S. House of Representatives, March 17, 2015, https://www.heritage.org/article/testimony-evidence-based-policymaking-idea-whose-time-has-come.
26. These gold-standard program evaluations include education-focused programs such as Head Start, Even Start, Community Learning Centers, Abstinence Education, Teacher Incentive Fund, Student Mentoring, and Upward Bound. The evaluations also include job training programs like Job Corps and National Guard Youth Challenge. See Straight Talk on Evidence, "When Congressionally-Authorized Federal Programs Are Evaluated in Randomized Controlled Trials, Most Fall Short. Reform Is Needed," June 13, 2018, https://www.straighttalkonevidence.org/2018/06/13/when-congressionally-authorized-federal-programs-are-evaluated-in-randomized-controlled-trials-most-fall-short-reform-is-needed/ (accessed October 6, 2020).

One social program with a large RCT analysis is the Teen Pregnancy Prevention (TPP) program. TPP is a federal grant program that, pursuant to reauthorization and reform in 2009, should be distributing 75 percent of its funds to "evidence-based" approaches. Analysis of TPP's grants from 2010–2014, however, reveals that only four of 24 funded models reduced teen pregnancy rates.[27]

Like HOPE, MIECHV, and TPP, the Head Start program is another illustration of initial promise unsupported by subsequent RCT studies. Head Start is one of the longest-running programs designed to help underprivileged children. The more than $10 billion-per-year federal preschool program was founded as part of Lyndon B. Johnson's 1964 War on Poverty and modeled on the promise of the small-scale Perry Preschool and Carolinian Abecedarian programs.[28] A large-scale, rigorous study was required by Congress in 1998, and in October 2012, HHS released its comprehensive final report, which demonstrated that any advantages gained through Head Start are short-term and undetectable by the time a participant reaches the third grade.[29]

It is a step in the right direction that policymakers and executive agencies began to collect and track data on outcomes for beneficiaries and that Congress began to require randomized controlled trials of major programs' outcome measures. However, the available evidence shows that the key reforms of the performance measurement model generally have not produced results for vulnerable individuals.

The Social Impact Bond/Pay-for-Success Model

Over the past decade, there has been another evolution in social programs as policymakers sought provable and sustainable results in social programs. Social impact bonds (SIBs), as they are known in the United Kingdom, or pay-for-success programs, as they are known in the U.S., are models in which private investors fund up-front costs for social programs to innovate in interventions to assist vulnerable individuals.

27. Straight Talk on Evidence, "Evidence-Based Policy 'Lite' Won't Solve U.S. Social Problems: The Case of HHS's Teen Pregnancy Prevention Program," June 18, 2019, https://www.straighttalkonevidence.org/2019/06/18/evidence-based-policy-lite-wont-solve-u-s-social-problems-the-case-of-hhss-teen-pregnancy-prevention-program/ (accessed October 15, 2020).

28. U.S. Department of Health and Human Services, Administration for Children and Families, Head Start, Early Childhood Learning and Knowledge Center, "Head Start History," https://eclkc.ohs.acf.hhs.gov/about-us/article/head-start-history (accessed September 15, 2020), and Lawrence J. Schweinhart, "Long-term Follow-up of a Preschool Experiment," *Journal of Experimental Criminology*, Vol. 9, Issue 4 (December 2013), p. 389–409, https://link.springer.com/content/pdf/10.1007/s11292-013-9190-3.pdf (accessed October 15, 2020).

29. Michael Puma, Stephen Bell, Ronna Cook, Camilla Heid, Pam Broene, Frank Jenkins, Andrew Mashburn, and Jason Downer, *Third Grade Follow-up to the Head Start Impact Study: Final Report*, U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation, OPRE *Report* No. 2012-45, October 2012, https://www.acf.hhs.gov/sites/default/files/opre/head_start_report.pdf (accessed October 15, 2020).

In a major difference from both the open grant and performance management models, in this model, the government repays the private investor only after a predefined goal is achieved, sometimes with an additional financial return. This moves social programs from paying for services to paying only for predefined and measurable outcomes. Most pay-for-success models have these primary players: government (national, regional, or local); the private-sector up-front investor; a direct service provider; and a third-party evaluator. The private investors and service provider are financially entirely responsible for achieving the results for the intended beneficiaries.

Generally, pay-for-success programs to date have invested in criminal justice, homelessness, child welfare, early childhood education, and youth development programs. The "outcome" or success metric will vary by each of these interventions. In many of the youth-focused programs, the success of the social impact bond will be judged by whether they avoided common problems such as, for instance, achieving a reduction in recidivism—i.e., returning to incarceration—or realizing a reduction in the percentage of children who need special education in kindergarten.

As of July 2019, 132 known SIBs had been launched in 25 countries.[30] The movement began in the United Kingdom just as the country began to search for alternative funding models to resource and transform its public welfare programs after the Great Recession and subsequent austerity measures.

One of the first SIBs ever funded was focused on recidivism within the criminal justice system. The Peterborough prison in eastern England created a SIB called One Service in 2011. The intervention was focused on prisoners who served terms of less than 12 months. The goal was to reduce recidivism by a target 10 percent and at least 7.5 percent among the recently released prisoners compared to a control group.[31] The RAND Corporation evaluation showed an 8.4 percent reduction (but not the target 10 percent) in recidivism in the first cohort.[32]

In the United States, the pay-for-success projects began as state initiatives, with the first launching in 2013. There are now 26 ongoing projects in 13 states. It takes years for many of these projects to be implemented and to demonstrate results, and most last a minimum of four years. Therefore, because many currently funded projects were launched in 2015 or

30. Social Finance, "Impact Bond Global Database," https://sibdatabase.socialfinance.org.uk/ (accessed October 15, 2020).

31. Emma Disley, Chris Giacomantonio, Kristy Kruithof, and Megan Sim, *The Payment by Results Social Impact Bond Pilot at HMP Peterborough: Final Process Evaluation Report*, United Kingdom Ministry of Justice *Analytical Series*, 2015, pp. 3 and 14, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/486512/social-impact-bond-pilot-peterborough-report.pdf (accessed October 15, 2020).

32. Ibid.

later, most do not yet have outcome data. For that reason, the U.S. review is limited to projects with available data, and most cases still have only preliminary results.

Because the United States has a high recidivism rate (within three years, nearly half of all prisoners released in 2005 were imprisoned again),[33] many U.S. pay-for-success projects are focused on lowering the recidivism rate. This includes the first U.S. project, the $9.6 million New York City Rikers Adolescent Behavioral Learning Experience (ABLE) program was begun in 2013 to reduce recidivism among 4,458 formerly incarcerated youth who were 16–18 years old. The project's goal was a 10 percent reduction in the recidivism rate from the historical Rikers rate of 50 percent. A study published by the Vera Institute of Justice concluded that the project's recidivism reduction was not statistically significant, and the initiative was ended in August 2015.[34]

Other recidivism projects have been initiated, including a State of New York project funded with a $12 million U.S. Department of Labor grant to increase employment by five points and reduce recidivism by eight points among 2,000 formerly incarcerated individuals in Rochester and New York City, with services to be provided by the Center for Economic Opportunities.[35] However, third-party evaluations for these projects are not yet publicly available.

Other early U.S. pay-for-success projects have concentrated on early education. Utah focused on low-income children with a $7 million project that funded preschool slots for three-year-old and four-year-old low-income children who were at risk of needing special education.[36] The project began in 2013 for a seven-year period. In 2015, investors and the state reported that 99 percent of the first cohort of "at-risk" children in the Utah program had avoided special education and that $267,000 had been

33. Matthew R. Durose, Alexia D. Cooper, and Howard N. Snyder, "Recidivism of Prisoners Released in 30 States in 2005: Patterns from 2005 to 2010," U.S. Department of Justice, Office of Justice Programs, Bureau of Labor Statistics Special Report No. NCJ 244205, April 2014, p. 1, https://www.bjs.gov/content/pub/pdf/rprts05p0510.pdf (accessed October 15, 2020).

34. Jim Parsons, Chris Weiss, and Qing Wei, "Impact Evaluation of the Adolescent Behavioral Learning Experience (ABLE) Program," Vera Institute of Justice, September 2016, https://www.vera.org/downloads/publications/rikers-adolescent-behavioral-learning-experience-evaluation.pdf (accessed October 15, 2020).

35. News release, "Governor Cuomo Announces New York the First State in the Nation to Launch Pay for Success Project in Initiative to Reduce Recidivism," New York State, Office of Governor Andrew M. Cuomo, December 20, 2013, https://www.governor.ny.gov/news/governor-cuomo-announces-new-york-first-state-nation-launch-pay-success-project-initiative (accessed October 15, 2020).

36. Jeff Edmondson, Bill Crim, and Allen Grossman, "Pay-for-Success Is Working in Utah," *Stanford Social Innovation Review*, October 27, 2015, https://ssir.org/articles/entry/pay_for_success_is_working_in_utah (accessed October 15, 2020), and Benjamin Wood, "Preschool Paying off for Goldman Sachs and Utah Kids, According to United Way," *The Salt Lake Tribune*, October 7, 2015, https://archive.sltrib.com/article.php?id=3032598&itype=CMSID (accessed October 15, 2020).

paid out to investors.[37] However, some researchers cited concerns with the initial estimation of the number of children potentially needing special education.[38]

Chicago funded another preschool pay-for-success program. The city appropriated $17 million for 2,600 slots across nine preschools for four-year-old low-income children.[39] The project initially saw 4.38 percent of children needing special education programming in kindergarten, 1.73 percentage points lower than the cohort's comparison group.[40] Investors were paid $9,100 plus interest for every child in the first cohort who did not need special education.[41]

The first federal pay-for-success initiative, the Social Impact Partnerships to Pay for Results Act (SIPPRA), was included in the Bipartisan Budget Act of 2018.[42] The act gave $100 million to the Department of the Treasury to pay for feasibility analysis and pay-for-success projects across the U.S. Of that total, $66 million will directly reimburse outcome payments. With half of the funds set aside for projects that directly benefit children.[43] The 2019 Notice of Funding Availability outlines 21 options for "social benefit," and participants must demonstrate both the social benefit and federal, state, or local government savings.[44] The goals identified in the SIPPRA program currently have alternate federal funding. These projects are a fraction of overall expenditures when compared to similar federal governmental programs.

The key positive aspects of this model are that the goals and measurement (usually a singular measure) of the alternative funding approach are defined at the outset. Further, the goals are evaluated by

37. "Pay for Success: Utah Program Reports Positive Results," New Profit, Amplify Blog, October 8, 2015, http://blog.newprofit.org/amplify/pay-for-success-utah-program-reports-positive-results (accessed October 15, 2020), and Nathaniel Popper, "For Goldman, Success in Social Impact Bond That Aids Schoolchildren," *The New York Times*, October 7, 2015, https://www.nytimes.com/2015/10/08/business/for-goldman-success-in-social-impact-bond-that-aids-schoolchildren.html?smid=fb-share&referer=http://m.facebook.com&_r=1 (accessed October 15, 2020).

38. See, for example, Libby Doggett and David Wilkinson, "Op-ed: Utah's Pay for Success Pre-K Model Is a Worthy Innovation," *The Salt Lake Tribune*, January 26, 2016, https://archive.sltrib.com/article.php?id=3462523&itype=CMSID (accessed October 15, 2020).

39. News release, "Mayor Emanuel Closes the Gap on Pre-Kindergarten Education for 4-Year Old Children in Low Income Families," City of Chicago, Office of the Mayor, October 7, 2014, https://www.chicago.gov/city/en/depts/mayor/press_room/press_releases/2014/oct/mayor-emanuel-closes-the-gap-on-pre-kindergarten-education-for-4.html (accessed October 15, 2020).

40. Illinois Facilities Fund, "Fact Sheet: Chicago Pay for Success/Social Impact Bond Program Evaluation Year Three," April 26, 2018, p. [1], https://iff.org/wp-content/uploads/2018/04/Fact-Sheet-Chicago-SIB-Year-3-FINAL-4.26.2018.pdf (accessed October 15, 2020).

41. Melissa Sanchez, "Investors Earn Max Initial Payment from Chicago's 'Social Impact Bond,'" *The Chicago Reporter,* May 16, 2016, https://www.chicagoreporter.com/investors-earn-max-initial-payment-from-chicagos-social-impact-bond/ (accessed October 15, 2020).

42. Title VIII—Supporting Social Impact Partnerships to Pay for Results, in H.R. 1892, Bipartisan Budget Act of 2018, Public Law 115-123, 115th Cong., February 9, 2018, https://www.congress.gov/bill/115th-congress/house-bill/1892/text (accessed October 15, 2020).

43. U.S. Department of the Treasury, Office of Economic Policy, "Social Impact Partnerships to Pay for Results Act Demonstration Projects," Notice of Funding Availability, Funding Opportunity Number UST-SIPPRA-2019-001, https://home.treasury.gov/system/files/226/SIPPRA-NOFA-FINAL-FY2019.pdf (accessed October 15, 2020).

44. Ibid.

a third-party evaluator. In addition, the private-sector investor and direct service provider are compensated only if they achieve the predefined goals.

However, pay-for-success models use new funds instead of drawing from the federal funds already appropriated to existing social programs that serve the same purpose. This means that the model is not transforming the underlying programs and the bulk of federal funding directed toward capacity-building. The small scale of pay-for-success projects is also necessarily limited to single experimental project sites and therefore subject to the "single-instance fallacy."[45] Because of the limited number of pay-for-success projects, the active projects are testing one service method out of hundreds of service options with similar goals. They are not able to show whether the success is a statistical fluke or due to the unique circumstances of the project site.

A New Paradigm: The Pay-for-Outcomes Model

The current evidence-based paradigm within social programs is inadequate. Few programs are found to work, those that do work usually have modest impacts, and the rare successful programs typically cannot be replicated. Running social programs with few if any expected results is hard on the taxpayer and likely to generate despair and alienation among recipients who deserve better.

What can be done? The answer is a pay-for-outcomes system built around clear principles.

Policymakers should transform federal social programs by rewarding providers directly for a clear and verifiable capacity-building outcome in the lives of vulnerable individuals. After nearly two decades of performance management and pay-for-success models, policymakers should combine the best features of these reforms by implementing the pay-for-outcomes model. The pay-for-outcomes model would be applied to entire federal social programs so that contracts are awarded to direct service providers only on the basis of their ability to achieve positive and clear-cut behavioral changes in the lives of vulnerable individuals, based on third-party verification of concrete outcomes as specified at the beginning of the project.

Because direct service providers would be awarded annual contracts only for predetermined measurable effects, paying for outcomes for individuals

45. Ioannidis, "Why Most Published Research Findings Are False," p. e124.

would ensure that direct service providers are either rewarded or held responsible for their effectiveness in producing positive changes in the lives of vulnerable individuals. With this responsibility, programs would be empowered to focus on responding to the distinctive needs of the individuals they serve. This payment model would weed out providers who are not achieving results for vulnerable individuals. Service providers that did not achieve the outcome predetermined by policymakers would not be awarded subsequent contracts.

Unlike the pay-for-success model, which involves small-scale experiments outside of and in addition to the regular program funding stream, the pay-for-outcomes model would redirect the billions in currently appropriated federal funds for social programs. Direct service organizations that already participate in these social programs would be able to continue their work, but in subsequent years, contracts would be renewed based only on the ability of these service providers to produce individual outcomes in a cost-effective manner.

In the pay-for-outcomes model, policymakers would finally have solid evidence that programs either are or are not working. Without evidence of positive outcomes, service providers would not be paid, and this would give them a strong incentive to prove that outcomes are not only measured, but actually achieved.

Finally, the pay-for-outcomes model gives service providers on the ground both freedom and responsibility. Those closest to human problems are in the best position to address the complexities of those problems. Instead of imposing a handful of allegedly effective models, the pay-for-outcomes model encourages innovation and allows people to apply their intelligence and intuition to meet the on-the-ground situation. The pay-for-outcomes principle also requires that service providers be financially responsible, evaluated based on clear outcomes, and rewarded only for success.

New York City Contracting. A successful example of the pay-for-outcomes approach is found in the welfare reforms initiated by Mayor Rudy Giuliani in New York City.[46] In 1999, the Giuliani administration replaced the standard fee-for-service contracts for job placement/training organizations with pay-for-outcomes contracts. The contractors responded to the financial incentives embodied in the new contracts quickly and effectively.

46. The reform featured a "full engagement" policy requiring welfare recipients to participate in job search, training, or community service five days per week. The payment-for-outcome system complemented full engagement.

For example, the new contracts prioritized increasing the number of job placements (i.e., new hires) among recipients; within a year, the number of job placements generated by the contractors doubled.[47]

A few years later, revised pay-for-outcomes contracts were issued under the administration of Mayor Michael Bloomberg. These revised contracts provided larger financial rewards for job retention relative to job placements. The contractors again responded to these incentives, and the average share of clients who retained jobs for more than 90 days was as much as 198 percent higher under the new contracts compared to the old.[48]

Under the system in both administrations, potential providers were required to bid for contracts. The bidding process generated financial pressure that weeded out the less efficient providers. The original set of 15 prime contractors in 1999 was pruned to seven by 2010.[49]

Five Policy Principles for Implementation of Pay-for-Outcomes

Five key policy principles are necessary for successful implementation of a pay-for-outcomes model.

1. **Set clear quantitative outcome measures for service providers.** The pay-for-outcomes model requires a clear, concrete, and quantifiable outcome measure in the lives of those the program is intended to help. Each individual service provider should be measured according to the concrete outcomes obtained for its clientele. The desired outcomes would be defined, quantified, and objectively measured using reliable sources independent from the service provider. All providers would be under contract and paid for clear results. These payments could take place on a quarterly basis, based either on the total number of outcomes or on outcomes above an assumed nonintervention baseline.

47. Swati Desai, Lisa Garabedian, and Karl Snyder, “Performance-Based Contracts in New York City: Lessons Learned from Welfare-to-Work,” Rockefeller Institute *Brief*, June 2012, p. 13, https://rockinst.org/wp-content/uploads/2018/02/Performance-Based-Contracts-in-New-York-City.pdf (accessed October 15, 2020).

48. Chart, “Average Quarterly 90-Day Retention,” in Swati Desai, Lisa Garabedian, and Karl Snyder, “History of Welfare-to-Work Performance-based Contracts in NYC: Lessons Learned,” paper presented at the International Conference of the Association for Public Policy Analysis and Management (APPAM), Moscow, Russia, June 2011, p. 9, http://umdcipe.org/conferences/Moscow/papers/Desai_History%20of%20Welfare-to-work%20Performance-based%20Contracts%20in%20NYC_Lessons%20Learned.docx (accessed October 15, 2020).

49. Ibid., p. 13.

Complex measurements like benefit/cost analysis, while useful for some purposes, should be avoided as primary outcome measures because they involve complex calculations with many hidden assumptions that can easily be manipulated to achieve desired results. Even accurately reported data and well-conducted randomized control trials tend to track a wide array of data outcomes, and this can result in selective reporting of outcome findings. In some studies, researchers identify encouraging outcomes by focusing on data points that demonstrate positive effects while disregarding negative data points.[50]

In order to avoid this pitfall, policymakers must identify the particular outcome they are seeking among recipients at the outset. This model should be implemented in social programs with either a control group or a known benchmark for comparison. For instance, a prison recidivism project would be awarded a contract based on the number of beneficiaries who avoided prison; a drug treatment program would be rewarded for the number of beneficiaries with clean drug tests for 12 months; an employment and training program would be judged by the number of beneficiaries who obtained a job and the average compensation of such employment; and an education program could be measured objectively by increases in high school completion or improved math and reading scores.

2. **Provide payment for outcomes, not services provided or savings achieved.** Contractors would provide services but would be paid, wholly or in part, not for the services delivered but for the objective and measured outcomes achieved.[51] For example, providers could be paid for the number persons actively employed and average wages received or based on the percent of reentering inmates who were not arrested or incarcerated in the three years after release. Multiple measures could be used within a single program.

50. Straight Talk on Evidence, "Newly-Published Study of Federal Job Corps Program Inaccurately Claims to Demonstrate Long-term Positive Effects," July 21, 2020, https://www.straighttalkonevidence.org/2020/07/21/newly-published-study-of-federal-job-corps-program-inaccurately-claims-to-demonstrate-long-term-positive-effects/ (accessed October 15, 2020).

51. However, a very simple pay-for-outcomes model does not automatically ensure that the "treatment" provided actually produced the desired outcome. For example, random assignment evaluations of job training and job placement services routinely show that most of the individuals in the non-treatment control group obtain jobs on their own. The difference between the experimental group receiving the service and the non-treated control group is often slight. This means that a simplistic version of the pay-for-outcomes model would reward contractors for the many positive "outcomes" that would have occurred without the contractor's intervention. There are multiple ways to deal with this issue. One is to pay the contractor only for outcomes that are in excess of the norm expected without the intervention. For example, if 50 percent of the individuals entering a training program are expected to find jobs without the program, the contractor would be paid only for placements above the 50 percent rate.

Unlike the pay-for-success models operating in the states—and even at the federal level in the SIPPRA program—the measurement cannot be whether the program saved government money. The pay-for-outcomes model seeks concrete results in terms of building positive social outcomes and the capacity of individuals for self-support. Taxpayer savings may still follow when, for example, individuals become more likely to work or avoid reincarceration, but such savings would be unconnected to the flow of funds between government and program operators.

To achieve better outcomes, providers must have a financial stake in the success of their operations. They must be, at least in part, fiscally accountable for their own success or failure. Government financial rewards should be contingent on the outcomes achieved, and the provider should bear at least part of the cost of ineffective and failed services.

Similarly, pay-for-outcomes contracts can also be established between different levels of government. The government organization with funding authority could distribute those funds through pay-for-outcomes contracts with other government entities rather than through open-ended grants. For example, the federal government could channel its current social funds through pay-for-outcomes contracts with state and local governments. The state and local agencies receiving federal funds should be rewarded for achieving outcomes but should bear a greater share of the financial burden when programs are ineffective. Increasing the fiscal accountability of the agencies delivering the programs should incentivize and invigorate program improvement.

3. **Place multiple service providers in competition.** Under a pay-for-outcomes system, service providers would be held financially accountable for their own success or failure. In addition, funding agencies should establish pay-for-outcomes contracts with multiple contractors who would be placed in competition with each other.[52] The contractors could be either nonprofit or for-profit organizations.

52. Although providing competition in a small city or county where only one contractor can operate efficiently may seem difficult, a degree of competition can be maintained as long as the service contractor is operating on a payment-for-outcome basis using data that are similar to those of other firms in nearby locales. Each firm should be required to rebid its contract periodically against competitive bidders with the contract going to the low-cost bidder. This would ensure that over time, inefficient providers would be replaced by more efficient ones.

Contractors would not be allowed to select their own clients, as this would lead to choosing clients who are likely to succeed while ignoring more difficult clients. Some recent outcome studies have demonstrated this risk by highlighting subgroups with positive outcomes as opposed to the full sample of participants, misrepresenting program results.[53] Instead, a central administrator would allocate a fixed share of clients to each service provider as fairly as possible. The providers would then compete to achieve better outcomes for their roster of clients.

Service providers would be free to innovate and devise their own approach to achieving the desired outcomes. Creative approaches and diligent management are likely to flourish because the prosperity and survival of the organization depend on achieving successful outcomes.

4. **Shift funding automatically from low to high performers.** After the early years' implementation, successful programs will begin to compete against each other comparing best individual outcome results and lowest cost per result. The most successful will be awarded the highest portion of the subsequent years' funding automatically. This competition can also lead to clear and continued improvement over time. Funding would automatically be shifted from low performers to high performers. Effective providers who demonstrated better actual outcomes would not only receive more funds for their achievements. Over time, they would also increase their "market share" while that of inefficient providers would automatically shrink.

   Providers who produced few measured outcomes would lose money and quickly drop out of the program. When this occurred, funds would not be cut; instead, they would automatically be shifted to the more efficient service providers.

   All contracts would be renegotiated periodically. Contractors would bid for the price they sought to be paid for each unit or numeric goal achieved (number of persons employed, etc.). Inefficient providers would not gain contracts, and contractors that did not achieve targets

53. Straight Talk on Evidence, "Newly-Published Study of Federal Job Corps Program Inaccurately Claims to Demonstrate Long-term Positive Effects."

would not be renewed. Lower bidders would receive contracts and a greater share of future clients, especially if they meet program goals. This process would reduce the unit cost of outcomes, and the savings achieved would be redirected into expanded or enhanced services.

Future clients would benefit as funds are automatically shifted from ineffective high-cost service providers to more effective lower-cost providers and services in the community are expanded. Pay-for-outcomes is an exercise in improving the lives of vulnerable Americans. Budget savings for taxpayers are a byproduct of prioritizing these human outcomes.

5. **Continue RCT evidence-based evaluations.** To a considerable degree, the process described above is self-rectifying. Efficiency is automatically increased as funds are shifted from ineffective high-cost providers to more effective low-cost providers. Nonetheless, periodic reassessment of the overall social impact of the spending program would be critical. This could be accomplished by performing recurring random assignment evaluations on various providers within the program. RCT evaluations would be particularly important for ascertaining baseline outcomes that would occur in the absence of the overall program intervention.

Current Federal Programs Where Pay-for-Outcomes Should Be Implemented

Policymakers should begin to implement this model in social programs that have the best potential for the measurement of clear results. The following are some of the strongest candidates for implementation of the pay-for-outcomes model.

- **Employment and Training (E&T).** Employment and training programs are particularly ripe for reform because of their continually documented lack of success despite long-standing congressional efforts to reform them. There are 43 employment and training programs across nine federal agencies, primarily at the Departments of Labor,

54. For a full list of these 43 programs and their respective agencies, see Figure 2, "Federally Funded Employment and Training Programs, by Agency, Fiscal Year 2017," in U.S. Government Accountability Office, *Employment and Training Programs: Department of Labor Should Assess Efforts to Coordinate Services Across Programs*, GAO-19-200, March 2019, p. 11, https://www.gao.gov/assets/700/698080.pdf (accessed October 15, 2020).

Education, and Health and Human Services.[54] They cover all federal expenditures to help beneficiaries build skills and identify and obtain employment. According to the Council of Economic Advisers, "[a]ggregate spending on these programs totaled $18.9 billion in 2019 alone."[55]

Although programs were reformed most recently in 2014 with the intention of funds being distributed according to the evidenced-based model, that reform has not demonstrated successful outcomes for recipients.[56] Congress should take a further step and transform E&T programs to measure clear outcomes for beneficiaries, principally employment attained and earnings achieved.

- **Substance Abuse Treatment.** The U.S. struggle against drug addiction spans decades. In 2018, more than 67,000 Americans died from drug overdoses—with synthetic opioids being the main driver.[57] The federal government expended more than $10.5 billion on substance abuse treatment in FY 2017.[58]

  The Substance Abuse and Mental Health Services Administration (SAMHSA) has authority over the main block grant, called the Substance Abuse Block Grants. In addition to this block grant, the previously discussed Substance Abuse Prevention and Treatment (SAPT) Block Grant, and other SAMSHA substance abuse grants, the 21st Century Cures Act passed by Congress in 2016 allocates nearly $500 million per year through the Opioid State Targeted Response (STR) program, which is distributed to all states and territories based on the degree of their opioid addiction problem.[59]

55. Executive Office of the President of the United States, Council of Economic Advisers, *Government Employment and Training Programs*, June 2019, p. 1.
56. See, for example, ibid., pp. 9 et seq.
57. Holly Hedegaard, Arialdi M. Miniño, and Margaret Warner, "Drug Overdose Deaths in the United States, 1999–2018," U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics *Data Brief* No. 356, January 2020, https://www.cdc.gov/nchs/data/databriefs/db356-h.pdf (accessed October 15, 2020).
58. Table 1, "Federal Drug Control Spending by Function," in Executive Office of the President, Office of National Drug Control Policy, *National Drug Control Budget: FY 2018 Funding Highlights*, May 2017, p. 16, https://www.whitehouse.gov/sites/whitehouse.gov/files/ondcp/Fact_Sheets/FY2018-Budget-Highlights.pdf (accessed October 2, 2020).
59. Elinor McCance-Katz, Assistant Secretary for Mental Health and Substance Use, Substance Abuse and Mental Health Services Administration, U.S. Department of Health and Human Services; Deborah Houry, Director, National Center for Injury Prevention and Control, Centers for Disease Control and Prevention, HHS; Francis Collins, Director, National Institutes of Health, HHS; and Scott Gottlieb, Commissioner, Food and Drug Administration, HHS, "The Federal Response to the Opioid Crisis," written testimony to the Committee on Health, Education, Labor and Pensions, U.S. Senate, October 5, 2017, https://www.drugabuse.gov/about-nida/legislative-activities/testimony-to-congress/2017/the-federal-response-to-the-opioid-crisis (accessed October 2, 2020).

While these programs may increase access to treatment, there is little evidence of their effect on other outcomes. Most of these programs collect evidence on four performance metrics, including sobriety rates immediately after release from treatment, completion of the program, client interviews, and internal studies. None of these data sets will tell the public whether medium-term or long-term sobriety was achieved. The true measurement that Congress should set for these programs is whether sobriety (established, for instance, by clean drug tests) is maintained for a set period (12 months) after treatment.

- **Recidivism Reduction.** With the U.S. historical recidivism rate of nearly 50 percent and the possibility for a clear outcome metric, social programs that focus on recidivism should be a priority for reform according to the pay-for-outcomes model.[60] In early 2020, almost 2.3 million Americans, including approximately 52,000 minors, were incarcerated in federal, state, and local prisons and jails.[61] In FY 2015, the Department of Justice distributed $68 million in recidivism reduction grants.[62]

  Reducing recidivism is clearly a goal of many federal programs outside of those funded through the Department of Justice, and there is some evidence that mental health or substance abuse programs may have promise, but there is no updated, systematic evidence that these programs work at large.[63] "Across the country," according to a 2019 study, "government agencies and non-profit organizations operate a wide variety of programs designed to improve prisoner reentry outcomes. Though these programs are well-intentioned, few have undergone rigorous evaluation of their effects."[64]

60. Durose, Cooper, and Snyder, "Recidivism of Prisoners Released in 30 States in 2005: Patterns from 2005 to 2010."
61. Wendy Sawyer and Peter Wagner, "Mass Incarceration: The Whole Pie 2020," Prison Policy Initiative, March 24, 2020, https://www.prisonpolicy.org/reports/pie2020.html (accessed October 2, 2020).
62. Table B-2, "Authorized and Appropriated Funding for the Second Chance Act Grant Programs Administered by the Department of Justice, FY2009–FY2015," in Nathan James, "Offender Reentry: Correctional Statistics, Reintegration into the Community, and Recidivism," Congressional Research Service *Report for Members and Committees of Congress*, January 12, 2105, pp. 32–33, https://fas.org/sgp/crs/misc/RL34287.pdf (accessed October 2, 2020).
63. Executive Office of the President of the United States, Council of Economic Advisers, *Returns on Investment in Recidivism-Reducing Programs*, May 2018, https://www.whitehouse.gov/wp-content/uploads/2018/05/Returns-on-Investments-in-Recidivism-Reducing-Programs.pdf (accessed October 2, 2020).
64. Jennifer L. Doleac, "Wrap-Around Services Don't Improve Prisoner Reentry Outcomes," *Journal of Policy Analysis and Management*, Vol. 38, Issue 2 (Spring 2019), p. 508.

While Congress and administrators of these programs have relied heavily on evidence-based services that in some cases may deter reincarceration, a reformed recidivism program measurement would include payment based on whether the individual avoids reentry for from one to three years.

- **Federal Grants to Improve Self-Sufficiency.** The social program block grants that are currently distributed according to an open grant model—the Social Services Block Grant (SSBG), Community Services Block Grant (CSBG), and Community Development Block Grant (CDBG)—are clear examples of the need for action by Congress. As noted, these programs may have commendable goals, but they do not produce quantifiable results for their intended beneficiaries.

  Congress should separate and define the goals of these programs. In the SSBG, for instance, Congress would have to clarify the statutory goals. If the new goal was to provide for foster care, then that goal and the corresponding measurement should be defined. A new measurable goal could be a shorter time frame during which children remain in foster care without permanency.[65] Likewise, in the CSBG, Congress would have to define and measure goals—in this case whether an individual achieves self-sufficiency and no longer depends on key federal transfer programs. Finally, in the CDBG, Congress should limit funding to service providers who find permanent (at least 12 months) housing (ideally nongovernmental housing) for low-income families.

Conclusion

Social programs aim to open transformational pathways for vulnerable individuals. They seek to help the unemployed obtain meaningful work, the formerly incarcerated to be rehabilitated, and those trapped in addiction to be freed from dependence. They aspire to help low-income and vulnerable Americans build their capacity and truly improve their lives and well-being.

The federal government has made bold promises with good intentions, spending billions on social programs for individuals who are vulnerable to

65. Lynch, "Social Services Block Grant."

poverty and dependence on government safety-net programs to achieve self-sufficiency. But today's social programs are not succeeding, partly because the design of current programs does not hold service providers accountable for delivering the results that policymakers, the public, and—most importantly—program beneficiaries desire. The recipients of these services and their families deserve better, and simply expanding funding for current programs that lack the necessary accountability to deliver those desired results is wholly inadequate to the task.

Instead, federal policymakers should transform social programs by paying directly for positive outcomes. A pay-for-outcomes system built around clear principles would transform federal social programs by rewarding providers directly for clear and verifiable outcomes in the lives of vulnerable individuals. This model would deliver systemic change in social programs and finally deliver the results that policymakers seek and vulnerable individuals deserve.

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#18377

Pay for Success: The First 25

A Comparative Analysis of the First 25 Pay for Success Projects in the United States

A report by
Nonprofit Finance Fund®
May 2019

Nonprofit Finance Fund®

What We've Learned: A Foreword by Nonprofit Finance Fund

Eight years ago, as Nonprofit Finance Fund (NFF) and other pioneers set out to bring Pay for Success (PFS) to the United States, we couldn't predict how the field would develop, if the hype around a U.K. experiment was deserved, or what "success" would look like. But we knew that business-as-usual approaches to addressing entrenched social challenges weren't making enough progress, and that we needed to get better at funding what works.

Every day in our work, and often in our personal lives, we witness the incredible contributions of our social sector, and the great challenges that persist. NFFers are optimists, and pragmatists. We believe in doing the best we can under current conditions, while working to change the systems that govern progress. And that true innovation requires tolerance for risk, and learning from failure.

In this spirit, we've learned, led, partnered, invested, and helped evolve Pay for Success as a vanguard of the movement toward more effective social-sector funding. And in this report, we've aimed to analyze and distill—as dispassionately as possible—where the field is, and where it's going. But we are bound by no such rules of restraint in this foreword. Here's what we most want you to know from our experience:

- **PFS is an important tool for research and development.** Although one of the promises of Pay for Success was to replicate and scale what works, we now know that PFS projects are best used to help us to learn, "*What works here?*" The projects are not ends in and of themselves. They are a means to research and develop local solutions to local problems, bring community members together to define and address critical needs, and help government partners orient around outcomes.
- **PFS is not a magic fix for the systems change needed to achieve social progress, which is challenging and expensive work.** It has encouraged conversation around the often inefficient and unfair ways money flows; however, addressing widespread and historic underinvestment in the organizations we trust to solve our biggest problems is long past due.
- **We need more service providers and service recipients at the table, and at the table sooner.** One exciting element of Pay for Success has been its ability to amplify the voices of the service providers involved and to showcase their abilities as creative problem solvers. Another is the emergence of projects that involve service recipients in design and delivery. More needs to be done to listen to those stakeholders who are most capable of developing culturally competent solutions that fit the local context and have the highest likelihood of measurable success.
- **We need a new definition of success.** We've seen a project that never got off the ground change—dramatically for the better—the way a government paid local service providers, a direct result of PFS exploration. Yet PFS headlines often still focus on whether the investors got their money back. We need to make sure we consider lasting social progress and systems change when we talk about project success or failure, rather than just outcomes payments that were made. And that in touting results we don't inadvertently dismiss or ignore organizations whose powerful contributions to their communities can't easily be tracked or measured.

What is Pay for Success?

Pay for Success (PFS) is a movement toward getting better at doing good. PFS contracting ties payment for service delivery to the achievement of measurable progress and outcomes. An outcome is a longer-term (and hopefully positive) change over time; for example, a job training participant who finds and keeps a job, and gradually earns more money. Part of a broader shift toward "outcomes-based" or "results-based" funding, PFS offers innovative ways to address persistent social problems.

In PFS financing, strong service providers deliver high-quality programs designed to improve lives and prevent future problems. Typically, mission-driven investors cover the up-front costs of delivering these programs. If the predetermined goals are achieved, investors are repaid—typically, but not exclusively, by governments—with a return.

- **Scrutiny speeds systems change.** Contracts, large investments in both field building and the projects themselves, and the spotlight of innovation have helped PFS gain more traction than some other collective impact strategies. While the complexity of PFS projects has drawbacks, the high-stakes, high-scrutiny environment, where money and reputations are on the line in a very public and sometimes controversial way, have expedited delivery of critical services in many cases.

- **PFS "2.0" requires additional support.** New funding models, such as bonus payments, rate cards, and other innovative financial structures that build on what was learned through the first 25 projects need continued support. The Social Innovation Fund (SIF) played a critical role in encouraging the emergence of this field, as have key philanthropic supporters. Although federal interest continues in the form of the Social Impact Partnerships to Pay for Results Act (SIPPRA), it will not replace what SIF was able to accomplish through its significant funding of project development and knowledge sharing.

These are among the learnings we're applying as we support cross-sector, outcomes-oriented efforts to address critical social issues. What excites us most about the past eight years is that more high-quality, preventative services have reached people who can benefit from them, because of PFS programs. These demonstration projects are yielding results, information, and lessons that contribute to continuous improvement on the road toward lasting social change.

PFS reminds everyone that our work isn't about how many homeless people occupy a shelter, but about ending homelessness and keeping families in their homes. It's not about how many meals a nonprofit can serve, but how we can improve food security and end hunger in our communities. It's not about how many job trainings we can deliver, but how we can better extend educational and economic opportunities to all.

We've witnessed the power of stakeholders coming to the same table in shared pursuit of better results for people and communities, and are proud to stand beside so many others working toward a more just and vibrant society.

–NFF's Pay for Success Team

This report builds on NFF research and analysis previously published in "Pay for Success: The First Generation," NFF, 2016, *and in the book "Payment by Results and Social Impact Bonds," Policy Press at the University of Bristol, 2018. Our publications pull from contracts, other publicly available documents, interviews with stakeholders, and observations gleaned through our more than eight years of experience as a PFS field builder and market developer, grant administrator, and investor. This version considers the 25 PFS projects that have launched in the United States as of October 2018.*

Nonprofit Finance Fund® (NFF®) brings financing, consulting, partnership and knowledge to where it's needed most for social good. As a Community Development Financial Institution with more than 35 years of experience financing mission-driven organizations, NFF is committed to improving the financial health of nonprofits so that they can sustainably deliver high-quality services to enhance lives and communities across the Unites States. A field builder in the outcomes-based funding movement, NFF helps service providers, investors, and governments adapt to a U.S. social sector where providing and accessing capital is increasingly tied to the achievement of meaningful and measurable outcomes. NFF's work in PFS has included building and running the Pay for Success Learning Hub, **www.payforsuccess.org**, the leading national repository for education and information on Pay for Success. NFF has also intermediated philanthropic and federal grant funds to support the exploration and development of more than 30 PFS projects and has invested in four PFS projects. NFF has conducted more than 250 PFS trainings, presentations, webinars, workshops, and convenings across the country for service providers, governments, and investors.

- **Pace of market development:** As of October 2018, 25 Pay for Success (PFS) projects have launched in the United States, one in pilot phase. These projects are the fruits of PFS activity by early pioneers of the model who started exploring its use as early as 2011. The project development timeline is about two years, on average. After a flurry of activity near the end of 2014, 2015 was a slow year, with only one new project launched. Catalytic investments in project feasibility assessment and transaction structuring by government and philanthropic sources resulted in an increase of new project launches in more recent years. The passage of the bipartisan Social Impact Partnerships to Pay for Results Act (SIPPRA), inclusive of $92 million managed by the Federal Department of Treasury, is anticipated to continue to support new project launches over coming years.

- **Leading issue areas:** Projects to date have clustered in three issue areas: criminal justice and recidivism; homelessness; and early childhood education and well-being. This reflects several characteristics of the PFS model as it was originally framed: to provide up-front sources of capital to fund preventive or early intervention services with the potential to interrupt entrenched cycles of negative social and economic outcomes, and by doing so, realize cost savings to the public sector. Recidivism and homelessness have emerged as leading PFS issue areas because of the high costs associated with frequent and repetitive use of jail, prison, emergency rooms, and shelters, and baseline outcomes which are bad enough that even marginal change would be notable. Certain early childhood education interventions are widely recognized to have demonstrated long-term impact on a range of educational and social outcomes.

- **Project motivation:** Project participants pursue PFS to reconcile and negotiate differing motivations for a common goal. For service providers, the initial draw to PFS is often the opportunity to access multi-year funding—a powerful alternative to the cycle of annual or biannual contract negotiations with funders. For government, cost savings and avoided costs are a powerful motivation to pursue PFS. Both service providers and government see PFS as an opportunity to effect greater change in how government buys, or procures, social services. For example, Center for Employment Opportunities—the service provider in New York's Increasing Employment and Improving Public Safety project—hopes that PFS will lead to a pay-for-performance contract with the state that covers its full cost of services; the PFS experience is a chance to pilot this arrangement and demonstrate its value to state partners. Santa Clara County has been explicit that its chronic homelessness project may not achieve savings over the course of the project term. Nonetheless, the county recognizes that achieving stability and improved health for the chronically homeless population is valuable, and more important, the project may demonstrate that the permanent supportive housing model is more effective than the status quo of services the county provides.

- **Public policy:** As the market has developed, constituencies look to PFS projects as a response to increasing national attention to the persistent issues of income inequality, affordable housing crises, criminal justice reform, and calls for more effective and sustainable solutions. Enabling legislation, such as the Affordable Care Act; Maternal, Infant, and Early Childhood Home Visiting (MIECHV) act; the Workforce Innovation and Opportunity Act (WIOA); the Every Student Succeeds Act (ESSA); and the Family First Prevention Services Act (FFPSA), has driven the exploration of applying the model to new issue areas such as health and workforce development.

- **Project size:** There is great variation in the size of PFS projects, both by number of individuals served, and size of investment raised. Nevertheless, there is emerging consensus that transaction costs should be proportionate to project size. Typically, somewhere between $5 and $10 million is an appropriate minimum threshold for a PFS project, given both the relatively high transaction costs and the interest of investors (particularly commercial ones) in larger investment opportunities. With a growth in expertise by transaction coordinators and more standardization of contracting, both of which help limit transaction costs, there has been exploration of smaller projects. However, the already relatively small size of most projects in terms of numbers of individuals served has led some observers to question whether or not PFS is capable of addressing the issues at scale, a challenge endemic to many social service interventions.

- **Early results:** At the time of publication, five projects have released public results. Success can be viewed in a variety of ways: by achieving agreed-upon payment metrics, by individual client outcomes, and by service improvement. Four of these five projects have achieved success by all three standards. The exception is the NYC ABLE Project for Incarcerated Youth, which announced in July 2015 that after three years of service delivery, the evaluation of the first cohort of youth served at Rikers Island jail showed no difference from historical data in the rates of recidivism over the two-year period following enrollment in the PFS-funded program. However, important lessons learned in clients served, service improvement, and PFS contracting have had lasting impacts on market development. In addition, many consider that the financing model worked as designed in that investors, not taxpayers, shouldered the financial risk.

- **Model innovation:** Building on the results and lessons learned from pioneering projects, the field has innovated in a number of ways. These adaptations vary and can include using earlier interim payment metrics based on indicators of success (such as measuring initial days in stable housing on the way to longer-term reductions in homelessness) or process measures (such as a “warm” handoff between providers that successfully transitions a client from an outpatient detox facility to a sober living community) to new financing and contractual solutions that align the often shifting priorities of a diverse set of stakeholders. These new solutions include bonus payment structures, rate cards, and a push toward broader reform of how governments procure services.

Table 1: Market Overview

	Year launched	Service delivery term (years)	Motivation for project	Project objective(s)	Individuals served	Geography	Issue area	Initial investment ($ millions) [Note 2]
NYC ABLE Project for Incarcerated Youth	2012	4 (projected); 3 (actual) [Note 1]	Nearly half of all adolescents incarcerated at Rikers Island jail will return within one year of being discharged.	Reduce recidivism by at least 10%	17,287 (projected); 4,000 (actual)	New York City, NY	Recidivism	$9.6
Utah High Quality Preschool Program	2013	5	Children from low-income families have limited access to high-quality early childhood education.	Increase school readiness and academic performance; Reduce the need for special education services	3,500	Salt Lake County, UT	Early childhood education	$7
New York Increasing Employment and Improving Public Safety	2013	4	44% of formerly incarcerated individuals who are under community supervision and without employment return to prison within two years.	Support 2,000 high-risk recent offenders in New York State transition back to the community through reentry transitional employment services aimed at increasing unsubsidized employment and reducing recidivism.	2,000	New York City and Rochester, NY	Recidivism	$13.5
Massachusetts Juvenile Justice PFS Initiative	2014	7	55% of young adults who age out of juvenile justice system or are on probation will return to prison at least once within three years. Only 30% are employed within one year of their release from prison or jail.	Reduce incarceration by 40%; Increase job readiness and employment	929	Boston, Chelsea and Springfield, MA	Recidivism	$21.7
Chicago Child-Parent Center Pay for Success Initiative	2014	4	Chicago Public Schools serving low-income families have a shortage of publicly funded, high-quality pre-kindergarten seats available.	Increase school readiness and academic performance; Reduce the need for special education services	2,620	Chicago, IL	Early childhood education	$16.7
Cuyahoga Partnering for Family Success Program	2014	4	Children of families who struggle with homelessness experience longer stays in foster care.	Reduce the length of stay in foster care and achieve permanency and/or family reunification	135 caregivers and their families	Cuyahoga County, OH	Child welfare	$4
Massachusetts Chronic Homelessness Pay for Success Initiative	2014	6	1,500 chronically homeless people in Massachusetts lack access to stable housing and are high-cost users of temporary shelters, Medicaid and other emergency services.	Provide 500 units of stable supportive housing for up to 800 chronically homeless individuals	800	Commonwealth of MA	Homelessness	$3.5
Santa Clara Project Welcome Home	2015	6	More than 2,200 chronically homeless individuals in Santa Clara County lack access to stable housing and long-term supportive services.	End homelessness, increase stability and improve health by achieving 12 months of housing stability	150-200	Santa Clara County, CA	Homelessness	$6.9
Denver Housing to Health Initiative	2016	5	The city of Denver spends $7 million annually on emergency and criminal justice services for 250 chronically homeless people who lack access to affordable housing and supportive services.	Achieve housing stability; Decrease jail bed days; Access to affordable housing and supportive services	250	Denver, CO	Homelessness	$8.7
South Carolina Nurse Family Partnership	2016	6	27% of children in South Carolina live in poverty, which can be harmful to a child's cognitive development, health, school performance, and social and emotional well-being.	Support the health and development of first-time mothers and their children; Build a pathway to sustainability for NFP in South Carolina; Evaluate effectiveness of efficiencies in NFP model	3,200 mothers and their children	South Carolina	Maternal and child health	$17

Table 1: Market Overview

	Year launched	Service delivery term (years)	Motivation for project	Project objective(s)	Individuals served	Geography	Issue area	Initial investment ($ millions)
Connecticut Family Stability Project	2016	4	The Connecticut Department of Children and Families (DCF) spends more than $600 million each year to address child abuse and neglect. In 2013, more than 50% of all cases investigated by DCF have an indication of parental substance use.	Promote family stability and reduce parental substance use for DCF-involved families	500 families	Connecticut	Early childhood	$11.2
Michigan Strong Beginnings	2016	7	Disparities in maternal-child health outcomes between African American and Latina "high risk" women and white women	Provide intervention services and decrease occurrence of preterm births and rapid repeat pregnancies in targeted populations; Provide pathway for scaling the impacts	1700 pregnant women, 1700 infants, 1000 interconception women	Grand Rapids, MI	Maternal and child health	$2.5
DC Water Environmental Impact Bond	2016	4.5	When the DC sewer system receives too much stormwater and overflows, a combination of the stormwater and sewage bypasses treatment plants, allowing wastewater to flow directly into local rivers and causing water quality and environmental issues for residents.	Control stormwater runoff and improve the District's water quality by reducing the incidence and volume of combined sewer overflows that pollute the District's waterways	n/a	Washington, DC	Environment	$25
Santa Clara County Partners in Wellness	2017	6	In Santa Clara County, a small subset of severely mentally ill residents frequently cycle in and out of the county's psychiatric emergency room and inpatient facility. These individuals are also at risk for homelessness, incarceration, and extended psychiatric hospitalizations.	Reduce utilization of costly county emergency, inpatient, and contracted psychiatric services and jail days; Improve or maintain health and wellness	250	Santa Clara County, CA	Mental health	$11.2 [Note 3]
Massachusetts Pathways to Economic Advancement	2017	3	With approximately 200,000 known adult English language learners in greater Boston, at least 16,000 are on service provider waitlists for English classes. Furthermore, current services lack a workforce component—few programs help individuals improve English and transition to either employment or higher earnings.	Support 2,000 adult English language learners who are seeking to transition to employment, higher wage jobs, and/or higher education	2,000	Greater Boston, MA	Workforce	$12.43
Salt Lake County Homes Not Jail	2017	5	There is a lack of viable interventions to help the persistently homeless population in Salt Lake County, with $52 million being spent on the homelessness service system. There are over 1,000 of these individuals annually in the county, spending at least 3 months in emergency shelters or booked into the county jail.	Offer 315 individuals rapid re-housing and a range of housing assistance and support services—including access to behavioral health treatment and employment counseling—to improve housing stability, criminal justice and behavioral health outcomes	315	Salt Lake County, UT	Homelessness	$11.5 (between two projects) [Note 4]
Salt Lake County REACH	2017	5	74% of high-risk offenders in Salt Lake County return to the criminal justice system within 4 years and on average spend over a year incarcerated during that time. Incarceration alone is not a solution. It is costly and the county jail already operates at full capacity. Additionally, the problem is worsening: over the past decade, Utah's prison population has grown by 18%.	Provide risk-need informed behavioral health treatment, housing, and case management services to 225 formerly incarcerated adult males in order to lower the rate of recidivism and help these individuals recover stable lives	225	Salt Lake County, UT	Recidivism	$11.5 (between two projects) [Note 4]

Table 1: Market Overview

	Year launched	Service delivery term (years)	Motivation for project	Project objective(s)	Individuals served	Geography	Issue area	Initial investment ($ millions)
Los Angeles County Just-In-Reach	2017	4	PFS financing provides a new platform to share the incredible systems change story of LA County while strengthening public-private partnerships that produce measurable positive impact. In addition, the county is interested in exploring performance-based contracting beyond PFS.	Create 300 supportive housing slots for individuals with histories of homelessness and involvement with the LA County criminal justice system. This will result in improved outcomes for participants—namely, reduced jail recidivism, increased housing stability, and reductions in net costs to public systems.	300	Los Angeles County	Homelessness; Recidivism	$10
Oklahoma Women in Recovery Project	2017	5 (1 year contract with annual renewal option)	Oklahoma has the highest rate of female incarceration in the nation, and it continues to rise.	Reduce the number of women sent to prison from Tulsa County	625	Tulsa, Oklahoma	Criminal justice	$10
Ventura County Project to Support Reentry	2017	4	Nearly 300,000 offenders are on probation in CA and recidivism rates remain high with more than two-thirds of those released from prison returning within 3 years	Reduce recidivism, improve public safely, and promote family stability for residents throughout Ventura County	400	Ventura County, CA	Criminal justice	$2.59
Alameda County Justice Restoration Project	2018	1.5	Low-level felony offenders in the county of Alameda that commit non-violent/sexual/serious crimes are re-arrested over 2/3 of the time within 2 years of release from custody.	The Alameda County District Attorney is pioneering ACJRP to demonstrate that community-based justice initiatives led by a Life Coach with lived experiences, when integrated with existing county programs, can meaningfully improve recidivism and self sufficiency outcomes	174	Alameda County, CA	Criminal justice	$1.19
Northern Virginia	2018	6 (3 enrollment years)	The project was crafted to explore outcomes oriented contracting, leveraging federal dollars through the Pay for Performance (P4P) funds in the Workforce Innovation and Opportunity Act (WIOA).	Incentivize outreach and service delivery to hard-to-reach populations in Northern Virginia through potential bonus payments	100	Northern Virginia	Workforce	
Maternal, Infant, and Early Childhood Home Visiting Outcomes Rate Card Pilot	2018	2	Move CT Office of Early Childhood (OEC) programs toward a performance orientation for early childhood services.	Through additive bonus payments, pay for important home visiting outcomes, improve data collection and reporting on key outcomes, and focus on two-generational impacts	1300 families	Connecticut	Maternal and child health	n/a
Blood Bank of Delmarva Young Blood Sustainability Project	2018	3 [Note 5]	To increase the number of young people donating blood, and to demonstrate the Pay for Success model for the state General Assembly	Increase blood donations from donors <35 years old; Maintain low rate of imported blood units		Delaware [Note 6]	Health	$0.45
Veterans CARE	2018	3	Up to 20% of veterans from recent tours of duty have PTSD, which can negatively impact sustained employment.	Support unemployed or underemployed veterans with post-traumatic stress disorder (PTSD) in attaining competitive, compatible employment	480	Massachusetts and New York City	Workforce	$5.1

Table 1: Notes

1 The NYC ABLE project was designed as a four-year project, but gave the investor the option to continue funding for the fourth year based on results for the first year of participants after a two-year evaluation period. This interim evaluation demonstrated no impact on recidivism, so the program was ended after the third year of service delivery.

2 This category captures the initial private investment raised to support the project that has the potential to be repaid if the project achieves its pre-determined outcomes. Many projects, particularly those in the supportive housing and health arenas, leverage existing public resources, such as subsidized housing and health insurance, to achieve program impact; the value of these resources is not included in these dollar values but are discussed in more detail in Sections 7, 8, and 9 of this report.

3 Represents PFS contract expenses that will be paid by the county to Telecare (service provider) if project achieves its target level of success across the six-year service delivery term.

4 The Salt Lake County Homes Not Jail and REACH programs are part of a single initiative that is pioneering a model to combine Pay for Success projects.

5 Three years of service delivery plus one year of bloodmobile outfitting

6 Delmarva service region

- **Roles can be flexible.** The responsibilities of each role in a PFS transaction can be held by a single organization, but increasingly are being held by several organizations working together. For example, the intermediary role is often shared by more than one organization covering three responsibilities: transaction coordinator, project manager, and fiscal agent. The outcomes payor—often a governor's office or county executive office—frequently has a complementary outcomes payor administrator in a government budgetary department. Increasingly, pools of providers, not a single organization, provide services. Legal support is often retained by multiple parties. And in some cases, responsibilities are shifted from one role to another. For example, the service provider may take on responsibilities of the intermediary, as is the case in Project Welcome Home where Abode Services is both service provider and project manager.

- **The PFS intermediary role has become segregated into three primary responsibilities: transaction coordinator, project manager, and fiscal agent.** Transaction coordinators conduct feasibility studies to determine the appropriate PFS model for a particular issue area, organization, or geography, then develop and structure the project prior to implementation. Development can include: timeline and organizational management; stakeholder engagement; definition and valuation of target outcomes and success payments; structuring and raising investment capital; development and negotiation of project contracts and investment agreements; and development of program operational plans and repayment schedules. Project managers are responsible for reporting to both the investor(s) and the payor(s), and play a leadership role in convening the committees and working groups that make up the project's governance and monitoring structure. Some project managers also play an active role in performance management. For example, in the New York State Increasing Public Safety and Employment Project, Social Finance US meets with the service provider and the parole bureau on a regular basis to review key program outputs, such as referrals and enrollments, and identifies and supports implementation of possible course corrections. The fiscal agent is the lead contractor with the payor and contracts directly with the other parties providing services or funding to the PFS project. Social Finance US, Third Sector Capital Partners, Quantified Ventures, and Sorenson Impact Center have developed their business models around filling PFS intermediary roles. In addition, Community Development Financial Institutions (Enterprise, CSH, IFF, and LISC), a research and evaluation organization (MDRC), service providers (Abode Services) and philanthropy (United Way and the Community Foundation of Utah) have held some of these responsibilities.

- **Technical assistance is a critical support to project development and implementation.** In addition to the responsibilities of being a PFS intermediary, some intermediary organizations such as Social Finance and Third Sector Capital Partners provide substantial technical assistance to governments and service providers during project development and implementation. The Government Performance Lab (formerly the Harvard Kennedy School SIB Lab) offers further assistance by embedding a full-time staffer within government to provide expertise on the PFS model, as well as added capacity for data analysis, project design, and evaluation. Government Performance Lab fellows also coordinate day-to-day activity during project development, providing critical focus and expertise in capacity-constrained environments.

- **While alternatives have been explored, state or county government usually acts as the payor at the end of a project service delivery period.** The outcomes payor role has been filled by private philanthropy during pilot periods, such as United Way of Salt Lake and Pritzker Foundation in the Utah High Quality Preschool Program. There has been interest in pursuing health systems—both hospitals and Medicare advantage plans—as payors; however, no projects to date feature health industry payors. All projects launched to date feature government outcomes payors. In many cases, the funds are a combination of dollars originating at various levels of government that flow through local or state offices. For example, federal government funds played a catalytic role in two early projects: the New York State Increasing Public Safety and Employment Project, and the Commonwealth of Massachusetts Juvenile Justice PFS Program. In both cases, the state received grant funds through the Workforce Innovation Fund, a competitive process sponsored by the U. S. Department of Labor to incentivize the use of PFS to address the related issues of recidivism and unemployment. Grant funds received through this process are being used in whole or part to fund outcome payments, in combination with resources committed by the states themselves. This model of leveraging funds from various levels of government through a local office has continued with the Department of Justice (DOJ) and Housing and Urban Development (HUD) releasing an RFP for $8.7 million to be used for project development and outcomes payments; one of nine recipients, the Los Angeles Just-in-Reach project, is currently leveraging these federal funds as back-end payments. This model was also implemented at the state level in California with the passage of AB 1837, the Social Innovation Financing Program enacted by the Board of State and Community Corrections. The bill enabled grants from the Recidivism Reduction Fund to three counties—Los Angeles, Ventura, and Alameda—for the purpose of entering into a Pay for Success contract.

- **The outcomes payor often has a separate but complementary outcomes payor administrator.** During project development, it's critical to get buy-in from both agencies to ensure strong project development and management. For example, in the Ventura County Project to Support Reentry, the outcomes payments are managed by the County Executive Office; however, the day-to-day project referrals and management are administered by Ventura County Probation. In the Massachusetts Chronic Homelessness Pay for Success Initiative, the Commonwealth of Massachusetts is the outcomes payor, whereas the outcomes payor administrator is the office of budget and management. While the outcomes payor is typically led by a high-level official who is key to building momentum for the project, the outcomes payor administrator is the office that will make the day-to-day decisions and be responsible for ensuring the project actually succeeds in implementation.

- **There is a growing consensus to involve the project evaluator as early as possible in the program design process.** An initial assessment of a program's evaluability, or its ability to be tied to a set of outcomes which can be observed in a reasonable period of time, is often part of the feasibility assessment phase of project development. Projects which are not evaluable, for reasons of complexity, correlation, or lack of obvious concrete and measurable outcomes, are not a likely fit for PFS financing. Early engagement of an evaluator in program design comes at a cost, which adds to the overall cost of the project development process. In 2016, the Urban Institute started providing in-kind support for early evaluation work to PFS projects under development, through a grant from the Laura and John Arnold Foundation. Local and regional universities and research centers have also been important in evaluation design.

Table 2: Project Partners

	Service provider(s) [Note 1]	Payor(s) [Note 2]	Outcomes payor administrator [Note 3]	Transaction coordinator(s) [Note 4]	Project manager [Note 5]	Fiscal intermediary [Note 6]	Evaluator [Note 7]	Validator [Note8]	External legal counsel [Note 9]	Technical assistance provider(s) [Note 10]
NYC ABLE Project for Incarcerated Youth	Friends of Island Academy; The Osbourne Association	New York City Department of Corrections	New York City Department of Corrections	MDRC	MDRC	MDRC	Vera Institute of Justice	None	Debevoise	MDRC; Correctional Counseling, Inc.
Utah High Quality Preschool Program	Granite School District; Park City School District; Guadalupe School; YMCA of Northern Utah; Children's Express; Lit'l Scholars	United Way of Salt Lake; Salt Lake County (cohort 1)/ State of Utah (cohorts 2-5)		United Way of Salt Lake	United Way of Salt Lake	United Way of Salt Lake	Utah State University	None	Holland & Hart LLP; Mannatt	Voices for Utah Children; Granite School District
New York Increasing Employment and Improving Public Safety	Center for Employment Opportunities	New York State Department of Labor; US Department of Labor [Note 11]	New York Department of Labor	Social Finance	Social Finance	Social Finance	NYS DOCCS Research; NYS DOL Research	Mike Puma Associates, LLC (formerly Chesapeake Research Associates)	Jones Day	Harvard Kennedy School Government Performance Lab
Massachusetts Juvenile Justice PFS Initiative	Roca Inc.	Commonwealth of Massachusetts; US Department of Labor [Note 11]		Third Sector Capital Partners	Third Sector Capital Partners	Third Sector Capital Partners	Sibalytics LLC; The Urban Institute	Public Consulting Group	Goulston & Storrs P.C.; Nixon Peabody LLC; Goodwin Procter LLC; Ropes & Gray LLC	Government Performance Lab; Chapin Hall
Chicago Child-Parent Center Pay for Success Initiative	Chicago Public Schools Child-Parent Center	City of Chicago; Board of Education of City of Chicago [Note 12]		IFF	IFF	IFF	SRI International	None	Kirkland & Ellis LLP; DLA Piper; Chapman and Culler LLP	Government Performance Lab; Metropolitan Family Services
Cuyahoga Partnering for Family Success Program	FrontLine	Cuyahoga County, Ohio		Third Sector Capital Partners	Enterprise Community Partners	Third Sector Capital Partners	Case Western Reserve University	None	Kutak Rock	University of Maryland; Third Sector Capital Partners
Massachusetts Chronic Homelessness Pay for Success Initiative	Massachusetts Housing and Shelter Alliance [Note 13]	Commonwealth of Massachusetts		Massachusetts Housing and Shelter Alliance; CSH; United Way of Massachusetts Bay and Merrimack Valley	Massachusetts Alliance for Supportive Housing [Note 14]	Massachusetts Housing and Shelter Alliance; CSH; United Way of Massachusetts Bay and Merrimack Valley	Root Cause Institute	None	Nixon Peabody LLC; Goulston & Storrs; Weil, Gotshal & Manges LLP	Government Performance Lab; CSH
Santa Clara Project Welcome Home	Abode Services	Santa Clara County, California		Third Sector Capital Partners	None	Third Sector Capital Partners	University of California, San Francisco School of Medicine	None	Fenwick & West LLP; Gibson, Dunn & Crutcher LLP; Miles & Stockbridge P.C.	Third Sector Capital Partners; Palantir Technologies

Table 2: Project Partners

	Service provider(s)	Payor(s)	Outcomes payor administrator	Transaction coordinator(s)	Project manager	Fiscal intermediary	Evaluator	Validator	External legal counsel	Technical assistance provider(s)
Denver Housing to Health Initiative	Colorado Coalition for the Homeless; Mental Health Center of Denver	City/County of Denver, Colorado		Enterprise Community Partners; CSH; Social Impact Solutions, Inc.	CSH	Enterprise Community Partners	Urban Institute	TBD	Kutak Rock	Government Performance Lab
South Carolina Nurse Family Partnership	Nurse-Family Partnership [Note 15]	South Carolina Department of Health and Human Services	South Carolina Department of Health and Human Services	Social Finance	Social Finance	Children's Trust of South Carolina [Note 16]	J-PAL North America	None	Wilmer Hale; Nelson Mullins; Riley & Scarborough LLP	Harvard Kennedy School Government Performance Lab
Connecticut Family Stability Project	Family-Based Recovery Services (hosted at Yale Child Center) [Note 17]	Connecticut Department of Children and Families	Connecticut Department of Children and Families	Social Finance	Social Finance	Social Finance	UConn Health	None	Jones Day	Harvard Kennedy School Government Performance Lab
DC Water Environmental Impact Bond	Anchor Construction	DC Water	DC Water	Quantified Ventures	DC Water	Quantified Ventures	DC Water	DC Water	Squire Patton Boggs LLP; Orrick, Herrington & Sutcliffe LLP	Government Performance Lab; Public Financial Management, Inc.
Santa Clara County Partners in Wellness	Telecare Corporation	Santa Clara County, California		Third Sector Capital Partners	None	Third Sector Capital Partners	Stanford University, Department of Psychiatry and Behavioral Sciences	None	Fenwick & West LLP	Palantir Technologies
Massachusetts Pathways to Economic Advancement	Jewish Vocational Service	Commonwealth of Massachusetts	Massachusetts Executive Office of Administration and Finance	Social Finance	Social Finance	Social Finance	Economic Mobility Corporation	None	Morgan, Lewis & Bockius	Jobs for the Future
Salt Lake County Homes Not Jail	The Road Home	Salt Lake County, Utah		Third Sector Capital Partners	Sorenson Impact Center	Community Foundation of Utah	The University of Utah Criminal Justice Center	None	Dorsey & Whitney, LLP	None
Salt Lake County REACH	First Step House	Salt Lake County, Utah		Third Sector Capital Partners	Sorenson Impact Center	Community Foundation of Utah	The University of Utah Criminal Justice Center	None	Dorsey & Whitney, LLP	None
Los Angeles County Just-In-Reach	Los Angeles County Department of Health Services Intensive Case Management Providers [Note 18]; Brilliant Corners [Note 19]	Los Angeles County; U.S. Department of Housing & Urban Development; California Board of State and Community Corrections	LAC DHS Office of Diversion and Reentry	CSH	CSH; National Council on Crime & Delinquency	CSH	RAND Corporation	RAND Corporation	Gibson, Dunn & Crutcher	Third Sector Capital Partners; CSH

Table 2: Project Partners

	Service provider(s)	Payor(s)	Outcomes payor administrator	Transaction coordinator(s)	Project manager	Fiscal intermediary	Evaluator	Validator	External legal counsel	Technical assistance provider(s)
Oklahoma Women in Recovery Project	Family & Children's Services (F&CS)	State of Oklahoma Office of Management and Enterprise Services (OMES)	State of Oklahoma Office of Management and Enterprise Services (OMES)	George Kaiser Family Foundation; F&CS; OMES	None	George Kaiser Family Foundation; F&CS; OMES	OMES	OMES	None	Social Finance; BKD
Ventura County Project to Support Reentry	Interface Children & Family Services	Ventura County & California Board of State and Community Corrections [Note 20]	Ventura County Executive Office	Social Finance	Social Finance	Social Finance	UCLA	None	Jones Day	None
Alameda County Justice Restoration Project (ACJRP)	La Familia Counseling Services	California Board of State and Community Corrections & the County of Alameda	Alameda County District Attorney's Office	Third Sector Capital Partners	Third Sector Capital Partners	Building Opportunities for Self-Sufficiency (BOSS)	WestEd	None	Nixon Peabody LLP	Third Sector Capital Partners; Harvard Government Performance Lab
Michigan Strong Beginnings	Strong Beginnings	Michigan Department of Health and Human Services	Michigan Department of Health and Human Services	IFF	IFF	IFF/Spectrum Health	Michigan State University	University of Michigan		Harvard Kennedy School Government Performance Lab
Northern Virginia	Department of Family Services	Skillsource through WIOA funds	n/a	Third Sector Capital Partners	SkillSource	n/a		Third Sector Capital Partner		Third Sector Capital Partner
Maternal, Infant, and Early Childhood Home Visiting Outcomes Rate Card Pilot	22 service providers delivering Parents as Teachers (13), Nurse-Family Partnership (1), Early Head Start (1), and Child First (7)	Connecticut Office of Early Childhood; Hartford Foundation for Public Giving	Connecticut Office of Early Childhood	Social Finance	Social Finance	n/a	n/a	n/a	n/a	Social Finance
Blood Bank of Delmarva Young Blood Sustainability Project	Blood Bank of Delmarva	Longwood Foundation	n/a	Social Finance	New York Blood Center	Delaware Community Foundation	New York Blood Center	None	n/a	Social Finance
Veterans CARE	Tuscaloosa VA Medical Center, in partnership with local VA Medical Centers in New York and Massachusetts	U.S. Department of Veterans Affairs, Corporation for National and Community Service's Social Innovation Fund, Commonwealth of Massachusetts, City of Boston	Social Finance	Social Finance	Social Finance	Social Finance	Westat	None	Jones Day	None

Table 2: Notes

1 Delivers program interventions to target population over the course of the PFS contract

2 Makes payments when pre-determined outcomes have been met

3 Facilitates and manages the program for the Outcomes Payor

4 Roles and responsibilities may include: design and structure of PFS project and financing model; capital raise; stakeholder management

5 Intermediary during service delivery phase providing on-going performance management and technical assistance

6 Manages cash flows and contracts for the project

7 Designs and implements plan for determining whether outcomes have been met

8 Verifies accuracy of data used in evaluation plan, or evaluation plan itself

9 Provides assistance in drafting, reviewing and negotiating PFS contracts

10 Provides support and expertise to project stakeholders in the project development and/or project implementation phases

11 Both New York State and the Commonwealth of Massachusetts were the recipients of grant funds from the United States Department of Labor, awarded through a competitive process through the Workforce Innovation Fund. Grant funds received through this process are being used in whole or part to fund outcome payments, in combination with resources committed by the states themselves. In both cases, the PFS contract is held by the state, so the federal agency is not the payor of record.

12 The City of Chicago and the Board of Education of the City of Chicago (Chicago Public Schools) are both payors but are paying for different success outcomes. City of Chicago is paying for outcomes related to kindergarten readiness and third-grade literacy, while Chicago Public Schools is paying for an outcome related to avoided special education costs.

13 Massachusetts Housing and Shelter Alliance is the lead service provider, responsible for contracting with a number of its member organizations for PFS project implementation. Organizations eligible to participate are named in the contract with the Commonwealth of Massachusetts and include: Action, Inc.; Boston Public Health Commission; Commonwealth Land Trust, Inc.; Eliot Human Services; Father Bill's & Mainspring; Friends of the Homeless; Heading Home, Inc.; Hearth, Inc.; HomeStart, Inc.; Housing Assistance Corporation/Duffy Health Center; Lynn Shelter Association; Mental Health Associates; Pine Street Inn; and South Middlesex Opportunity Council.

14 Massachusetts Alliance for Supportive Housing (MASH) is a wholly-owned subsidiary of the Massachusetts Housing and Shelter Alliance with its own staff and governance board. MASH contracts with the United Way of Massachusetts Bay and Merrimack Valley as the fiscal agent for the project and CSH as the technical assistance provider; both organizations are members of MASH.

15 Implementing agencies for the South Carolina project are: Spartanburg Regional Health Care System; Greenville Health System; Carolina Health Centers, Inc.; SC DHEC Low Country Region; SC DHEC Pee Dee Region; SC DHEC Midlands Region; SC DHEC Upstate Region; McLeod Home Health; SC Office of Rural Health Orangeburg Healthy Start.

16 The Children's Trust Fund of South Carolina is the fiscal agent for the project.

17 In addition to Yale Child Study Center, Family Based Recovery teams will be managed at three different local community health centers: United Child and Family Services, Community Mental Health Affiliates, and Community Health Resources.

18 The Los Angeles County Department of Health Services Intensive Case Management Providers include the Amity Foundation, The People Concern (formerly LAMP), SSG-HOPICS (Project 180), and Volunteers of America Los Angeles.

19 Brilliant Corners is the Flexible Housing Subsidy Pool operator.

20 Ventura County was the recipient of grant funds from the California Board of State and Community Corrections, awarded through a competitive process through the agency's Social Innovation Financing Program. Grant funds received through this process are being used in whole or part to fund outcome payments.

- **Pay for Success is often used to test the effect of a program and build the evidence base for intervention models.** Even the most studied social service interventions—such as permanent supportive housing and in-home visiting—do not have more than a handful of rigorous experimental evaluations. Given the scarcity of studies on social programs, having rigorous, local evaluation data as a qualifying factor to developing projects and selecting partners would exclude most service providers and programs from participating in PFS projects. Most projects rely on evidence of similar services in different locations, or related results generated by participating service providers that increase the likelihood of success. Thirteen of 25 projects identify as demonstrating the effect of a new program model or combination of services, where no direct evidence of efficacy is available in the design stage, using Pay for Success as an opportunity to rectify this evidence gap. Other early supporters of PFS have taken a more direct approach to build the evidence base. For example, the Laura and John Arnold Foundation has provided grant funding for low-cost randomized control trials.

- **PFS projects can demonstrate the effectiveness of programs when transplanting interventions to new areas or scale ideas that work.** There was an early debate about whether PFS was most appropriate as a tool to scale and transplant proven models, or to adapt services to new settings. Ultimately, all PFS projects are demonstrations, either of the effectiveness of the intervention as a whole (demonstrating), the effectiveness of the intervention in a new location (transplanting), or the effectiveness of the intervention to operate at scale (scaling). Transplanting what are considered best or promising practices from other locations and target populations speaks to an early appetite in the social and public sectors to replicate and refine existing programs instead of designing new ones. The most notable example of this is the NYC ABLE Project for Incarcerated Youth, the first-ever PFS project in the United States. This project introduced a therapeutic intervention to juvenile offenders held at Rikers Island jail; previously, there were no therapeutic services available to this population while in jail. The intervention, a type of cognitive behavioral therapy called moral reconation therapy (MRT), had been used and studied with other demographics and in other settings. However, 10 of the next five projects were used to introduce or adapt services to new settings. This reflects a growing understanding of the use of evidence and evaluation in the field. Transplanting and/or rapidly scaling an evidence-based intervention into a new, challenging, or untested environment, or with a target population that differs from other tests of the intervention, creates an environment of high implementation risk.

- **PFS projects can break down silos in program design and funding.** In 13 projects, a PFS model allowed for flexibility in designing and delivering services in ways that standard government contracts do not usually allow. Government programs and funding are often siloed and programs need to be cost-effective solutions for the department that pays for them, which may not best serve clients. This problem is known as the "wrong pockets problem." For example, permanent supportive housing for the chronically homeless is often paid for and managed by a county director of human services, while the cost savings often accrue to the sheriff's budget when the intervention is successful in keeping individuals out of jails. This conflict often hinders important services from getting start-up funding. PFS breaks down these silos and takes a holistic view of an intervention's impact across departments.

- **Increasingly, PFS projects have combined services to provide evidence-informed, client-centered services.** In Cuyahoga County, the Partnering for Family Success program combines a set of services, all of which independently had evidence of effectiveness, that had not been studied in combination. The core intervention that all participants receive is Critical Time Intervention, which has been subject to two randomized control trials for similar, but not identical, target populations; the other interventions, which are to be provided based on the unique needs of each participant, are also supported by different levels of evidence. Similarly, in Denver, the Housing to Health initiative uses two well-researched interventions, permanent supportive housing and Assertive Community Treatment, in combination. Both the Ventura County Project to Support Reentry and the Alameda Justice Restoration projects are based on moral reconation therapy in concert with additional wrap-around supportive services.

- **Place and culture matter.** Over time, PFS investors and payors have come to value data drawn from the local context to mitigate implementation risk. For example, though there are several decades of research on the impact of early childhood education programs, the Utah and Chicago projects used studies of their respective local interventions to estimate impact. Similarly, the Massachusetts Chronic Homelessness PFS project relied primarily on longitudinal, local data on the Home and Healthy for Good program to model PFS program impact, though the permanent supportive housing model has many decades of research on its impact and cost-effectiveness. To be sure, the larger bodies of evidence surrounding these interventions played a reinforcing role, but having local data on past performance can serve as a risk mitigation factor for government and investors. Projects have learned that failing to understand and be responsive to local culture is one of the highest implementation risks. Early projects, such as Project ABLE, the Utah High Quality Preschool Program, and the Chicago Parent-Child Center PFS Initiative, have either failed in part due to the local culture (NYC Project ABLE) or had to make adjustments to adapt the evidence based model to be responsive to community needs. However, later projects such as the Alameda County Justice Restoration Project (ACJRP) have put this tenet at the forefront of project design. The project deliberately hires staff who are bicultural and bilingual, live in the same community as participants, and have similar lived experiences. ACJRP participants receive individual and group therapy from a clinical therapist, and outreach, counseling, and case management from a peer or reentry coach.

- **Ramp-up and pilot periods are important.** A ramp-up phase occurs shortly before a project launch to operationalize the project; a pilot period is independently evaluated to assess project effectiveness. The field initially relied solely on feasibility assessments to determine the likelihood that an intervention could be implemented successfully with a new population or in a new location. This iterative analysis caused lengthened project development timelines and was often still less effective than a pilot evaluation as it could not forsee all implementation challenges or the local environment. Where local data is not available during the exploration phase of PFS, independently evaluated pilot periods are favored to create a trial period to more accurately observe the impact of the local environment and identify other potential challenges of implementation. For example, in the Alameda County Justice Restoration Project (ACJRP), the pilot period began prior to the implementation of Prop 47, which changed the definition of felony arrests in California. The pilot provided critical information that allowed the ACJRP team to adjust assumptions before moving into the full implementation of the project.

Table 3: Evidence and Program Design

	Service intervention(s) model and/or type	Evidence base for intervention	Has effectiveness of the intervention for PFS project target population been evaluated?	Has the service provider provided this intervention previously?	Is PFS project: scaling an existing intervention by replicating at a larger scale? Demonstrating the effect of a new program model or combination of services? Transplanting an existing intervention(s) to a new target population and/or service delivery setting?
NYC ABLE Project for Incarcerated Youth	Cognitive behavioral therapy: Moral reconation therapy	Meta-analysis of cognitive behavioral therapy [Note 1]	No	No	Transplanting
Utah High Quality Preschool Program	Half-day preschool: Utah High Quality Prekindergarten Program model	2 comparative studies [Note 2]	Yes	Partly [Note 3]	Scaling
New York Increasing Employment and Improving Public Safety	CEO transitional work model	1 RCT; Provider performance data	Yes	Yes	Scaling
Massachusetts Juvenile Justice PFS Initiative	Transitional work and case management: high-risk youth intervention model	Provider performance data	Yes	Yes	Scaling
Chicago Child-Parent Center Pay for Success Initiative	Half-day preschool: Child-Parent Center	1 longitudinal study, quasi-experimental design	Yes	Yes	Scaling
Cuyahoga Partnering for Family Success Program	Critical time intervention, child parent psychotherapy, trauma adapted family connections	Critical time intervention: 2 RCTs, 1 experimental research design [Notes 4 and 5]	Partly [Note 4]	Partly [Note 5]	Demonstrating; Transplanting
Massachusetts Chronic Homelessness Pay for Success Initiative	Home and Healthy for Good program	Provider performance data; Medicaid data analysis [Note 6]	Yes	Yes	Scaling
Santa Clara Project Welcome Home	Permanent supportive housing; Assertive community treatment	Permanent supportive housing: 15 experimental/quasi-experimental studies [Note 7]; Assertive community treatment: 27 experimental/quasi-experimental studies [Note 8]	Yes	Yes	Scaling
Denver Housing to Health Initiative	Permanent supportive housing; Assertive community treatment	Permanent supportive housing: 15 experimental/quasi-experimental studies [Note 7]; Assertive community treatment: 27 experimental/quasi-experimental studies [Note 8]	Yes	Yes	Demonstrating; Scaling
South Carolina Nurse Family Partnership	Nurse-Family Partnership: nurse-home visiting	3 RCTs	Yes	Yes	Scaling; Demonstrating
Connecticut Family Stability Project	Family-based recovery (FBR); in-home parent-child attachment therapy and clinical substance-use treatment t	Quasi-experimental study	Partly [Note 9]	Yes	Scaling; Demonstrating
DC Water Environmental Impact Bond	Green infrastructure	Monte Carlo simulation using water-modeling software, with data from previous GI interventions coupled with DC specific environmental conditions	No	Yes	Demonstrating
Santa Clara County Partners in Wellness	Assertive community treatment (ACT)/ full service partnership (FSP) services with housing supports	Provider performance data [Note 8] [Note 10]	Yes	Yes	Demonstrating; Transplanting
Massachusetts Pathways to Economic Advancement	Vocational training; contextualized English language instruction	Provider performance data cross-referenced with administrative wage and higher education data	Partly [Note 11]	Yes	Scaling; Demonstrating

Table 3: Evidence and Program Design

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Salt Lake County Homes Not Jail	Homes Not Jail program: rapid rehousing	Research studies conducted by Supportive Services for Veteran Families, Cloudburst Group, and the University of Utah Criminal Justice Center	Partly [Note 12]	Yes	Demonstrating
Salt Lake County REACH	Recovery, Engagement, Assessment, Career and Housing (REACH) program: Risk-need-responsivity model	Research studies conducted by Andrews and Bonta, Carleton University controlled experiments, and University of Utah Criminal Justice Center	Partly [Note 13]	No	Demonstrating
Los Angeles County Just-In-Reach	Permanent supportive housing	Local performance data (via the Enterprise Linkage Project [Note 14], Housing for Health, and the JIR 2.0 pilot project); NYC Fuse [Note 15]; NY/NY III [Note 16]	Yes	Yes	Scaling; Demonstrating
Oklahoma Women in Recovery Project	Women in Recovery [Note 17]	Provider performance data; numerous RCTs on individual curriculum and models used within program	Yes	Yes	Scaling
Ventura County Project to Support Reentry	Interface reentry services: case management with moral reconation therapy (MRT), trauma therapy, relationship skills, employment support and placement	MRT, which the project anticipates the majority of participants will receive, has been extensively evaluated through multiple studies	No	Yes [Note 18]	Demonstrating
Alameda County Justice Restoration Project	Individualized coaching model	Motivational interviewing (MI) and M moral reconation therapy (MRT), two approaches utilized in the model, have been extensively evaluated through multiple studies	No	Yes	Demonstrating
Michigan Strong Beginnings	Outreach and intense case management through Community Health Workers	Provider performance and MDHHS data	No	Yes	Scaling
Northern Virginia	Workforce development services including individualized case management to prepare individuals for employment	n/a	No	Yes	Scaling; Demonstrating
Maternal, Infant, and Early Childhood Home Visiting Outcomes Rate Card Pilot	Parents as Teachers (PAT) Nurse-Family Partnership (NFP) Early Head Start (EHS) Child First	PAT: Multiple quasi-experimental and experimental evaluations NFP: 3 multi-site RCTs EHS: Multiple quasi-experimental studies Child First: 2011 RCT in Bridgeport CT	Yes	Yes	Adding outcome orientation to existing services
Blood Bank of Delmarva Young Blood Sustainability Project	Bloodmobile		No	Yes	Scaling
Veterans CARE	Individual placement and support	Twenty-five randomized control trials on IPS have shown positive outcomes, including two studies focused on unemployed veterans with PTSD	Yes	Yes	Scaling; Transplanting

Table 3: Notes

1 The estimated impact of the ABLE Program was based on a meta-analysis of 58 evaluations of different models of cognitive behavioral therapy programs serving different subsets of a criminal offender population in different settings. Moral reconation therapy (MRT), the intervention used by the ABLE Program, is a type of cognitive behavioral therapy. MDRC conducted a literature review that determined that all of the models of CBT achieved comparable results as long as they were implemented as originally intended by program designers. MRT was selected as the type of cognitive behavioral therapy to implement at Rikers Island based on existing evidence as well as fit of the model with the unique conditions and operational challenges of the jail setting. For more information, see MDRC's Financing Promising Evidence-Based Programs: early lessons from the New York City Social Impact Bond (http://www.mdrc.org/sites/default/files/Financing_Promising_evidence-Based_Programs_FR.pdf).

2 The Utah High Quality Preschool Program was evaluated as part of the U.S. Department of Education's Early Learning First program. The research design was a two-group comparative design with pre-, mid- and post-assessment, and compared students in 15 classrooms receiving the program with twelve classrooms deemed to be at a similar risk level. The project was conducted over three academic years, 2006-07 to 2008-09, with an independent evaluation each year of the project. Another study funded by the W.K. Kellogg Foundation compared students receiving the Utah High Quality Preschool Program with students not receiving preschool services in the 2011-2012 school year.

3 The Granite School District developed and has implemented the Utah High Quality Prekindergarten Program since 2006. Some of the independent service providers had been implementing the intervention prior to the PFS program with grant funding through Voices for Utah Children.

4 Critical Time Intervention has been subject to two randomized control trials. Both studied the impact of C.T.I. on individuals with severe mental illness; one study population was exclusively male. A modified randomized trial studied the impact of C.T.I. on episodically homeless families. While none of these study groups is an exact match to the target population for the Partnering for Family Success program—caregivers experiencing homelessness whose children have been placed in foster care—there is some overlap with the populations served in the three studies.

5 All of the participants in the Partnering for Family Success program receive C.T.I., which Frontline staff is experienced in providing. The other interventions are to be provided on an as-needed basis to meet clients' specific needs; Frontline staff is not experienced in implementing all of these interventions.

6 The Home and Healthy for Good initiative has had a contract with the Massachusetts Housing and Shelter Alliance by the Commonwealth of Massachusetts since 2006. As a condition of funding, MHSA reports on the self-reported usage of health and social services and quality of life outcomes for participants served by the program; participants are surveyed monthly, and in some cases, quarterly. State Medicaid analysts have also reviewed billing claims for a subset of participants to determine their actual Medicaid costs in the year prior to and after moving into housing. This local data informs the design of the Massachusetts PFS project, although the larger body of evidence supporting permanent supportive housing's cost-effectiveness and impact were also weighed in making the case for this project.

7 The evidence base for permanent supportive housing is summarized by the Washington State Institute for Public Policy, which includes a cost-benefit analysis based on studies using a comparison and treatment group, available at: http://www.wsipp.wa.gov/BenefitCost/ProgramPdf/284/Supported-housing-for-chronically-homeless-adults.

8 The evidence base for assertive community treatment is summarized by the Washington State Institute for Public Policy, which includes a cost-benefit analysis based on studies using a comparison and treatment group, available at: http://www.wsipp.wa.gov/BenefitCost/ProgramPdf/283/Assertive-Community-Treatment. These studies are not all specific to a chronically homeless population.

9 The intervention targeting children under 36 months of age at the time of referral has been studied. FBR targeting children ages three to six is new and therefore has not been studied.

10 The evidence base for FSP-style interventions has been reviewed in multiple randomized clinical trials. Research frequently cites Ziguras and Stuart's (2000) widely-cited review of 44 randomized clinical trials conducted on a range of FSP-style interventions. For more information, see Psychiatric Services' A Meta-Analysis of the Effectiveness of Mental Health Case Management Over 20 Years (http://ps.psychiatryonline.org/doi/full/10.1176/appi.ps.51.11.1410).

Table 3: Notes

11 JVS underwent a RCT on an earlier variation of one of the 4 program tracks being delivered under the PFS project. While an important indicator of the program's impact under a rigorous evaluation, project partners primarily relied on analysis of historical administrative data, conducted by Social Finance and the Government Performance Lab, to establish the track record for 3 of 4 PFS program tracks.

12 Rapid Rehousing has been subject to quasi-experimental evaluations, but not for the persistently homeless population this SLCo project is targeting.

13 The components of the REACH model have been evaluated individually.

14 The Enterprise Linkage Project (ELP) is an integrated data warehouse that links de-identified service records across eight county agency databases and the Homeless Management Information System. The system is managed by the CEO's Research and Evaluation Services unit and is jointly sponsored by CEO and the LA County Department of Public Social Services (DPSS). DPSS, DHS, the Department of Mental Health, the Department of Public Health (DPH), the Department of Children and Family Services (DCFS), the Department of Community and Senior Services (CSS), LASD and LA County's Probation Department all contribute data to ELP on a routine basis.

15 The New York FUSE initiative is a supportive housing intervention targeting frequents users of jails, shelters, and emergency room services. Data was gathered from administrative sources—the New York City Departments of Corrections and Homeless Services—as well as at intake and at interviews given every six months. Results showed significant declines in shelter usage by nearly 90 percent and declines in jail usage by 40 percent over two years. Clients reported fewer psychiatric inpatient hospitalizations as well as reduced illicit drug use and ambulance usage. Through reduced use of jails, shelters, crisis care health services, each individual housed through FUSE generated over $15,000 in avoidable public cost offsets. Available at http://www.csh.org/wp-content/uploads/2014/01/FUSE-Eval-Report-Final_Linked.pdf.

16 The New York/New York III (NY/NY III) Supportive Housing Agreement is a commitment by state and city governments to create 9,000 new supportive housing units serving nine populations in New York City (NYC). Data in this brief pulls from an interim evaluation of the project examining the impact on the cost and utilization of government subsidized services, including jail use. Populations served by NY/NY III include individuals and heads of families who are chronically homeless or at risk of homelessness, and who have serious mental illness, substance use disorders, disabling medical conditions, or HIV/AIDS, or who are aging out of foster care. Available at http://shnny.org/images/uploads/NY-NY-III-Interim-Report.pdf

17 Women in Recovery is an outpatient alternative to incarceration using a combination of gender-specific, trauma-informed evidence based substance abuse, trauma, mental health, and case management practices.

18 Interface Children & Family Services has experience delivering these services to other populations.

- **Evaluation is a central component of PFS.** Interim and/or final evaluations trigger repayment of the initial PFS investment, and any additional payments tied to higher levels of impact or success. Evaluations can be paid for either by funds raised through the PFS financing process, or separately by philanthropy or government. In any scenario, payment for the evaluation is not tied to the achievement of the outcomes, nor does any evaluator have a financial interest in the project.

- **Projects are designed on an evidence base of program evaluations; however, they are often evaluated using a systems evaluation, which includes the outside environment in addition to the program, depending on the point of randomization.** In program evaluation, the point of randomization must be as close as possible to the intake of the program to isolate the effects of the services to those delivered by the service provider. However, in PFS, the point of randomization is often further upstream at a partner agency. For example, in the Ventura County Project to Support Reentry, randomization occurs through the Probation Agency, where officers are responsible for identifying eligible clients and offering them the opportunity to opt-in to the study to be randomized. This is often called the referral process. If the individual is randomly selected from the group that has opted in, they are sent to the service provider, Interface Children and Family Services, which enrolls the client and provides services. This collaboration between the government agency and service provider means the evaluation is a systems evaluation that produces learnings on the demand for services, referral, enrollment, and retention processes, and the appropriate target population, rather than solely on the effectiveness of a program delivered by the service provider.

- **Most projects to date have used a randomized control trial (RCT), considered the gold standard of evaluation design.** An RCT relies on comparison to a group of individuals randomly assigned to a control group that does not receive the services being evaluated. For government, an RCT is often seen as the best possible way of ensuring that it is paying for outcomes that would not have been achieved otherwise. Likewise, some investors and stakeholders in the PFS market feel strongly that the use of an RCT is critical in order to establish the rigor of the PFS model.

- **PFS offers the opportunity to improve social service interventions using mixed-methods evaluations.** Most social-service interventions are unstudied or understudied. PFS projects provide an important opportunity to build the base of research for existing programs through rigorous, quantitative RCT evaluations that determine a numerical level of impact. However, to go beyond answering the overly simple question of whether or not an intervention works, and address questions of how, why, and for whom it works, many believe that the use of rigorous experimental evaluation methodologies should not be used in isolation, but rather in concert with qualitative process evaluations. This practice of using both a rigorous quantitative method and a complimentary qualitative information capture is called a mixed-methods evaluation, and is being used in the Denver Housing to Health project, among others.

- **Data used in evaluations tends to come from government, and in some cases, service providers.** The use of administrative data, or data which is routinely collected or generated by government, in PFS evaluations is considered a promising practice for the field for several reasons. First, administrative data is critical to demonstrating the fiscal impact of PFS program success; for example, administrative data documenting reduced jail bed use demonstrates cost savings or avoided costs. Second, use of administrative data is one way of reducing the cost of project evaluation, particularly for experimental or quasi-experimental designs which are longitudinal and/or rely on comparison to a control group; the alternative of collecting data from participant and control groups through surveys or interviews is much more time-consuming and expensive, and more likely to result in incomplete data sets. Finally, using administrative data allows for the evaluation of sensitive populations where direct interaction with the population and control group may not be possible or appropriate. Santa Clara County's Partners in Wellness PFS project evaluation, designed by Dr. Keith Humphreys, a professor of psychiatry at Stanford University, is using administrative data from the county's own health and criminal justice systems in the evaluation of services provided for severely mentally ill county residents by Telecare compared to a control group of 250 individuals being served by the usual system of care. This approach is one-fifth to one-tenth of what a National Institutes of Health clinical research trial would cost, while maintaining academic rigor, and is more appropriate in the field of mental healthcare. [Note 1].

- **Access to administrative data is also required in the project development phase in order to establish baselines and model potential outcomes.** Often, this data is confidential or sensitive, and may be governed by regulations around privacy; for example, medical data is strictly governed by HIPAA requirements, and many states restrict access to wage data. In order to finalize project models, transaction coordinators must secure data-sharing agreements with government, often with several agencies or departments. In some cases, public agencies and departments must also enter into intra-governmental data-sharing agreements. Securing the necessary data-sharing agreements has proven to be a source of delays to many projects. The magnitude of the task of extracting and sharing data should not be understated, even with the proper agreements in place. Access relies on partners within the government who understand what the goals of the project are, have the capacity and time to pull the data and, if necessary, present it in a format that protects individuals' confidentiality. These challenges have emphasized the value of developing integrated data systems, such as the Enterprise Linkage Project that was instrumental in setting the baseline for the Los Angeles Just-in-Reach project. To assist in supporting access to administrative data, the Social Innovation Fund Pay for Success program released a $4.5 million Administrative Data Pilot grant competition.

- **Many projects are tracking multiple indicators and outcome metrics in addition to the outcomes associated with success payments.** Those outcomes tend to be ones that can be most easily tied to available administrative data for the reasons cited. Despite differences in projects, only a handful of outcomes have been used as payment outcomes: namely, utilization of jail or prison beds; academic readiness and achievement; and stable tenancy in housing. Projects define these outcomes with different metrics and methods of measurement; often, thresholds must be met before outcomes qualify as countable. For example, in the Denver Housing to Health project, an individual must be stably housed for 12 months before their days in stable tenancy are counted, with any jail time subtracted from the total.

Table 4: Evaluation

	Evaluation design methodology	Data source(s) for evaluation	Outcomes tied to success payments	Outcomes tracked, not tied to success payments	Length of evaluation period
NYC ABLE Project for Incarcerated Youth	Quasi-experimental: regression discontinuity using historical baseline	New York City Department of Corrections; New York City Office of Management and Budget	1) Number of participants served; 2) Total jail days avoided	Intensity/dosage of service and progress through program stages; Number of safety incidents and conflicts reported	4 years (projected); 3 years (actual)
Utah High Quality Preschool Program	Longitudinal study	Granite School District	1) Use of special education and remedial services	Math and reading proficiency; Secondary and post-secondary school completion; College readiness; Connection to health insurance and health care provider	12 years
New York Increasing Employment and Improving Public Safety	RCT	New York State unemployment insurance database; NYS Department of Corrections and Community Supervision; Service provider data	1) Number of jail/prison bed-days; 2) Engagement in transitional job [Note 2]; 3) Increases in employment	None	5.5 years
Massachusetts Juvenile Justice PFS Initiative	RCT	Massachusetts unemployment insurance database; Service provider	1) Number of jail/prison bed-days avoided; 2) Job readiness [Note 3]; 3) Increases in employment	GED/ high school completion; College enrollment	7 years
Chicago Child-Parent Center Pay for Success Initiative	Quasi-experimental: propensity score matching	Board of Education of Chicago Public Schools	1) Kindergarten readiness; 2) Avoided use of special education services; 3) Third grade literacy	Student mobility and retention; Improvements in social-emotional learning; Parent engagement; School attendance	17 years
Cuyahoga Partnering for Family Success Program	RCT	Homeless Management Information System; Statewide Automated Child Welfare Information System	1) Days in out-of-home placement for children	Family reunification [Note 4]	5 years
Massachusetts Chronic Homelessness Pay for Success Initiative	Validated data	Service providers	1) Stable housing for at least one year	Health care service usage; Number of nights spent in shelter; Number of days incarcerated	5.25 years
Santa Clara Project Welcome Home	Validated service provider data; RCT [Note 5]	Santa Clara Valley Health and Hospital System; Homeless Management Information System; Criminal Justice Information Control; Service provider	1) Months of stable tenancy	Health care, social service and criminal justice system utilization	6 years
Denver Housing to Health Initiative	Validated service provider data; RCT [Note 6]	Service providers; Denver Sherriff Department	1) Housing stability; 2) Jail days	Emergency services, shelter and criminal justice system utilization	5.25 years
South Carolina Nurse Family Partnership	RCT	State of South Carolina administrative data; Service provider data	1) Reduction in preterm births; 2) Reduction in childhood hospitalization and emergency department use due to injury; 3) Increase in healthy spacing between births; 4) Increase in number of first-time moms served in high-poverty ZIP codes	School readiness; Academic achievement; High school completion; Receipt of government services(e.g., TANF, SNAP); Employment/earnings; Crime	5 years
Connecticut Family Stability Project	RCT	Connecticut Department of Children and Families administrative data; Service provider data	1) Reduction in out-of-home placements; 2) Reduction in re-referrals to DCF; 3) Reduction in substance use; 4) Successful FBR enrollment	Various	6 years
DC Water Environmental Impact Bond	Pre-test/post-test design	Service provider	1) Runoff reduction	Percentage of new jobs created that are filled by District residents	1 year
Santa Clara County Partners in Wellness	RCT	Santa Clara County	1) Reduction in clients' utilization of costly emergency, inpatient, and contracted psychiatric services and jail days	Client's health and well-being as compared to a similarly situated control group of clients not receiving care	6.5 years
Massachusetts Pathways to Economic Advancement	Differs by program track; includes RCT for English for Advancement track [Note 7]	Commonwealth of Massachusetts administrative data; Service provider data	1) Earnings; 2) Transition into college; 3) Program engagement	Program completion rate; Job attainment rate; College registration rate	6 years

Table 4: Evaluation

	Evaluation design methodology	Data source(s) for evaluation	Outcomes tied to success payments	Outcomes tracked, not tied to success payments	Length of evaluation period
Salt Lake County Homes Not Jail	RCT	Department of Workforce Services; Salt Lake County Behavioral Health; Salt Lake County Jail; The Road Home	1) Number of months without any shelter or jail; 2) Number of participants who graduate to permanent housing location; 3) Number of enrollments into mental health services; 4) Number of enrollments into substance abuse services	n/a	7 years
Salt Lake County REACH	RCT	Department of Workforce Services; Utah Department of Corrections; Adult Probation and Parole; Salt Lake County Jail; First Step House	1) Reduction in arrests; 2) Reduction in days incarcerated; 3) Improvement in number of employment quarters; 4) Number of individuals engaged in 200 hours of treatment within 6 months of enrollment	n/a	7 years
Los Angeles County Just-In-Reach	Success metric calculation; broader impact analysis (includes propensity score matching components)	Service providers via the Department of Health Services; Los Angeles County Sheriff's Department; Enterprise Linkage Project	1) Housing retention at six months and twelve months; 2) Reduction in number of arrests using two year period following placement into PSH	Service utilization	4.5 years
Oklahoma Women in Recovery Project	Validated service provider data cross-referenced with Oklahoma Department of Corrections prison admission data	Service provider; Oklahoma Department of Corrections	1) Number of prison years avoided (54 months post-program admission)	Program completion rate; Program recidivism rate	9.5 years
Ventura County Project to Support Reentry	RCT; Validation	Ventura County Probation Agency administrative data; Service provider data	1) Number of avoided arrests (mean number or rate of rearrest); 2) Clean quarters (90-day period without rearrest)	Various	4.5 years
Alameda County Justice Restoration Project	RCT	California Department of Justice, County of Alameda	Rate of recidivism reduction (defined as arrests) between the participant group and the control group	Various	2 years
Michigan Strong Beginnings	Success metric calculation; broader impact analysis (includes propensity score matching components)	Michigan Department of Health and Human Services	1) 12% reduction in preterm births, 2) 7% reduction in rapid repeat pregnancies	Various	8 years
Northern Virginia	Rate card	Fairfax County Virtual One-Stop System, Virginia Community College System	1) Measurable skills gained during programming 2) Youth placed in employment, training, or education 3) Attainment of degree or certificate	n/a	5 years
Maternal, Infant, and Early Childhood Home Visiting Outcomes Rate Card Pilot	Validated service provider data with administrative data check	Provider-reported data into Early Childhood Information System	For PAT, NFP, EHS providers: 1) Full-term birth (babies born 37 weeks or later), 2) Safe children (no instances of child maltreatment or child injury), 3) Caregiver employment For Child First providers: 1) Safe children (no instances of child maltreatment or child injury), 2) Caregiver employment and education, 3) Family stability (improved family condition on housing, healthcare, or child care)	MIECHV indicators; Programmatic milestones and metrics (enrollment, number of home visits per month, retention)	2 years
Blood Bank of Delmarva Young Blood Sustainability Project	Validated service provider data submitted through FDA-regulated portal	Blood Establishment Computer System	1) Blood units from youth donors; 2) Percentage of total units imported from beyond service area	n/a	3 years
Veterans CARE	Validation	Individual Placement Support Fidelity Scale; Self-report with documentation; Indiana Job Satisfaction Survey	1) Fidelity to the Individual Placement Support model; 2) Earnings; 3) Sustained competitive employment; 4) Job satisfaction	Aggravation or worsening of PTSD symptoms (PCL Score)	3 years

Table 4: Notes

1 “Structuring a Pay for Success Project with an Eye to Replicability,” K. Narayan, Office of the County Counsel, County of Santa Clara. (https://www.payforsuccess.org/blog/structuring-pay-success-project-eye-replicability).

2 Transitional, or subsidized, work, is central to the Center for Employment Opportunities’ intervention model as a critical step toward achieving employment and avoiding recidivism.

3 Job readiness is measured by the intensity of engagement and level of participation that a participant demonstrates with their assigned service provider staff person during a given period.

4 Evaluator will also conduct a two-year implementation study to determine how different components of the program implementation relate to reduction in out-of-home placement days.

5 The evaluator will use data generated by the service provider to determine whether stable tenancy has been achieved. This is what triggers investor repayment. The RCT will be used to examine differences in health services, social services, and criminal justice system utilization, as a means of determining the impact of the PFS program beyond its effect on housing stability, including how permanent supportive housing generates efficiencies and economic benefit for Santa Clara County.

6 The evaluator will also implement a process study to collect data on program implementation. Data collected through this study will be used to institute mid-course corrections as necessary and help interpret results of the RCT.

7 Occupational Skills Training track: pre-post design; Rapid Employment: arithmetic mean; Bridges to College: proportion; program engagement metric for all 4 program tracks will be a validated count.

- **Service providers often first engage with projects as part of government-sponsored RFPs.** The mechanism for bringing service providers into a majority of projects to date has been a government procurement process, usually in the form of one or more requests for proposals (RFP) to solicit the services of a transaction coordinator and a lead service provider. When federal or state funds are leveraged, as in the projects that use AB 1837 funds in California and the HUD/DOJ grant opportunity, service providers may be selected by the PFS intermediary or as a partner in the grant application. In some cases, governments have issued earlier requests for information (RFI) or intermediaries have conducted a landscape analysis to solicit potential service providers for PFS application.

- **To those who can meet the demand, PFS offers service providers the opportunity to deepen impact and advance their missions by accessing unique opportunities for organizational growth and/or innovation.** Participating in a PFS project requires a lot from a service provider. To date, service providers that have been selected for PFS projects have been predominantly single-issue or single-model organizations with decades of experience in implementation, and many have invested at least a decade in developing and refining their service delivery models, performance management and data collection systems, human capital, and strategic planning. Many observers of the field, as well as service providers participating in active projects, are concerned that most service providers are not equipped to meet the requirements and demands of projects. There is a danger of a "race-to-the-bottom," where service providers feel they must deliver the highest outcomes at the lowest possible cost, rather than accounting for the full cost of achieving outcomes. The high needs of projects also threaten to perpetuate inequities in the social sector, which favors organizations with long track records and large economies of scale.

- **Expansion and rapid growth can be challenging for service providers, even with an infusion of up-front capital.** Even adept service providers benefit from up-front technical assistance for business model planning and outcomes measurement. It is too risky for service providers to engage in a PFS project without a full consideration of the financial and reputational risks of participation, or a full understanding of their program delivery costs, infrastructure needs and the time it will take from high-level staff to be involved in program design and ongoing monitoring during the implementation phase.

- **One way to address or mitigate these challenges is a program design involving multiple service providers,** with each adding a marginal amount of capacity. Multiple service providers can also be practical for projects working in a larger geographic region, like the Massachusetts Chronic Homelessness Project, which provides services in a number of communities spread across the state. Looking ahead, there are a handful of projects proposing a collective impact approach, whereby multiple providers offer a more holistic or comprehensive set of services. An individual service provider can leverage their own strengths and experiences, and refer clients to other partners for services that they don't offer. Ultimately, clients benefit from receiving a combination of services most suited to their needs. Multi-provider models do create an added layer of work in the project development and management phases, as there must be a uniform process for eligibility assessment, recruitment and referrals processes, as well as centralized systems for data management.

- **Exploration of "PFS 2.0," with bonus payment and rate card structures, includes innovative models that may make PFS more accessible to service providers at various stages of organizational development.** In 2017, Third Sector Capital Partners and Ballmer group launched a bonus payment PFS project with King County, Washington, after identifying that one of the strongest indicators for improved mental health was timely access to care. The project set individual improvement metrics for 29 providers of outpatient treatment for mental health and addiction services to gradually incentivize all providers to make sure at least 80 percent of all new clients are receiving services within the defined benchmark of timely access to care. This allows each provider to participate in the movement toward outcomes if a provider is initially assessed at 20 percent of clients receiving timely access, it is incentivized in the first measurement period to improve to 40 percent and continues to be stepped up thereafter, whereas a provider that starts at 60 percent is incentivized to 80 percent, with the goal of all providers eventually delivering at 80 percent. Social Finance, through the support of the Social Innovation Fund, launched its Outcomes Rate Card Competition in May of 2017 to support the development of PFS rate card projects. Outcomes rate cards are a menu of outcomes that government seeks to achieve and the prices they are willing to pay for each outcome achievement. The Yale Child Center and Connecticut Office of Early Childhood was the first awardee of this competition to launch a pilot of the rate card approach, the MIECHV Home Visiting Outcomes Rate Card Pilot.

- **Service providers are excited about continuous improvement.** As mission-driven organizations, many service providers are eager for opportunities to better understand their impact on the communities and populations they serve. They are excited by the potential that PFS offers to pursue longer-term and more rigorous evaluations of their program models in a way they have not been able to do before. However, it is important that the evaluation methodology is not too narrowly focused on determining the impact of the service, but that it also includes important process evaluations and access to real-time data to allow for performance management and improvement.

- **Pay for Success has elevated awareness of the chronic, systemic under-investment in service providers.** Early PFS adopters, such as MDRC and Osborne Association, learned that the level of data collection and management required of the service provider was far more extensive than in other contracts. Osborne, like many service providers, did not have adequate capacity and infrastructure, and the additional support and capacity-building required was underfunded by the project. This has spurred conversations in the field about how to increase investment in service providers who are eager to improve their capacity to deliver and track outcomes, not just for those who are pursuing PFS opportunities.

- **In most cases, services provided with PFS funds are not "business as usual" for service providers.** The recruitment or enrollment process for program participants often relies on a new or deepened partnership with government on the front-end of service delivery. This is because demonstrated success is tied to the ability to recruit, retain, and serve the population that a back-end payor has prioritized, and raises the level of innovation and operational risk. One way to mitigate this operational risk is a pilot and/or ramp-up period that allows project partners a chance to operationalize and refine systems for referrals, enrollments, randomization (if there is an RCT evaluation), and data tracking, and/or phase-in services until the project reaches the target scale and allows services providers to make necessary adjustments.

- **Being subject to any rigorous third-party evaluation bears considerable reputational risk, and this risk is disproportionately highly attributed to a service provider in a PFS project.** Depending on how the evaluation is set up and how results from a PFS project are messaged, the failure of a project to repay investors can quickly be interpreted to mean that a service provider and/or intervention is ineffective, rather than the failure being attributed to the system in which the service provider operates. Without clear communication and field education, these conclusions can persist without an appreciation for the other effects produced by a service provider's work, even beyond those captured or tracked in the program evaluation. This further underscores the important role of qualitative process evaluations. These help determine whether a project was implemented as designed and identify any factors that may have influenced implementation. A process evaluation can tell a more robust story about program effects. This also highlights the important and challenging work to be done by the field in developing messaging and communications around PFS results.

Table 5: Service Provider Characteristics and Service Delivery

	Single or multiple service providers?	Service provider type(s) (nonprofit, government, private)	Service provider OR site selection method	Service provider experience with PFS intervention	Referral method for PFS target population	Did the project have a ramp-up phase? (Y/N; brief description)
NYC ABLE Project for Incarcerated Youth	Multiple	Nonprofit	RFQ to shortlist of local organizations	1 of 2 service providers had experience running other cognitive behavioral therapy programs	Mandatory for all 16-18 year-olds attending school while detained at Rikers Island	Yes: 11 month period operating at half-scale (4 months prior to 7 months post-project launch); services during pre-launch period provided in-kind
Utah High Quality Preschool Program	Multiple	Public, nonprofit, private and charter school	Existing sites, plus expansion sites selected by intermediary	Public and nonprofit providers had already been implementing program with grant support	De facto enrollment for all students at PFS program sites	No
New York Increasing Employment and Improving Public Safety	Single	Nonprofit	Solicited as partner by successful bidder to state RFP for transaction coordinator	PFS intervention is proprietary to service provider	Voluntary enrollment by participants identified as high-risk by parole bureau given directive to participate in program as special condition of parole	No
Massachusetts Juvenile Justice PFS Initiative	Single	Nonprofit	RFR from state for criminal justice service provider	PFS intervention is proprietary to service provider	Voluntary enrollment by participants identified as high-risk by evaluator and referred to service provider for outreach	No
Chicago Child-Parent Center Pay for Success Initiative	Single	Public	Expansion sites selected by Chicago Public Schools based on demographics and need	Existing implementation sites, plus expansion sites	De facto enrollment for all students enrolled at PFS program sites	Yes: 1 year service ramp-up period after PFS transaction launch; only outcomes for students enrolled for full year counted in program evaluation
Cuyahoga Partnering for Family Success Program	Single	Nonprofit	Alternative procurement method	Experienced with critical time intervention (core intervention)	Voluntary enrollment of participants identified through a process led by county	Yes: 6 month service ramp-up period prior to PFS transaction launch; 28 families served; grant-funded
Massachusetts Chronic Homelessness Pay for Success Initiative	Multiple	Nonprofit	Selected by project manager from list of qualified providers pre-approved by state	Existing sites for Home and Healthy for Good model	Voluntary enrollment with referrals made through providers' outreach and networks; Participant eligibility determined using uniform risk/needs assessment	Yes: 6-month early-start clause to allow for service delivery before financing was finalized; 2 year ramp-up to get to full housing unit capacity
Santa Clara Project Welcome Home	Single	Nonprofit	RFP	Experienced with ACT and permanent supportive housing (PSH); currently operates 30+ PSH programs	Voluntary	Yes: 3 month ramp-up period prior to PFS transaction launch; county-funded
Denver Housing to Health Initiative	Multiple	Nonprofit	RFP	Experienced providers of ACT, permanent supportive housing, and other health and supportive services	Voluntary enrollment of participants identified by Denver Police Department with referrals coordinated by Denver Crime Prevention and Control Commission	Yes: 6-month pilot period after project start date, prior to transaction launch; Individuals engaged during pilot period included only in housing success payments
South Carolina Nurse Family Partnership	Multiple	Quasi-public, nonprofit, public	NFP selects local implementing agencies	Nine existing implementation sites in South Carolina; many more nationally	Referrals made by state Medicaid office; direct marketing to potential participants	Yes: 3-month pilot period prior to project launch; paid for with non-PFS funds; participants tracked but not included in evaluation
Connecticut Family Stability Project	Multiple	Nonprofit	RFQ	Experienced with FBR; Yale Child Study Center has two existing FBR teams; Local community health centers all previously contracted with DCF to provide FBR	Eligible participants identified by DCF	No official pilot phase; does include evaluation-monitoring period that accounts for ramp-down

Table 5: Service Provider Characteristics and Service Delivery

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DC Water Environmental Impact Bond	Single	Private	Site determined by terms of EPA consent decree	In modifying the EPA Consent Decree to include Green Infrastructure and planning the pilot deployment, DC Water extensively analyzed and tested GI options and ran design challenges with community partners	None	1 year to collect baseline performance data prior to implementation of Green Infrastructure
Santa Clara County Partners in Wellness	Single	Private	RFP	Experience with ACT; currently operates 90 programs serving individuals with severe mental illness	Eligible participants referred by Behavioral Health Services Department	Yes: ~3 month ramp-up period prior to project launch
Massachusetts Pathways to Economic Advancement	Single	Nonprofit	RFR	Experienced with each program track; one program (EFA) restarting after 4 years dormancy	Referrals from community-based organizations, former clients, and other outreach channels	Yes: service delivery includes "early start" period beginning July 2016
Salt Lake County Homes Not Jail	Single	Nonprofit	RFP	The Road Home has historically operated rapid rehousing programs in addition to case management services; this is the first time the program model will be used for the target population	Voluntary enrollment; State Community Services Office will generate and send The Road Home a quarterly report of data of eligible individuals from the Homelessness Management Information System	Yes: 12-month pilot period; grant-funded
Salt Lake County REACH	Single	Nonprofit	RFP	The REACH program is a new program that was designed by First Step House utilizing evidence based program models the organization had conducted individually; this is the first time in Salt Lake County that a program is targeted towards criminogenic needs and integrates services to address those needs	Voluntary enrollment; Adult Probation and Parole will maintain a list of eligible individuals based on pre-sentence investigations and will share this eligibility list with First Step House twice monthly	Yes: 5-month ramp-up phase and six month pilot period; grant-funded
Los Angeles County Just-In-Reach	Multiple	Nonprofit	Los Angeles County DHS Intensive Case Management Providers listed on the county's Supportive Housing Services Master Agreement List and the Flexible Housing Subsidy Pool Operator (Brilliant Corners)	All four identified providers have experience providing key components of the intervention (jail in-reach and PSH) and are participating in the demonstration phase of the intervention as of August 2016; in addition, Brilliant Corners has successfully administered the Flexible Housing Subsidy Pool since 2014	Jail clinicians; Jail-In-Reach providers; Diversion Courts	Yes: 11-month ramp-up phase
Oklahoma Women in Recovery Project	Single	Nonprofit	RFP	Providing PFS intervention since 2009	Voluntary enrollment of participants in conjunction with criminal district court; referrals coordinated by service provider, judges, public defenders, district attorneys, and local supervision entity	Yes
Ventura County Project to Support Reentry	Single	Nonprofit	Partner in grant proposal submitted by Ventura County	Experienced with providing case management, MRT, trauma therapy, relationship skills, employment support	Eligible participants identified by Ventura County Probation Agency	No

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	Single or multiple service providers?	Service provider type(s) (nonprofit, government, private)	Service provider OR site selection method	Service provider experience with PFS intervention	Referral method for PFS target population	Did the project have a ramp-up phase? (Y/N; brief description)
Alameda County Justice Restoration Project	Single	Nonprofit	Partner in grant proposal submitted to the California Board of State and Community Corrections and integrated by Technical Assistance provider and Project Manager	Service provider has experience implementing programs with similar eligibility criteria for the reentry population	Random assignment of eligible individuals identified by the county of Alameda	Yes; a 3-month pilot phase was used to test referral, enrollment, and other operational processes. A 2-month Ramp Up phase addressed challenges raised in the Pilot and streamlined various data integration processes.
Michigan Strong Beginnings	Single	Nonprofit	RFP	Providing these services since 2010	Referred by partner organizations—local community and medical providers	Yes; a 4-month pilot phase was used to test referral, enrollment, and other operational processes
Northern Virginia	Multiple (six One Stop Centers housed under Fairfax County Department of Family Services Program Operator)	Nonprofit, government		None	Formal and informal channels: outreach specialists in Area #11 (Fairfax, Loudoun, and Prince William Counties) form relationships with local schools, nonprofits, and government agencies—particularly justice and foster care organizations	Yes, population includes enrollments prior to contract start date
Maternal, Infant, and Early Childhood Home Visiting Outcomes Rate Card Pilot	Multiple	Nonprofit, government	Selected during previous MIECHV process (outside scope of this project)	Existing program; delivering intervention for several years	Connecticut birthing hospitals, community health centers, WIC centers	No; the project added outcome-based payments to an existing service array. Services continued at the same scale they had previously been delivered.
Blood Bank of Delmarva Young Blood Sustainability Project	Single	Nonprofit		BBD has previously operated bloodmobiles	Significant new outreach strategy to connect with younger donors	No, but requires time to outfit new bloodmobile
Veterans CARE	Multiple	Nonprofit, government	Sites determined by service provider and outcomes payors, in collaboration with Social Finance	Existing program disseminated to new sites; some sites have experience with model	VA medical centers and clinical teams, community referrals, self referrals	No

- **As multi-stakeholder agreements, PFS projects need clearly defined structures.** These structures are typically laid out in the main PFS contract, which is held by the project manager, or, in many cases, a special purpose vehicle wholly owned and managed by the project manager. Project oversight breaks out into two basic categories: operational and executive. Increasingly, projects have also adopted a separate communications and public relations protocol to clarify for all partners what may be publicly disclosed and what is confidential.

- **The operational oversight role focuses on regular monitoring of project progress.** This can include reviewing and troubleshooting of operational components of the project, and identifying and implementing any necessary course corrections. Generally, operational oversight is handled by a committee that includes stakeholders involved in, or most closely tied to, project implementation and the project's target population, including service providers and staff representatives of the government agencies or departments that represent the outcomes payor administrator.

- **Project management best practices are only starting to emerge.** As more PFS intermediaries gain experience with multiple projects, best practices are just beginning to emerge. For example, aligning reporting due dates across stakeholders, keeping to calendar quarters, using dashboards, understanding the frequency of meeting with operational and/or executive committees, and/or having a detailed note taking and dissemination practice for executive meetings. Many project managers have created their own systems and acknowledge a need for more comprehensive, consistent methods to capture, process, and understand the context of the current environment behind the data.

- **Project managers play a lead role in managing data to monitor progress.** Data management systems to track and generate reports on numeric program outputs and indicators are an important asset when available. However, many projects rely on well maintained and monitored excel workbooks to validate data. Indicators, or data points tracked at this level of oversight, include things like number of referrals made, number of participants enrolled, and days of services provided. These data points are similar to the outputs tracked in a traditional government contract, and are not necessarily indicative of project success or "impact," the value-add of an intervention in comparison to business as usual. Still, monitoring these outputs is important. Interim outputs are data points that indicate a program is on track to achieving an impact based on previous experience implementing an intervention. For example, in permanent supportive housing, days in stable tenancy (when an individual remains in the program and out of jail, emergency shelters, or emergency departments) has been proven through previous studies to reduce homelessness and recidivism.

- **Reporting and public relations are time-consuming, underfunded, and important functions.** Project managers provide valuable capacity and prioritization of activities by managing reports to investors and payors as well as data requests to evaluation teams. Even with well-designed and managed reporting, handling investor requests and public relations are often un- or under-funded expenses. This is in part due to a high level of public interest in these projects. These un- or under-covered expenses may include extra requests for information, proactive public relations, and responding to requests from the press, academia, and others interested in exploring the model. Public appearances and conference presentations are other costs that often need to be paid for outside of the transaction.

- **External communications protocols should be established up front.** Aligning partner expectations for how, when, and through what mediums results and lessons learned are shared is important for project management and public relations consistency. There is wide variety in how projects communicate. For example, the Denver Housing to Health Initiative has had a longstanding commitment to transparency and knowledge-sharing. They have frequently published reports and lessons learned. However, it's important to recognize that this level of field building comes with higher demands on individual partners as well as the project, so while other projects may not consistently publish learnings it should not be viewed as a lack of transparency. As highlighted in the acknowledgements, this publication would not be possible without the dedication of all PFS projects and participants to sharing lessons learned as the field grows.

- **Executive oversight is typically handled by an executive or steering committee** that monitors project progress through reports made by the project manager and/or operational committee. The executive or steering committee has decision-making authority over the PFS project, including any changes in who fills the project manager and/or service provider roles. This committee is also the level at which any termination events or rights are exercised. Though the composition of the operating and executive committees looks similar in terms of the mix of stakeholders represented, there may be differences in who participates; the executive committee is more likely to have higher-level leadership, and the involvement of political appointees. Often, the executive committee meets less frequently than the operating committee. Some identify that this dual committee structure allows the operating committee to address early problems and only raise trends to the executive level.

- **The role of investors in governance varies from project to project.** Often, investors do not have direct decision-making power in PFS governance structures. However, they are, in some cases, allowed access to meetings of the operations or executive committees as non-voting members. They can influence project decisions in an informal capacity in this way Typically, investors have project termination rights that are defined in the PFS contract. Investors may receive reports on project progress as frequently as monthly. Reporting to investors is typically handled by the project manager.

- **There are significant implementation risks in these projects.** Projects attempt to elaborate these risks during the PFS contract development phase, and they can be incorporated as termination events in the contract. In most PFS contracts, there is at least one project-specific termination event, in addition to and distinct from the standard terms and language that are part of most contracts—PFS or otherwise. Some of these implementation risks are related to performance and capacity of project stakeholders, so there may be clauses for replacement of service providers or project managers, as well as clauses for contract termination and project wind-down if stakeholders are terminated but not replaced. There may also be termination events related to program design elements that are critical to project success but beyond the control of a project's service providers or project manager. This is most apparent in the Cuyahoga, Santa Clara County, and Denver Housing to Health projects, which rely on access to or commitments of publicly funded housing resources and, in the Santa Clara and Denver cases, Medicaid reimbursement for services provided. These resources are funded outside of the PFS transaction, but are integral to project design and intended impact. In cases like these, termination events can be exercised in the event that a public partner fails to commit adequate resources to ensuring project success.

- **Contract amendments are common.** Amendments allow projects to adapt to various conditions: a changing external policy environment, conditions unexpected by the original contract, and fluctuating costs or funding streams. For example, the Alameda County Justice Restoration Project was designed before the passage of CA Prop 47, which redefined felony convictions. After its passage, the project contract had to redefine referrals. In the Denver Housing to Health project, service providers identified difficulty in serving participants randomized into the project who had open felony charges—for which conviction and sentencing are still pending—within the prior two years. Open felony charges that result in convictions often have sentences longer than 90 days in the state prison system, undermining the significant effort to identify, locate, and house participants in these circumstances. Additionally, institutional stays greater than 90 days disqualify participants from housing subsidies connected to the project. As a result, a project amendment added pre-screening that removes participants from the eligibility pool if they have open felony charges in the last two years. Finally, some projects have built-in contract amendments as a protocol to address costs that may fluctuate from year to year based on policy. For example, the Utah High Quality Preschool program issues a one-page amendment each year for the upcoming cohort that reflects the variable factors that change every year and are used in the success payment calculation. These include the Weighted Pupil Unit, which is the amount the state allocates per student in special education. It also includes the rate of interest cap for that cohort, which is 5 percent plus the AAA 10yr Municipal Money Market rate on the date of the amendment.

- **The potential failure by the back-end payor to fulfill its repayment obligations is often highlighted as a concern of investors.** Given the newness of the model, addressing appropriations risk has been an instrumental part of increasing investor confidence in early projects. The method of accomplishing this has varied by geography, and often requires legislative authority. The most common method is a set-aside account or sinking fund, where back-end payments are appropriated in whole or part; failure to do so can be grounds for contract termination. The most extreme example is Massachusetts, which has established a Social Innovation Financing Trust Fund backed by the full faith and credit of the commonwealth.

	Operational oversight structure [Note 1]	Frequency of meetings and/or reports	Executive oversight structure [Note 2]	Frequency of meetings	Investor role in project governance?	Frequency of reporting to investors	Non-standard contract termination events [Note 3]	Appropriations risk mitigation strategy [Note 4]
NYC ABLE Project for Incarcerated Youth	Operational committee made up of project manager and service providers' staff	Every 1-2 weeks	Program monitoring committee made up of New York City Department of Corrections and Mayor's Office, service providers, and project manager	Monthly	None	Monthly reports; Quarterly meetings	1) Non-performance by service provider or intermediary	None
Utah High Quality Preschool Program	United Way of Utah as project intermediary manages day-to-day operations of program and reports to School Readiness Board	n/a	School Readiness Board housed within Governor's Office of Management and Budget includes Dept. of Workforce Services and Board of Education representatives, appointees of State Charter School Board, and state House of Representatives and Senate leaders	Quarterly	None	Quarterly	None	Annual appropriation earmarked through legislation and reserved in restricted fund
New York Increasing Employment and Improving Public Safety	Management committee made up of NY State Depts. of Corrections and Community Supervision and Labor representatives, service provider, project manager and Government Performance Lab	Monthly	Executive steering committee made up of state officials form executive branch, Depts. of Corrections and Community Supervision and Labor, and project manager; service provider participation as special advisor/observer	Periodically, with quarterly updates	None	Quarterly	1) Termination of project manager by state for non-responsibility, with no replacement of project manager by state	Annual two-year budget appropriations
Massachusetts Juvenile Justice PFS Initiative	Operating committee includes representatives of project manager, Commonwealth Department of Youth Services, Executive Office of Administration and Finance, service provider, and intermediary; evaluator by invitation	Monthly	Oversight committee includes representatives of project manager, intermediary, service provider executive director, commissioner of Dept. of Youth Services, and secretary of Executive Office of Administration and Finance	Quarterly	Can attend quarterly meetings of oversight committee, and up to two meetings of oversight committee, as non-voting member	Quarterly	1) Commonwealth and Senior lender have termination rights if cumulative program attrition exceeds Roca historical baseline by 350% or more at end of year 2 or 3	Success payments backed by full faith and credit of Commonwealth
Chicago Child-Parent Center Pay for Success Initiative	Steering committee includes payors, project manager, technical assistance provider and local education experts	Monthly in first year, quarterly thereafter	Not available	Not available	Can attend any operational or governance meeting by request	Annually	None	Annual appropriations into escrow account
Cuyahoga Partnering for Family Success Program	Operating committee includes service provider, project manager, county representative and evaluator	1-2 times/ month	Governance committee includes service provider, project manager and county	Quarterly	Can attend any operational or governance meeting by request	Quarterly	1) Insufficient referrals or enrollments; 2) Unavailability of adequate housing; 3) Medicaid contract downsizing or termination; 4) Increase in labor costs	Annual appropriations into set-aside account
Massachusetts Chronic Homelessness Pay for Success Initiative	Board of Managers includes two representatives of project manager, and one representative each of fiscal agent and technical assistance provider	Monthly	Includes representatives of Commonwealth Department of Housing and Community Development and Executive Office of Administration and Finance, and Government Performance Lab	Quarterly	Can attend any operating or steering committee meeting as non-voting member [Note 5]	As needed, with quarterly reports to state	1) Availability of 200 housing units by end of Year 2; 2) State failure to allocate housing and Medicaid resources; 3) Low retention of participants in housing	Success payments backed by full faith and credit of Commonwealth

	Operational oversight structure	Frequency of meetings and/or reports	Executive oversight structure	Frequency of meetings	Investor role in project governance?	Frequency of reporting to investors	Non-standard contract termination events	Appropriations risk mitigation strategy
Santa Clara Project Welcome Home	Operating committee includes 1 county representative and service provider staff	Monthly	Executive steering committee includes 2 county representatives and 2 service provider representatives	Quarterly	Can attend any operating or steering committee meeting as non-voting member [Note 6]	Quarterly	1) Insufficient referrals/under-enrollment; 2) Insufficient supply of adequate housing; 3) Substantial reduction in Medi-Cal funding	Annual appropriations part of county baseline budget; Service provider can terminate contract for cause in case of annual appropriations failure
Denver Housing to Health Initiative	Operating committee includes Denver Department of Finance and Division of Behavioral Health Strategies, service providers, evaluator, and project manager	2 times/ month for first six months of project; monthly thereafter	Governance committee includes city of Denver Chief Financial Officer, evaluator, service providers, project manager and investors	Quarterly	May attend any operating committee meeting; Included in governance committee	Quarterly	1) Inadequate volume of referrals or housing units/ subsidies; 2) Changes to Medicaid; 3) Policy changes that affect jail bed days; 4) Housing stability rate <50% by end of Year 3	Success payments held in set-aside account
South Carolina Nurse Family Partnership	Operational committee includes NFP, South Carolina Department of Health and Human Services, Social Finance, and Government Performance Lab	Biweekly for first 2 months, monthly during months 3-6, quarterly thereafter	Executive committee includes NFP, South Carolina Department of Health and Human Services, and representatives from the three largest funders	Quarterly for first year, annually thereafter	Three of the largest funders have formal roles in the executive committee and can observe operations committee meetings	Semi-annually or as requested	None	Success payments held in set-aside account by a third party, Children's Trust of South Carolina
Connecticut Family Stability Project	Operations committee includes implementing agents, service provider, Connecticut DCF, evaluator as necessary, and Social Finance	Bi-weekly	Executive committee includes Connecticut DCF, Social Finance, and Yale Child Study Center; funders retain one non-voting observer right by class	Bi-annually	Can attend oversight committee meetings as non-voting member [Note 7]	Quarterly	1) Insufficient enrollment; 2) High frequency of positive toxicology screens	Annual deposit in escrowed outcomes account
DC Water Environmental Impact Bond	Operations committee includes engineers, service providers, finance team, evaluators, and Quantified Ventures	Bi-weekly	Executive committee includes GM, CFO, Chief of Engineering, Quantified Ventures	Quarterly	None, but engaged early in discussions then heavily once draft term sheets produced	Quarterly	None	None
Santa Clara County Partners in Wellness	Operating committee includes 1 County representative and service provider staff	Monthly	Executive steering committee includes 2 county representatives and 2 service provider representatives	Quarterly	Not available	Not available; quarterly reporting to the committees	1) Insufficent referrals/under-enrollment; 2) Insufficient supply of adequate housing; 3) Substantial reduction in Medi-Cal funding	Annual appropriations part of County baseline budget; Service Provider can terminate contract for cause in case of annual appropriations failure

	Operational oversight structure	Frequency of meetings and/or reports	Executive oversight structure	Frequency of meetings	Investor role in project governance?	Frequency of reporting to investors	Non-standard contract termination events	Appropriations risk mitigation strategy
Massachusetts Pathways to Economic Advancement	Operating committee includes representatives of Executive Office of Administration and Finance, Executive Office of Labor and Workforce Development, Executive Office of Education, JVS, and Social Finance	Monthly for first 12 months; quarterly thereafter	Oversight committee includes representatives of Executive Office of Administration and Finance, Executive Office of Labor and Workforce Development, Executive Office of Education, service provider, and intermediary	Bi-annually	Two observer seats on oversight committee [Note 8]	Quarterly	1) Systemic under-enrollment	Success payments backed by full faith and credit of Commonwealth
Salt Lake County Homes Not Jail	Operating committee includes The Road Home, First Step House, Salt Lake County (2 representatives), project manager, special purpose vehicle, and independent evaluator	Twice per month during pilot period, once per month for remainder of contract	Executive committee includes The Road Home, First Step House, Salt Lake County, project manager, and funders	Monthly during pilot period, every two months for remainder of contract	Investors have one voting member on the executive committee who votes on behalf of all investors; the PFS contract specifies voting matters that require "funder consent" which will require each individual investor to vote	Quarterly	1) Pilot failure; 2) Non-appropriation of funds; 3) Failure to launch both projects by drop date [Note 9]	Annual deposit in PFS Escrow Fund
Salt Lake County REACH	Operating committee includes The Road Home, First Step House, Salt Lake County (2 representatives), project manager, special purpose vehicle, and independent evaluator	Twice per month during pilot period, once per month for remainder of contract	Executive committee includes The Road Home, First Step House, Salt Lake County, project manager, and funders	Monthly during pilot period, every two months for remainder of contract	Investors have one voting member on the executive committee who votes on behalf of all investors; the PFS contract specifies voting matters that require "funder consent" which will require each individual investor to vote	Quarterly	1) Pilot failure; 2) Non-appropriation of funds; 3) Failure to launch both projects by drop date [Note 9]	Annual deposit in PFS Escrow Fund

	Operational oversight structure	Frequency of meetings and/or reports	Executive oversight structure	Frequency of meetings	Investor role in project governance?	Frequency of reporting to investors	Non-standard contract termination events	Appropriations risk mitigation strategy
Los Angeles County Just-In-Reach	Operating committee includes Los Angeles County Department of Health Services, LA County Office of Diversion and Reentry, CSH, and NCCD	Monthly	Executive steering committee includes Los Angeles County Department of Health Services, LA County Office of Diversion and Reentry, Los Angeles County Chief Executive Office, CSH, and NCCD	Quarterly	Can attend steering committee meetings, but will only have purview over budget monitoring and early termination questions	Quarterly	1) Inadequate number of housing placements; 2) Inadequate levels of housing retention rates; 3) Higher levels of arrest rates than anticipated	Funds allocated through regular budget process
Oklahoma Women in Recovery Project	Program director and staff	Meet weekly; monthly project reports to OMES	Executive oversight committee includes staff from private funder, service provider, and OMES	Not available	As needed; Funder staff is member of executive oversight committee	Annually	1) Enrollment falling below 75 participants per year; 2) Service provider losing certifications/accreditation to provide intervention; 3) Service provider fails to serve 75 justice-involved women outside of PFS population; 4) Failure to secure $2 million annually in upfront capital; 5) Failure for private funding sources to contribute $1.8 million annually to services addressing female incarceration in Tulsa	Primary funder
Ventura County Project to Support Reentry	Management committee includes representatives from Ventura County Executive Office, Ventura County Probation Agency, Interface Children & Family Services, and Social Finance	Monthly	Executive steering committee includes senior executives from Ventura County Executive Office, Ventura County Probation Agency, Public Defender's Office, Interface Children & Family Services, and Social Finance	Bi-annually	Can attend Executive steering committee meeting as non-voting member [Note 7]	Quarterly	None	Annual deposits in Ventura County budget unit; Required matching fund per terms of Board of State and Community Corrections grant

	Operational oversight structure	Frequency of meetings and/or reports	Executive oversight structure	Frequency of meetings	Investor role in project governance?	Frequency of reporting to investors	Non-standard contract termination events	Appropriations risk mitigation strategy
Alameda County Justice Restoration Project	Operating committee	Monthly	Advisory committee	Quarterly	Yes	Quarterly	1) Referrals and enrollments falling below a specific level; 2) Minimum hours of service delivery, 3) Adverse recidivism reduction in the participant group (i.e. meaningful increase in arrests), and 4) Inability to access and analyze project data and outcomes in a timely matter	County and state outcome payment funds were authorized by the Board of Supervisors through the duration of the project
Michigan Strong Beginnings	Operations committee—includes representatives from service provider, programmatic and fiduciary intermediary Spectrum Health, MDHHS, evaluator and project coordinator	Monthly	Executive committee—includes senior management from Spectrum Health and MDHHS	Monthly	Can attend executive steering committee meeting as non-voting member	Monthly	None	Funds allocated through regular budget process
Northern Virginia	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Maternal, Infant, and Early Childhood Home Visiting Outcomes Rate Card Pilot	OEC home visiting staff leads oversight with support from intermediary	Monthly	OEC home visiting staff and leadership with support from intermediary	Quarterly	n/a	n/a	n/a	Bonus payments are subject to funding availability
Blood Bank of Delmarva Young Blood Sustainability Project			Management committee e comprised of Longwood, NYBC, Discover, DCF	Semi-annually	Included in governance committee	Annual		Annual deposit in PFS sinking fund
Veterans CARE	IPS experts based out of Tuscaloosa VA Medical Center lead operating committees with support from intermediary	Monthly	Outcome payors, program director, and intermediaries represented on payor steering committee	Semi-annually	Two observer seats on payor steering committee	Quarterly	Potential termination event associated with under-enrollment or severe worsening of PTSD symptoms	Federal outcomes funding fully obligated at project outset

Table 6: Notes

1 Committee or working group involved in regular and/or day-to-day monitoring of project progress

2 Oversight and decision-making body for PFS project

3 Events that allow stakeholders to exit their contractual obligations, beyond those typically found in loan agreements and contracts

4 Means by which to mitigate risk that funding is not available for investor repayment

5 CSH and United Way of Massachusetts Bay and Merrimack Valley are both investors in the project. They are also part of the MASH Board of Directors as members of the project intermediary and the technical assistance provider and fiscal agent, respectively.

6 Under certain circumstances, investors can direct the service provider not to approve a certain course of action recommended by the operating or steering committee. This is articulated in the agreement between the investors and the service provider, which was not available for this report.

7 Investors may require consent rights or rights to direct SPV voting through the loan agreement for material changes to the PFS contract and ancillary agreements.

8 Investors may require consent rights for material adverse changes to the PFS contract that affect the timing of success payments.

9 The SLCo PFS contract includes automatic termination events, presumptive termination events, and optional termination events.

- **Pay for Success vs. Social Impact Bonds.** "Pay for Success (PFS)" is often used used as an umbrella term for the movement toward results-based approaches to social services, and more specifically, to refer to the contracting method by which an end payor contracts for the delivery of outcomes-based services. Increasingly, there is a distinction between PFS and social impact bonds (SIBs) as the mechanism for third-party, up-front investments that in most cases have financed PFS projects. The term "social impact bond," borrowed from the United Kingdom, has proven confusing, as SIBs are not "bonds" in the traditional sense. Compounding the confusion, the term "SIB" has sometimes been used interchangeably with "PFS."

- **PFS financing mechanisms have not been structured as bonds, but rather as direct loans.** Most projects to date have involved multiple investors, and the most common arrangement emerging is a layered capital stack with investments divided into senior and subordinate positions.

- **Pay for Success projects don't always rely on Social Impact Bonds.** It is possible that a PFS contract can exist without financing from a third party. But most service providers—predominantly nonprofit organizations—do not have strong enough financial positions to cover the up-front costs of service delivery over the life of a PFS contract, particularly with the risk of not being repaid. Santa Clara County launched its second PFS project, Partners in Wellness, without any outside financing by relying on the county's own resources as well as the service provider Telecare's financial stability to share the risk of project success or failure. This was the first project to use PFS contracting without SIB financing. Since the launch of Partners in Wellness, there has been increasing exploration of contracting structures that do not require financing, such as the Maternal, Infant, and Early Childhood Home Visiting Outcomes Rate Card Pilot. Service providers can be paid up front in a business-as-usual way, and then receive bonuses for achieving outcomes. This reduces the risk/need for investors, but still pushes an outcomes orientation because even small bonus payments are often enough to change and align behavior.

- **The pool of investors in PFS projects to date is small, with some repeat investors, and has included a range of investor types:** commercial banks, private, corporate and family foundations, philanthropic intermediaries (mainly United Ways), Community Development Financial Institutions (CDFIs) and high net-worth individuals. High net worth individuals and institutional investors seeking impact investment opportunities remain largely untapped as sources of capital. Notable exceptions are: the New York State and Massachusetts Pathways to Economic Advancement projects, which used Bank of America Merrill Lynch's private wealth management platform to raise money from individual investors; an investment from Boeing in the South Carolina Nurse Family Partnership project; and United Healthcare's investment in the Los Angeles Just-in-Reach project. The relatively small size of investments may be an impediment to attracting commercial investors.

- **CDFIs have been involved in half of all projects launched to date,** including, CSH, Enterprise, IFF, NFF, and Reinvestment Fund. CDFIs have filled a number of roles in the project development and implementation phases, not just as investors but also as transaction coordinators, project managers, and technical assistance providers. The PFS investment opportunity provides CDFIs with the chance to apply their experience as financing intermediaries and lenders to the social sector, and respond to the needs of the sector in a new way. Some see the PFS market as a natural extension of their work in community development financing, with Community Reinvestment Act investing, low-income housing and New Markets Tax Credit investing, and pooled investment funds.

- **The learning curve for investors in PFS projects is steep.** Investors are underwriting service provider performance rather than cash flow (or collateral), which involves a fundamentally different set of risks where outcomes are influenced by many factors outside the control of the service provider. Most investors have limited experience in evaluating outcomes-based contracts and the corresponding type of risks that PFS projects present, including implementation risk related to program delivery, reliance on government partners for referrals and other resources critical to program success (e.g. housing, health care), varying degrees of evidence supporting interventions, and appropriations risk. Further, there are more possible outcome scenarios for PFS projects, which can make calculating the likelihood of repayment difficult. Lastly, traditional community development investing is typically done to support capital projects and is secured by real estate and sometimes, cash, receivables, future revenues, or other personal property of the borrower. In PFS financing, the investments may only be secured by a lien on the account where project funds are held, and perhaps an assignment to partial repayment in the event of early project termination.

- **Philanthropy has played a role in all projects to date,** and many early projects would likely not have been possible without significant philanthropic subsidy in the form of funds to support project development, subordinated investments, grants or guarantees, all of which essentially act as a form of credit enhancement to senior investors by providing increased assurance of repayment. For example, The James Irvine Foundation supported the California Pay for Success Initiative, providing $6.6 million in flexible funding and support to launch the first five projects in California. This is in addition to critical philanthropic support for service providers for their ongoing service delivery, as well as capacity-building efforts that enable them to participate in PFS projects. Philanthropy has also participated in PFS projects by funding evaluation and providing ongoing support to service providers and project managers. The California PFS Initiative provided critical, supplemental support to launched projects to help cover unexpected or underfunded costs. Some foundations have made their investments in PFS projects as program-related investments (PRIs), which are defined as below-market-rate investments whose primary purpose is charitable and not financial. For this reason, subordinate investments in PFS projects are a good fit for PRIs and may be used more frequently as foundations pursue impact investing strategies that broaden their traditional grantmaking activities.

- **One of the most exciting aspects of the original PFS model was its potential to attract new sources of capital to the social sector** that were otherwise going to traditional capital markets. Typically, investors have focused their social-sector investments in real estate, through direct lending and the low-income housing and New Markets Tax Credits, and to a lesser extent in working capital loans and small business development. PFS financing presents the opportunity for direct investment in the outcomes produced by preventative and early intervention services—a largely untapped opportunity. However, PFS projects across the country have made only moderate progress in bringing new players and financing to the table. Most capital invested has come from foundations, Community Development Financial Institutions (CDFIs), and other traditionally mission-oriented funders. More frequently, PFS projects are able to leverage (or "unlock") new state and federal funds to support PFS and performance-based projects, rather than attracting new capital.

- **PFS financing has successfully leveraged other public resources.** Many projects have relied on the leveraging and targeted use of public resources in the form of housing subsidies and vouchers, and Medicaid-funded health services. Thus, the project budget for achieving the target outcomes is larger than the capital raised through the PFS financing mechanism. But, the financial modeling for the project—and the amount of money which is eligible for repayment—is limited to the capital raised from private sources.

- **There is little precedent or methodology for adjusting financial returns according to risk for social service program outcomes.** Most deals have offered relatively modest returns for all investors, so the real distinctions between investor classes have been around priority and timing of repayment, and in Santa Clara County Project Welcome Home and Denver, payment on different outcomes. In both the Santa Clara Project Welcome Home and Denver projects, one class of investor will be repaid on a shorter (and presumably less risky, due to a higher evidence base) success metric of housing stability, which is presumed to be a safe proxy for longer-term positive impact.

- **Subordinate investors are "impact first" participants—prioritizing social outcomes over financial return.** This significantly limits the pool of subordinate capital. Philanthropies—accustomed to prioritizing impact above financial return with their investing and giving—have most often provided this capital. Limited interest in subordinate positions has created a financing bottleneck and limited the growth of the model. Transaction coordinators have responded with creative approaches to structuring. Projects have explored new methods for shortening the duration of investments, increasing the return to subordinate investors, and even new financing mechanisms like the Social Impact Guarantee (in which an insurance-like model is employed with the outcomes payor funding services up front and investors providing a letter of credit in case of failure).

- **The next frontier of this work has been to create pools, or portfolios of projects, which could absorb larger infusions of capital and spread money (and risk) over multiple projects.** This requires having a robust pipeline of projects, and would also create additional administrative and management costs. The launch of new funds seeking senior positions in PFS projects, such as those managed by Maycomb Capital and Reinvestment Fund, shows continued interest in the model if sufficient subordinate capital can be accessed to mitigate the risk.

- **There is very little consistency across PFS projects in terms of the size of investment, composition of the capital stack, and the relative investment size of investors by type.** Capital raised for PFS projects ranges from $2.6 million to $25 million. Some transaction coordinators report that commercial investors are looking for larger investment opportunities than most early projects have offered. In the initial 10 PFS projects, senior positions comprised the majority of the capital stack, while the second round has seen an increasing role for subordinate and grant capital. Some argue that the failure of the early hope that Pay for Success models could be financed by private equity dollars means the model has not been a success. Alternately, it may be a response to the economics of the PFS projects themselves, where the relatively narrow margin between total project costs and the maximum repayment committed by the back-end payor requires most investors to be repaid at a lower rate. In any scenario, having multiple investors—as many as eight in the Denver Housing to Health project—creates the added challenge of investor coordination throughout the development and implementation stages. Transactions that rely on larger numbers of investors may need to identify ways to more effectively coordinate investor activity.

Table 7: Investors

	Senior investor/ lender and total senior investment ($ million)	Subordinate investor/ lender and total subordinate investment ($ million)	Deferred fee source and total deferred fees ($ million) [Note 1]	Recoverable grant source and total recoverable grants ($ million) [Note 2]	Non-recoverable grant source and total non-recoverable grants ($ million) [Note 3]	Guarantor and guarantee ($ million) [Note 4]
NYC ABLE Project for Incarcerated Youth	Goldman Sachs ($9.6)	None	None	None	None	Bloomberg Philanthropies ($7.2)
Utah High Quality Preschool Program	Goldman Sachs ($4.6)	J.B.& M.K. Pritzker Family Foundation ($2.4)	None	None	None	None
New York Increasing Employment and Improving Public Safety	Bank of America Merrill Lynch ($13.5) [Note 11]	None	None	None	None	Rockefeller Foundation ($1.3)
Massachusetts Juvenile Justice PFS Initiative	Goldman Sachs ($9)	The Kresge Foundation ($1.5); Living Cities ($1.5); ($3 total)	Roca Inc. ($3.26); Third Sector Capital Partners Inc. ($0.05); ($3.31 total)	None	Laura and John Arnold Foundation ($3.7); New Profit, Inc. ($2); The Boston Foundation ($0.3); ($6 total)	None
Chicago Child-Parent Center Pay for Success Initiative	Goldman Sachs ($7.33); Northern Trust ($5.33); ($12.66 total)	J.B. & M.K. Pritzker Family Foundation ($4)	None	None	None	None
Cuyahoga Partnering for Family Success Program [Note 5]	The Reinvestment Fund ($1.575)	George Gund Foundation ($1); Nonprofit Finance Fund ($0.325); The Cleveland Foundation ($0.75); Sisters of Charity Foundation of Cleveland ($0.2); ($2.275 total)	None	Sisters of Charity Foundation of Cleveland ($0.15)	None	None
Massachusetts Chronic Homelessness Pay for Success Initiative [Note 6]	Santander Bank ($1); United Way of Massachusetts Bay and Merrimack Valley ($1); CSH ($0.5); ($2.5 total)	None	None	None	Santander Bank ($0.25); United Way of Massachusetts Bay and Merrimack Valley ($0.75); ($1 total)	None
Santa Clara Project Welcome Home [Note 7]	The Reinvestment Fund ($0.5); CSH ($0.5); ($1 total)	The Sobrato Family Foundation ($1.5); The California Endowment ($1); The Health Trust ($1); The James Irvine Foundation ($0.28); ($3.78 total)	Abode Services ($0.5)	Google.org ($0.5)	Laura and John Arnold Foundation ($1)	None
Denver Housing to Health Initiative [Note 8, 9]	Housing Stability Outcome: Northern Trust ($3); Walton Family Foundation ($1); Piton Foundation ($0.5); Jail Bed Day Outcome: Laura and John Arnold Foundation ($1.7); Colorado Health Foundation ($1); Living Cities ($0.5); Denver Foundation ($0.5); Nonprofit Finance Fund ($0.435); ($8.6 total)	None	None	None	None	None
South Carolina Nurse Family Partnership [Note 10]	None	None	None	None	The Duke Endowment ($8); Consortium of private funders ($4); BlueCross BlueShield of South Carolina Foundation ($3.5); The Boeing Company ($0.8); Greenville, SC First Steps ($0.7); ($17 total)	None
Connecticut Family Stability Project	BNP Paribas; QBE Insurance; The Reinvestment Fund ($7.84 total)	Laura and John Arnold Foundation; Doris Duke Charitable Foundation; Nonprofit Finance Fund; two family foundations ($3.36 total)	None	None	None	None

Table 7: Investors

	Senior investor/ lender and total senior investment ($ million)	Subordinate investor/ lender and total subordinate investment ($ million)	Deferred fee source and total deferred fees ($ million)	Recoverable grant source and total recoverable grants ($ million)	Non-recoverable grant source and total non-recoverable grants ($ million)	Guarantor and guarantee ($ million)
DC Water Environmental Impact Bond	Goldman Sachs; Calvert Foundation ($25 total)	None	None	None	None	None
Santa Clara County Partners in Wellness [Note 12]	None	None	Telecare ($1.4)	None	None	None
Massachusetts Pathways to Economic Advancement	$9.94	$2.49	None	None	None	None
Salt Lake County Homes Not Jail	Northern Trust; Ally Bank; QBE Insurance; The Reinvestment Fund ($3.6 total)	Sorenson Impact Foundation; Sorenson Family Foundation ($0.8 total)	None	None	Noorda Foundation; Miller Family Foundation; Nonprofit Finance Fund; Ally Bank; County Escrow ($1.26 total)	None
Salt Lake County REACH	Northern Trust; Ally Bank; QBE Insurance ($3.4 total)	Sorenson Impact Foundation; Sorenson Family Foundation; Living Cities ($1.2 total)	None	None	Eccles Foundation; Noorda Foundation; Miller Family Foundation; Zions Bank; Synchrony Bank; Nonprofit Finance Fund; Ally Bank; County Escrow ($1.46 total)	None
Los Angeles County Just-In-Reach	United Healthcare ($7)	The Conrad N. Hilton Foundation ($3)	None	None	None	None
Oklahoma Women in Recovery Project	George Kaiser Family Foundation ($10)	None	None	None	None	None
Ventura County Project to Support Reentry	Reinvestment Fund, Nonprofit Finance Fund, Whitney Museum of American Art ($2.072 total)	None	Interface Children & Family Services, Social Finance ($0.218 total)	Blue Shield of CA Foundation ($0.3)	None	None
Alameda County Justice Restoration Project	Reinvestment Fund ($1.19)	None	None	None	None	None
Michigan Strong Beginnings	None	None	None	None	Spectrum Health Foundation, Michigan Health Endowment Fund, Kellogg	None
Northern Virginia	n/a	n/a	n/a	n/a	n/a	n/a
Maternal, Infant, and Early Childhood Home Visiting Outcomes Rate Card Pilot	n/a	n/a	n/a	n/a	n/a	n/a
Blood Bank of Delmarva Young Blood Sustainability Project	DCF Social Impact Fund ($0.45)	n/a	n/a	n/a	n/a	n/a
Veterans CARE	BNP Paribas, Northern Trust ($4.1)	Deutsche Bank, Robin Hood Foundation, Dakota Foundation ($1M)	n/a	Robin Hood Foundation, $90K	n/a	n/a

Table 7: Notes

1 Deferred fees are delayed payments for the services provided by service providers, transaction coordinators, and/or project managers. Deferred fees are one way of structuring projects so that more stakeholders have a financial interest in ensuring project success.

2 Philanthropies can use either their regular grant making protocols, or protocols for program-related investments (PRIs), to contribute to PFS capital stacks. If a foundation does not use a PRI, their investment may be structured as either a loan or a recoverable grant. The distinction between the two is in the expectation of repayment. A loan, even if from a philanthropic source, is expected to be repaid, and structured accordingly. A recoverable grant does not bear the same expectation of repayment.

3 Non-recoverable grants are traditional grants contributed to capital stacks; if the project is successful and generates full repayment, the non-recoverable grants can remain with the service provider or project manager, or be recycled by the original funder.

4 Guarantees were used in early projects as a credit enhancement for senior investors. Guarantees limit potential investor loss by repaying a certain portion of the investment in the case that repayment is not retriggered by project outcomes. Guarantees are not considered as part of the total capital stack, or PFS transaction funds.

5 The success of the Pay for Success intervention in Cuyahoga County relies on connection to stable housing. The Cuyahoga Metropolitan Housing Authority (CMHA), Emerald Development & Economic Network, Inc. and Famicos Foundation are local housing providers that will provide public housing and/or voucher-based housing resources for the program's families. CMHA created a high-priority public housing preference for caregivers enrolled in the PFS program. The value of these housing units and vouchers is not included in the project budget or initial capital raised.

6 Massachusetts Chronic Homelessness PFS Project leverages $18 million in public funding including $7 million for 145 project-based housing vouchers allocated by the Massachusetts Department of Housing and Community Development, and $11 million in health care services reimbursed by managed care entities.

7 Santa Clara Project Welcome Home leverages $7.7 million in Medicaid-reimbursable mental health services and $4 million in county-subsidized housing units and vouchers.

8 The Housing to Health Initiative assumes leverage of an additional $16.15 million in public resources to support project service delivery, split as follows: $5.17 million in Medicaid funding; $5.42 million in housing vouchers from the Colorado Department of Housing; $5.42 million in housing vouchers from the Denver Housing Authority; and $143,000 in SSI/SSDI funding. In addition, the project relies on the construction of 210 new housing units, financed with a $2.7 million low-income housing tax credit allocation and $3.2 million in gap financing from the city and state.

9 The Housing to Health Initiative did not use a senior/subordinate structure, but created two tranches of investors. The first tranche, listed here as senior, receives payment on an outcome related to housing stability, and on an annual basis throughout the life of the project starting in year 2. The second tranche, listed here as subordinate, receives payment on an outcome related to jail bed day reduction, which is only measured at the end of the project period.

10 In addition to the $17 million raised from private sources, Medicaid will fund approximately $13 million via a 1915(b) Medicaid Waiver, awarded to the South Carolina Department of Health and Human Services by the federal Centers for Medicare and Medicaid Services.

11 Bank of America Merrill Lynch raised $13.5 million through its private wealth management division. The investor group included 40 individuals, foundations and family foundations. Several of the large foundations including in the investor group, including the Robin Hood Foundation, are not eligible for credit enhancement from the Rockefeller Foundation, the guarantor, but are otherwise subject to the same repayment terms as other investors.

12 Instead of using investors, the Santa Clara County Acute Mental Health Needs Project is funded up front by the county in a direct risk-sharing agreement with Telecare. The county will fund Telecare's services through two agreements—a $16.9 million Clinical Services Agreement, which covers Medi-Cal reimbursable services, and an $11.2 million Pay for Success agreement.

- **There can be up to three types of payments to investors in a PFS transaction: annual interest; repayment of investment or principal; and return on investment.** Annual interest can be paid regardless of project performance or outcomes, while capital repayment and success payments are tied to performance of the service provider and the achievement of pre-agreed indicators and outcomes, as measured and confirmed by the project's evaluator. Indicators are pre-agreed upon outputs that suggest that the project is on track to achieve an outcome. For example, in the Ventura County Project to Support Reentry, an indicator is "clean quarters," where investors are paid for each 90-day period in which an enrolled service group member is not re-arrested. Investor repayment can occur throughout the life of the project's implementation, after the project's conclusion, or both. In some projects, the timing of repayment is the differentiating factor between senior and subordinate investors, with senior investors getting repaid first.

- **Repayment may be based on observed differences between the project's treatment and control group, or on outcomes observed for individual participants served, or a combination of these.** For example, in the New York City, New York State, and Cuyahoga County projects, there is a minimum threshold of difference between the treatment and control or comparison groups which must be met in order for any repayment of principal to be made. In contrast, other projects make repayment based on any observed positive outcome amongst the treatment group using a set per-person or per-outcome rate, such as the Santa Clara County Project Welcome Home, which makes payments per person to remain stably housed. In the Denver Housing to Health project, there is a combination where individuals must meet a threshold of 12 months of housing to qualify for a per-day, per-person repayment rate.

- **In most cases, investors can be partially repaid their principal,** with full repayment of up front investment, as well as any potential return on investment, tied to higher rates of outcomes being achieved. Rates of return may also vary according to level of outcome achievement, as in the Massachusetts Chronic Homelessness project. There is no standard methodology for calculating investor return, and the methodology for doing so is agreed-upon investor contracts which are not available publicly and were not included in this report's analysis. Projects may use return on investment (ROI) or internal rate of return (IRR) methodology to determine repayment calculations. In general, rates of return are below market. This should be enabling factor for philanthropies who are using PRIs, which are defined, in part, as below-market investments.

- **The timing of investor repayment varies based on the type of outcome, evaluation methodology, and investor class.** Most PFS projects have service delivery periods in the range of four to six years, but the horizon for investor repayment often extends beyond this timeframe to allow for the measurement of target outcomes beyond the treatment period and finalization of the evaluation. Indeed, this delay in time horizon is associated with rigorous evaluation design. By definition, outcomes are assessed in a longer time frame and through retrospective analysis—in contrast to outputs, which can be tracked in real time. For example, a workforce development program could report on a number of outputs within the short term: individuals who completed a job training program, received a skills certification, and found a job. But, a successful outcome might be the number of people who find and keep a job for a period of several years, and exhibit sustained and increasing earnings; this would be indicative of longer-term stability in their lives. Early childhood projects, in particular, can have a long "tail" in terms of investor repayment because evaluations may involve longitudinal tracking of students. Both the Chicago and Utah projects track students through sixth grade; for subordinate investors, who are only repaid if and when the senior investors have been fully repaid, this can result in very long horizons for full repayment: 17 and 12 years, respectively.

- **Recent projects have also used different outcomes to trigger repayments to senior and subordinate investor groups,** or tranches of investors, such as in the case of the Denver Housing to Health Initiative. This reflects differences in risk tolerance, and is only possible for interventions where short-term proxy measures exist and can be linked by strong evidence to longer-term measures of success. For example, in housing projects, housing stability for one year with minimal interruptions is considered to be a strong indicator of long-term stability, with the associated positive benefits of improved health, and reduced use of emergency services and criminal justice systems. Similarly, for early childhood education programs, measures such as kindergarten readiness can be correlated to greater rates of academic achievement continuing through primary and secondary school, based on existing longitudinal studies.

Table 8.1: Basic Repayment Structure

	Initial investment ($ millions)	Maximum repayment funds committed by payor ($ millions)	Full service delivery term (years)	Full repayment period (years)	Interim outcomes reported? Tied to payments?	Sustainability/Recycling of funds
NYC ABLE Project for Incarcerated Youth	$9.60	$11.70	4 (projected); 3 (actual)	4 (projected); 3 (actual)	Yes/Yes	Any unspent portion of guarantee to be used by intermediary to facilitate future transactions
Utah High Quality Preschool Program	$7.00	Not available	4	12	Yes/Yes	None specified
New York Increasing Employment and Improving Public Safety	$13.50	$21.60	4	5.5	No/No	Government partners hope to continue successful programs
Massachusetts Juvenile Justice PFS Initiative	$21.76	$27.0	7	7	Yes/Yes	1) State could serve an additional 390 individuals if the project is successful, using federal grant funds; 2) Any repaid philanthropic support will be invested in future PFS projects and/or service provider scaling
Chicago Child-Parent Center Pay for Success Initiative	$16.90	$34.0	4	17	Yes/Yes	None specified
Cuyahoga Partnering for Family Success Program	$4.00	$5.0	4	5	No/No	Philanthropic funding could be remitted to service provider if repaid as success payment
Massachusetts Chronic Homelessness Pay for Success Initiative	$3.50	$6.0	5	6	Yes/Yes	1) Housing vouchers and Medicaid services will remain with participants
Santa Clara Project Welcome Home	$6.90	$12.0	6	6.25	Yes/Yes	1) Recoverable grant will be reinvested into service provider for capacity building; 2) Nonrecoverable grant will be reinvested in county
Denver Housing to Health Initiative	$8.60	$11.4	5	5	Yes/Yes	None specified
South Carolina Nurse Family Partnership	$17.00	$7.5	6	5	No/No	If outcomes are achieved, success payments will be reinvested to extend NFP service delivery period in South Carolina
Connecticut Family Stability Project	$11.20	$14.80	4	6	No/No	Government partners hope to continue effective programs
DC Water Environmental Impact Bond	$25.00	$29.16	4.5	5	No/No	None specified
Santa Clara County Partners in Wellness	$11.20 [Note 1]	$12.60	6	6.5	Yes/Yes	None specified
Massachusetts Pathways to Economic Advancement	$12.43	$15.00	3	6	No/No	Government partners hope to continue effective programs
Salt Lake County Homes Not Jail	$5.30	$10.85	5	6	Yes (graduation to permanent housing location)/ Yes	None specified
Salt Lake County REACH	$5.38	$11.33	5	6	Yes (treatment engagement hours)/Yes	None specified
Los Angeles County Just-In-Reach	$10.00	$11.50	4	4.5	Yes/Yes	Success payments made by the county will recycle back into the intervention to cover program costs; the maximum success payment allocation is $14.9M with only $11.5M of that available to investors as repayment; the rest is recycled into the program to support operations
Oklahoma Women in Recovery Project	$10.00	$14.10	5	9.5	Yes/Yes	If outcomes are achieved, F&CS has agreed to reinvest 100% of the state's success payments into Women in Recovery; Funder has committed to invest annually at the same level into WIR and/or other programs serving justice-involved women

Table 8.1: Basic Repayment Structure

	Initial investment ($ millions)	Maximum repayment funds committed by payor ($ millions)	Full service delivery term (years)	Full repayment period (years)	Interim outcomes reported? Tied to payments?	Sustainability/Recycling of funds
Ventura County Project to Support Reentry	$2.59	$2.85	4	4.5	No/No	Government partners hope to continue successful programs
Alameda County Justice Restoration Project	$1.19	$1.37	1.5	3.5	No/No	If successful, county of Alameda seeks to scale the program through a new outcomes oriented contract with the service provider and/or community
Michigan Strong Beginnings	$2.5	$8.2	7	8	Yes/No	Success payments will recycle back into the intervention to cover program costs, the rest will be used to fund Strong Beginnings' operations after the project
Northern Virginia	n/a	$0.15 bonus payments	5	n/a	Yes—validation of outcomes every 6 months	Yes—used by provider for related services
Maternal, Infant, and Early Childhood Home Visiting Outcomes Rate Card Pilot	n/a	n/a	1	2	No/No	None specified
Blood Bank of Delmarva Young Blood Sustainability Project	$0.45	$0.50	4	4	Yes/Yes	n/a
Veterans CARE	$5.1	$6	3	3	Yes/Yes	n/a

Table 8.1: Notes

1 In total, the county will allocate ~$12.4 million to success payments with the remaining success payment funds coming from grant awards.

Table 8.2: Detailed Repayment Structure

	Interest	Trigger for initial repayment of principal [Note 1]	Threshold for full repayment of principal	Threshold for full repayment of principal plus maximum success payments	Repayment timing	Return to investor [Note 2]	Success payment to other stakeholders? [Note 3]
NYC ABLE Project for Incarcerated Youth	None	8.5% reduction between control and treatment	10% reduction between control and treatment	20% reduction between control and treatment	Year 3 (final)	11% to 22%	No
Utah High Quality Preschool Program	None	Any difference between predicted and actual use of special education services for treatment group	~90% avoidance of special education for students deemed at-risk	Not available	Senior: annually, years 3-10; Subordinate: after senior investment repaid	5% + municipal money market rate, with a maximum rate of 7.26% [Note 4]	No
New York Increasing Employment and Improving Public Safety	None	1) Employment outcome: 5% increase in 4th quarter employment compared to control group; 2) Recidivism and transitional work outcome: ~37 day decrease in average incarceration days compared to control group	10% reduction in recidivism	40% reduction in recidivism	Year 4; Year 5.5	Expected IRR at base case 6-8%	Yes: Intermediary
Massachusetts Juvenile Justice PFS Initiative	5% (senior) and 2% (subordinate) base annual rate	1) Jail Bed-Day Outcome: 5.2% decrease in days incarcerated; 2) Job readiness outcome: Participant engages with youth worker ≥ 9 times in one quarter; 3) Employment outcome: Participant earnings ≥ $1,000 in one quarter	40% reduction in incarceration days	70% reduction in incarceration days	1) Incarceration outcome: Bi-quarterly starting in Year 5; 2) Job readiness outcome: Bi-quarterly starting at Q7; 3) Employment outcome: Bi-quarterly starting in Year 5	11% maximum (senior lenders); 18% maximum (subordinate lenders)	Yes: Service provider and project manager
Chicago Child-Parent Center Pay for Success Initiative	Not available	Any positive difference between treatment group and national averages on: 1) Special education outcome; 2) Kindergarten readiness outcome; 3) Third grade literacy	Not available	Not available	Senior: annually, year 2-9; Subordinate: annually, year 10-17	6% (average)	Not available
Cuyahoga Partnering for Family Success Program	5% (senior) and 0% or 2% (subordinate) annual rate	2% difference between treatment and control groups in out-of-home placement days	25% reduction in out-of-home placement days	40% reduction in out-of-home placement days	Year 5	Success payments up to $1 million to subordinate lenders	Philanthropic funding could be remitted to service provider if repaid as success payment
Massachusetts Chronic Homelessness Pay for Success Initiative	0–5.33% annually, based on success rates [Note 5]	40% rate of 12 months of housing stability	80% rate of 12 months of housing stability	94% rate of 12 months of housing stability	Year 6	[Note 5]	No
Santa Clara Project Welcome Home	5%; (senior); 2% (subordinate/PRI); 0% (Philanthropic)	Client achievement of three months of housing stability	Not available	83% of clients achieve 12 months of housing stability	Annually, starting at the end of year 1	Not available	Yes [Note 6]
Denver Housing to Health Initiative	None	1) Housing Stability: Client achievement of 12 months of housing stability; 2) Jail Days: 20% reduction	1) Housing Stability: 83%; 2) Jail Days: 30% reduction	1) Housing Stability: 100%; 2) Jail Days: 65% reduction	1) Housing Stability: annually, starting after Quarter 6; 2) Jail Days: after Year 5	3.5% (expected rate of return)	No

Table 8.2: Detailed Repayment Structure

	Interest	Trigger for initial repayment of principal	Threshold for full repayment of principal	Threshold for full repayment of principal plus maximum success payments	Repayment timing	Return to investor	Success payment to other stakeholders?
South Carolina Nurse Family Partnership	None	1) Preterm birth: 13.5% reduction; 2) Healthy birth spacing: 18% reduction; 3) Child injury: 23.4% reduction; 4) Coverage in low-income zip codes: 65% of mothers enrolled	1) 15% reduction; 2) 20% reduction; 3) 26% reduction; 4) 65% enrolled	Not applicable	End of Year 4; End of Year 5	Not applicable	Yes: Service provider [Note 8]
Connecticut Family Stability Project	5% (senior); 3% (junior) [Note 9]	Any 1) Reduced out-of-home placements; 2) Reduced re-referrals to DCF; 3) Clean toxicology screens; 4) FBR enrollment	[Note 10]	[Note 10]	Annually, starting just before year 2	Expected IRR base case: Seniors 6-6.5%; Juniors 5-6%	Yes: Intermediary
DC Water Environmental Impact Bond	3.43%	Project completion, outcomes validated	Runoff reduction between 18.6% and 41.3%	Runoff reduction greater than 41.3%	Semi-annual coupon; principal repayment at year 5 (term end); success payments at year 5	3.43% base case; 6.4% maximum; 0% minimum	No
Santa Clara County Partners in Wellness	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Yes: Service provider [Note 11]
Massachusetts Pathways to Economic Advancement	None	Any 1) Earnings; 2) Transition into college; 3) Program engagement	n/a [Note 10]	n/a [Note 10]	Quarterly, starting in Q3	Expected rate of return at base case: Class A 6.5%; Common 4-9%	Yes: Service provider and intermediary
Salt Lake County Homes Not Jail	5% (senior); 2% (subordinate); paid quarterly	Any difference between treatment and control group on payment metrics	Between 15% and 20% impact on months without jail or shelter	1) 30% impact on months without jail/shelter; 2) 80% graduation to a permanent location; 3) 100% enrollment in substance abuse services; 4) 100% enrollment in mental health services	Interest paid throughout, principal paid at Q19 and Q24	8.70% (senior); 13.47% (subordinate)	Yes: Service provider and project manager
Salt Lake County REACH	5% (senior); 2% (subordinate); paid quarterly	Any difference between treatment and control group on payment metrics	Between 20% and 25% impact on days incarcerated	1) 35% reduction arrests; 2) 35% reduction in days incarcerated; 3) 25% impact on employment; 4) 66.4% treatment engagement	Interest paid throughout, principal paid at Q19 and Q24	8.26% (senior); 12.04% (subordinate)	Yes: Service provider and project manager

Table 8.2: Detailed Repayment Structure

	Interest	Trigger for initial repayment of principal	Threshold for full repayment of principal	Threshold for full repayment of principal plus maximum success payments	Repayment timing	Return to investor	Success payment to other stakeholders?
Los Angeles County Just-In-Reach	5% (senior); 2% (subordinate/PRI); 0% (subordinate/PRI) [Note 12]	Six month housing stability (base case is 92%)	There are several scenarios in which investors will receive full repayment of principal. One scenario in which this could occur is: 70% housing stability at 6 and 12 months assuming 80% of the cohort has 2 or fewer arrests post PSH placement.	There are several scenarios in which investors will receive full repayment of principal. One scenario in which this could occur is: 92% housing stability at 6 months, and 90% housing stability at 12 months assuming 80% of the cohort has 2 or fewer arrests post PSH placement.	Year 4.5	15% maximum	None
Oklahoma Women in Recovery Project	None	Participant successfully graduates WIR program	Not available	Participants remain out of prison for 54 months from date of program enrollment	Monthly, starting when first participant reaches success payment milestone [Note 13]	None	None
Ventura County Project to Support Reentry	7% (seniors); 4% (deferred fee providers) [Note 9]	Any 1) relative reduction in rearrests; 2) number of clean quarters achieved	Not publicly available [Note 10]	Not publicly available [Note 10]	RCT: at month 36 and month 52; Clean quarters: quarterly	Expected IRR at base case: Seniors 7-7.5%; Deferred fee providers 4-4.5%	No
Alameda County Justice Restoration Project	7%	Recidivism reduction in the participant group greater than 3% age points	Various [Note 10]	Various [Note 10]	Based on RCT results in Quarter 14	Various [Note 10]	None
Michigan Strong Beginnings	None	None	None	None	None	None	No
Northern Virginia							
Maternal, Infant, and Early Childhood Home Visiting Outcomes Rate Card Pilot	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Blood Bank of Delmarva Young Blood Sustainability Project	n/a	Year 1 youth units and important blood percentage	n/a	Additional 500 youth units per year of services delivery and <2.5% imports	Annually, starting at the end of year 2 (first year of service delivery)	5% maximum	No
Veterans CARE	5.5% (senior); 3% (junior)	Fidelity to the IPS model rating	n/a	[Note 10]	Month 18, 24, 30, 42	Expected return at Base Case: Senior IRR 5.5% Junior IRR 6.2%	Yes: Intermediary

Table 8.2: Notes

1 Initial repayment does not equate to full principal return. Investors may recover only part of their principal if projects do not meet a certain level of success.

2 There is no standard methodology for calculating investor return. These numbers are what is publicly reported, and comparing from one project to another may not be an apples-to-apples comparison for the reason of potentially different calculation methodologies. Calculation methodologies may be provided in investor agreements, which are not available publicly and were not available for this report's analysis.

3 Success payments for other stakeholders such as project managers and service providers create a financial incentive for project success.

4 For the first cohort of students, investors will be repaid an additional $1,040 per student year for avoided special education services after principal has been fully repaid.

5 Private investors receive interest at a rate calculated and paid annually, starting at the end of Year 2, based upon level of success that is achieved by service providers.

6 Success payments for higher rates of success are made to the service provider, who in turn will pay 25 percent of any success payments received to investors.

7 Housing stability outcomes are reported starting in Year 2 and tied to repayment. An interim report on observed jail bed days for the first three years of program implementation will be released in late 2018, but not tied to repayments.

8 Success payments will be reinvested in service delivery.

9 Payment of accrued interest contingent on achievement of outcomes.

10 There are multiple paths to repayment and repayment starts with initial outcomes.

11 Due to this project not having investors, success payments will go to the service provider, Telecare.

12 The Conrad N. Hilton Foundation is investing $1.5 million with a 0 percent interest rate and $1.5 million with a 2 percent interest rate. The entire $3 million investment is from the Foundation's Program Related Investment (PRI) resources.

13 25 percent of the payment is made upon the participant's graduation from the program, while other payments of 25 percent are made 24, 36, and 48 months after the date of program enrollment.

- **The project development process is long and resource-intensive.** This was initially attributed to the newness of the model. However, even as many stakeholders have seen modest reductions in the time it takes to structure a project, early stages (including exploration and feasibility) continue to be slow due to the need to build trust and relationships. To date, projects have had development timelines ranging from 18 months to three years and have relied on active participation from all stakeholders in order to reach project launch. The costs incurred by stakeholders are largely provided in-kind to the project or supported by grant funding, and therefore are neither reimbursed using funds raised through PFS financing, nor captured in any formal accounting of project costs.

- **Transaction coordinators are typically compensated for their services during the project development phase.** Payment may come through a contract with either the government sponsor or the service provider, or in some cases, with philanthropic support. Alternately, some transaction coordinators are being paid in part retroactively at project launch, using funds from the capital raise or as deferred fees in the capital stack. Being paid through the capital stack is typical in traditional structured finance and real estate development deals, so it is a model familiar to many investors and financial intermediaries. Further, for some PFS leaders, this arrangement is a way to make the field self-sustaining, and not as reliant on philanthropic funding. For PFS intermediary organizations that act as both transaction coordinator and project manager, deferred fees are seen as having "skin in the game" for project success. A project manager's role during implementation is also covered using transaction funds. This has implications for the size of the overall project investment as well as the project's financial model and budget.

- **All PFS intermediaries to date are philanthropically-funded organizations,** in whole or part, which has allowed them to absorb excess costs through their regular business models. Early adopters believed the reliance on philanthropy and Social Innovation Fund grants would decrease as the market matured, signifying greater sustainability of the field, at a much more rapid pace than has occurred. Some degree of philanthropic support will continue to be required for transaction coordinators. This support allows these intermediaries to engage in project development where project stakeholders might not be able to support the up-front cost or where the project encounters unforeseen challenges in structuring. Nevertheless, the need for philanthropic support continues to be one barrier to entry for new entrants to the PFS market. One innovation in the project development phase was the exploration of development loans, a product developed by Living Cities, to cover project development costs and which would be repaid by the investment raised for the project. This model may be feasible in the future, but to date the field is still too nascent to support this type of capital support.

- **Negotiating program contracts and fundraising are within the regular scope of work for service providers, but the time required by PFS projects has far exceeded initial expectations of stakeholders.** Further, PFS project development and negotiation requires the time and attention of high-level staff, including chief executive and financial officers, and program directors. Few organizations have been fortunate enough to receive dedicated funding for this work, with the exception of several early recipients of Social Innovation Fund support and in a few communities where PFS exploration has been driven by, or in partnership with, the philanthropic community. This was the case in Santa Clara County and Cuyahoga County, where philanthropic support of government, transaction coordinators, and/or service providers was critical to the project exploration and development processes. There is also an opportunity cost to pursuing PFS and some service provider leaders have raised the question of what opportunities they missed during the time that their senior leadership was focused on PFS. These costs are difficult to quantify and weigh against the benefits of participating in PFS, which can also be much bigger and farther-reaching than the dollar value of the PFS transaction. For example, many service providers report that the PFS opportunity served as a forcing mechanism for them to focus more intently on connecting program delivery to outcomes, and they see that this heightened focus can help them deepen their impact and mission fulfillment and also potentially open new doors for funding that have not previously been available to them.

- **Transaction costs for PFS projects have been high and have raised concerns from various stakeholders.** There is no agreed-upon definition for what constitutes a transaction cost, but it is used here to describe the expenses that exist by virtue of a project using a PFS contracting and financing approach, and which would not exist in a more traditional philanthropic grant or government contract. Generally included in the transaction cost category are costs associated with: evaluation design and implementation; legal services for contract development and review; auditing and accounting of the entity or special purpose vehicle that serves as the fiscal sponsor for PFS financing; transaction coordination in the project development phase; and project management by an intermediary in the project implementation phase. It is difficult to compare transaction costs from project to project because there has been significant variation in what is covered by the PFS transaction versus other sources of funding, and what is provided in-kind. As a result, there is no strong or clear consensus on the average or acceptable dollar amount of transaction costs, or the target share of transaction costs as a percentage of total capital raises. Some feel it should be proportional to the overall size of the project, and have proposed a benchmark that costs not exceed 10 percent of the capital raise. However, others resist standardized targets, given the wide-ranging considerations, costs, and benefits associated with participating in PFS projects. Additionally, any accounting of project costs begs for deeper dissection of which "project costs" can be directly attributed to PFS project development, versus broader, and overdue, investments in government and service provider capacity and infrastructure for data tracking and outcome measurement.

- **All projects have relied on sources of support not covered by the PFS transaction in the project implementation phase.** While legal support was often offered pro-bono in early projects, most firms now require a discounted fee. An emerging best practice is to have evaluators involved as early as possible in the project development process, which also creates an added cost. In recognition of this, the Laura and John Arnold Foundation made a grant to the Urban Institute in 2015 to provide pro bono technical assistance around evidence and evaluation; this support has been extended to over 15 counties across the US exploring PFS, inclusive of the Denver Housing to Health Initiative.

- **In the project implementation phase, there are also often additional costs for resources or program elements that are critical to successful program implementation,** particularly in projects with a housing or health care component. In fact, these projects are designed to leverage existing public resources such as housing vouchers and Medicaid/Medicare expenditure, and allocate them in efficient and targeted ways to meet the needs of vulnerable, high-need populations. While these resources are not usually included in the reported project cost or budget, they are critical to project success. Related to this idea of PFS as a tool for achieving more efficient allocation of resources, many government PFS advocates highlight that the cost of PFS project development and associated transaction costs is really the cost of government innovation and behavior change, and that investments made in specific projects will actually have much farther-reaching consequences for how governments contract for social services. As difficult as it is to get to the full picture of project costs, it may be even harder to measure the full benefits produced by PFS work.

Table 9: Project Costs

	Project development costs not covered by PFS capital raise	Funding source(s) for project development costs, if any	Project implementation costs not covered by PFS capital	Funding sources for implementation costs not covered by PFS capital
NYC ABLE Project for Incarcerated Youth	Transaction coordinator fees	Bloomberg Philanthropies	Evaluation; Project Intermediary	Bloomberg Philanthropies
Utah High Quality Preschool Program	Transaction coordinator fees; Technical assistance provider	United Way of Salt Lake	Evaluation; Project Intermediary	State of Utah
New York Increasing Employment and Improving Public Safety	Government Performance Lab fellow; Legal services; Transaction coordinator fees	Pro bono legal support, in addition to fee	New York State project and data management costs for evaluation; Validator; Project Intermediary	US Department of Labor; Social Finance (in-kind project management)
Massachusetts Juvenile Justice PFS Initiative	Government Performance Lab fellow; Legal services	Pro bono legal support	Not available	Not available
Chicago Child-Parent Center Pay for Success Initiative	Government Performance Lab Fellow	Not available	Evaluation	Finnegan Family Foundation
Cuyahoga Partnering for Family Success Program	County and service provider costs for project development	George Gund Foundation; Cleveland Foundation; Sisters of Charity Foundation	Medicaid reimbursements; Housing vouchers and units; Ramp-up period	Laura and John Arnold Foundation; Cuyahoga County; Public and private housing providers
Massachusetts Chronic Homelessness Pay for Success Initiative	Government Performance Lab fellow; Legal services	Pro bono legal support	$7 million in housing vouchers; $11 million in Medicaid services	Commonwealth of Massachusetts
Santa Clara Project Welcome Home	Feasibility assessment; Transaction coordinator fees	Health Trust; James Irvine Foundation; Social Innovation Fund; Santa Clara County	$7.7 million in Medicaid services; $4 million in housing units and vouchers	Santa Clara County; State of California
Denver Housing to Health Initiative	Evaluation design; Evidence review; Legal services; Government Performance Lab fellow; Transaction coordinator fees	Urban Institute (partial in-kind services); Pro bono legal support; Social Innovation Fund; The Piton Foundation; Denver Foundation; Kaiser Permanente; Rose Community Foundation	$10.8 million in housing vouchers; $5.2 million in Medicaid funding; Evaluation	State of Colorado; City of Denver
South Carolina Nurse Family Partnership	Harvard Kennedy School Government Performance Lab fellow; Legal services	Pro bono legal support; Social Finance (in-kind)	$13 million in Medicaid-funded services; Project pilot period	South Carolina Department of Health and Human Services (via a 1915(b) Medicaid waiver); Laura and John Arnold Foundation
Connecticut Family Stability Project	Harvard Kennedy School Government Performance Lab fellow; some legal services	Pro bono legal support; Social Finance (in-kind)	None	None
DC Water Environmental Impact Bond	Government Performance Lab fellow	PFS Capital	None	None
Santa Clara County Partners in Wellness	Legal services; Transaction coordinator services; Evaluation services; project ramp-up period	Pro bono legal support; the Health Trust and the City of San Jose; The Sobrato Family Foundation; California Pay for Success Initiative; California HealthCare Foundation; Nonprofit Finance Fund through the Corporation for National and Community Service's Social Innovation Fund	$16.9 million Medi-Cal agreement	Santa Clara County; State of California
Massachusetts Pathways to Economic Advancement	Harvard Kennedy School Government Performance Lab fellow; Legal services; Transaction coordinator, service provider, and evaluator costs for project development	Pro bono legal support; Social Finance (in-kind); Social Innovation Fund	MA administrative wage data	Commonwealth of Massachusetts
Salt Lake County Homes Not Jail	Transaction coordinator fees	Salt Lake County; Sorenson Impact Foundation; Living Cities	None	None
Salt Lake County REACH	Transaction coordinator fees	Salt Lake County; Sorenson Impact Foundation; Living Cities	None	None
Los Angeles County Just-In-Reach	Feasibility analysis; evaluation design; transaction structuring	The Conrad N. Hilton Foundation; The James Irvine Foundation	~$11 for: intensive case management services; move-in costs; evaluation; project manager costs; capacity building	LA County General Funds; Whole Person Care; HUD-DOJ PFS Demonstration Grant; BSCC PFS Grant

Table 9: Project Costs

	Project development costs not covered by PFS capital raise	Funding source(s) for project development costs, if any	Project implementation costs not covered by PFS capital	Funding sources for implementation costs not covered by PFS capital
Oklahoma Women in Recovery Project	Technical assistance provider	George Kaiser Family Foundation	None	George Kaiser Family Foundation
Ventura County Project to Support Reentry	County and service provider costs for project development; Legal services	CA Pay for Success Initiative; Pro bono legal support	None	None
Alameda County Justice Restoration Project	Technical assistance to identify beneficiary population, design the intervention and evaluation, fundraise, manage stakeholder, and conduct legal diligence	NFF, James Irvine Foundation, Social Innovation Fund, and pro bono support	Service Delivery, Evaluation, Project Management, Fiscal Management	County of Alameda
Michigan Strong Beginnings	Harvard Kennedy School Government Performance Lab fellow, feasibility study, design, performance management, evaluation, legal fees and intermediation of pilot phase	Spectrum Health, Kellogg	None	None
Northern Virginia	Contract development	Social Innovation Fund, Fairfax County Government, First Virginia Community Bank, Greater Washington Community Foundation, Prudential Foundation	n/a	n/a
Maternal, Infant, and Early Childhood Home Visiting Outcomes Rate Card Pilot	Intermediary technical assistance (no PFS capital raise)	2016 SIF PFS Round 2 Grant, awarded to Social Finance to develop outcomes rate cards	Connecticut MIECHV funding ($9 million annually)	None
Blood Bank of Delmarva Young Blood Sustainability Project	Technical assistance	n/a	n/a	n/a
Veterans CARE	Intermediary technical assistance (partially covered by Capital Raise)	n/a	n/a	n/a

- **Projects produce both results and lessons learned.** Results, typically and for the purpose of this section, are defined as items that relate directly to the PFS contract terms, such as outcomes achieved and payments made (detailed in table 8.2). As of the publication of this report, only five projects have publicized and released results. However, it would be short-sighted to consider only contract-specified "results." To inform this section, we invited all launched projects to share lessons learned, including reflections on systems-level changes, bumps in the road, and ancillary outcomes. The case studies that follow were submitted by project participants and offer additional insights.

- **Each project has made a significant contribution to the development of the PFS field; No two projects are structured the same.** Since Pay for Success was first introduced in the United States in 2010, 25 projects have gone from concept to implementation, and there are dozens of additional outcomes-oriented projects in development. When first introduced, it was defined fairly narrowly as a tool for scaling proven interventions that could demonstrate cost savings. While the use of evidence and the potential for cost savings remain two powerful motivators, they are not the only reasons why PFS is used. Early projects demonstrate that practitioners have applied the tool creatively, and in ways that depart from the initial construct of PFS, to help advance solutions to persistent community issues and needs. Each project works to adapt the model to achieve a better alignment between their communities' goals and their deployment of resources.

- **Results reference different measures: outcomes achieved and payments made.** Project results are often quantified and measured in different, but interrelated ways. First, whether pre-agreed outcome metrics have been achieved (e.g. in permanent supportive housing projects, this is often the numbers of days a person is living housed in their community and not in police custody or in need of other remedial services). Second, payments made to investors based on these results. For example, 2015 marked an important milestone for the field when the first two US Pay for Success projects announced their initial evaluation results and determined investor repayment. In July, after three years of service delivery, the NYC ABLE Project for Incarcerated Youth announced that the evaluation of the first cohort of youth served at Rikers Island jail showed no difference from historical data in their rates of recidivism over the two-year period following their enrollment in the PFS-funded program. As a result, no success payments were made to Goldman Sachs, the sole investor, which triggered the use of a 75 percent guarantee by Bloomberg Philanthropies, acting as the guarantor. Goldman Sachs decided not to continue funding for a fourth year of services, a right defined in the project contract. As a result, the project was ended. The project was lauded as a success for the use of the PFS financing mechanism (payments made to investors), but a failure of the implementation of the model (to reach pre-agreed upon outcome metrics). In contrast, in October, the Utah High Quality Preschool Program announced the first set of interim results at the end of the kindergarten year for the first cohort of students served. The results demonstrated that only one student of those evaluated when they entered preschool as likely to require special education services actually required those services. As a result, Goldman Sachs—also the senior investor in this project—received an interim repayment based on avoided cost-per-student. These overwhelmingly positive interim results raised questions about the validity of the evaluation method, the project's costs, and the appropriateness of the success metrics. Despite these criticisms and the different results in these projects, many observers took away the same message from both projects: that the Pay for Success model worked as intended. Risk was shifted to the private sector to the benefit of the taxpayer, and those invested in addressing social issues had detailed, valuable data to guide their efforts.

- **Early projects often appear the most successful in year one.** In early projects, such as the Utah Preschool project and the Chicago Child-Parent initiative, successes were notably higher in year one than in subsequent years. In many cases, the project was designed for an environment which changed during implementation. For example, in the Rikers Island Project ABLE, the project was designed for a target population that was easier to treat than those ultimately enrolled in the project. Changes that resulted in less access to the target population, as more were placed in solitary confinement, meant that clients with more complex needs were included in the treatment group.

- **Payments made to investors is a difficult metric by which to gauge success, due to their complex calculations.** Many payments, whether interim or final, require complex calculations and fall along a scale where the maximum possible is not public knowledge. Various factors influence payments. For example, in the Denver Housing to Health Initiative an initial payment was made of $188,000. This number is calculated based on individuals first passing a threshold to qualify—in this case, staying in housing for at least a year, and then based on a per-person rate of $15.12 per day stably housed (with any days not instability, e.g. in jail, removed).

- **Results and lessons learned should be viewed within the context and considerations of the individual project.** Each project operates under a unique set of circumstances based on the location and policy environment. Replication of projects into different locations or under different circumstances may not yield the same results.

- **Lessons learned include those related to client service and those that inform how groups partner to address social issues.** Lessons learned in service of clients are those directly applicable to the target population. For example, the Utah High Quality Preschool program found that with a largely immigrant population, it is often difficult to retain students for the full treatment period of two years as constituents move away. As PFS projects change the way partners such as governments and service providers operate together to deliver a service, each project can also inform inter-partner dynamics. For example, one of the successes of the Denver Housing to Health Initiative is that police officers have an improved system for identifying clients of the service providers and can assist in getting them the care they need more rapidly.

- **Lessons learned in service of clients are heavily influenced by place.** As the local policy environment and culture impact these lessons heavily, they are less likely to be transferrable to other locations. For example, ROCA learned in the Massachusetts Juvenile Justice Project that the city of Boston had different policies regarding the ability for at-risk youth to enter certain facilities from the other two locations in which they were delivering services. However, each challenge presents a unique solution and also possible challenges for future projects to keep in mind. For example, Santa Clara Project Welcome Home identified that the death rate for the population was much higher than projected, which has negatively impacted the results of the project. Subsequent projects have had the opportunity to provide more adaptability should this be the case in their location.

- **Partner-to-partner lessons learned highlight the importance of continuous training to maintain buy-in.** A majority of projects emphasize the need to continuously train and re-train individuals across stakeholder groups to maintain trust and buy-in. Position turn over and a continuously changing environment are two challenges that can affect how partner stakeholders interact within a project. For example, the Ventura County Project to Support Reentry learned that there was a need to for continual engagement and education related to the project in working with probation officers well-positioned to encourage their clients to participate in the program. To address this need, Interface Children and Family Services and County Probation have established bi-monthly check-in calls and additional training for officers.

- **Systems-level change is either tested by or the explicit goal of projects.** Many projects either test or implement systems-level changes. Santa Clara's Project Welcome Home was seen as a way to test the use of permanent supportive housing (PSH). The conversations spurred by the project also influenced the passing of a $950 million PSH bond by the county, bringing additional resources to address homelessness. In other cases, the project is designed explicitly to create change. For example, the Massachusetts Chronic Homelessness Pay for Success project was designed to further Medicaid expansion throughout the state. However, it is difficult to ascribe systems-level changes to a project exclusively.

- **Pay for Success contracts pioneer innovation and transformation in social-service contract management.** Contract amendments are a usual part of the PFS process with only one project, Massachusetts Chronic Homelessness, not having had any. Most contract amendments are to document minor operational changes (e.g. replacing Special Purpose Vehicle officers due to staff turnover in the Denver Housing to Health Project). However, many projects make significant changes to improve results. Several early projects identified the difficulty of making contract amendments to adjust the intervention model of payment system as detrimental to ultimate outcomes. In Rikers Island Project ABLE, the inability to renegotiate a contract amendment significantly, negatively, impacted the ability of the project to achieve results. In the Utah Preschool project, contract amendments have a standard procedure because reimbursement rates for special education change annually.

Table 10: Results and Lessons Learned

New York City Project ABLE for Incarcerated Youth

Outcomes and significance	Trigger for initial repayment of principal met	Outcomes payments made
The ABLE project did not achieve its intended impact of reducing recidivism for participants. The rate of recidivism for each eligible cohort was statistically equivalent to its matched historical comparison cohort. Exploration of why the project didn't meet its targets has been instructive in designing other projects—particularly as pertains to making sure participants receive the right dosage of an intervention. While the primary goal wasn't achieved, the model worked as designed to put the burden of payment on investors and not taxpayers.	The program as implemented did not reduce recidivism and, therefore, did not meet the pre-defined threshold of success, an 8.5% reduction in Recidivism Bed Days (RBD) for the study cohort, after one year.	None

Context and considerations

While the intervention, moral reconation therapy (MRT), had shown success in reducing recidivism based on evaluation results in other criminal justice settings, the uniquely challenging conditions in the Rikers Island jail, its unprecedented scale, and the characteristics of the Rikers target population, meant this project had more in common with a new demonstration than a replication and scaling-up effort. The pilot test at a relatively small scale before the evaluation and full enrollment began did help ensure that fidelity to the basic structure and design of the MRT program curriculum was maintained throughout the project. But the pilot did not operate long enough or on a large enough scaler to detect the full implications of how the Rikers environment and the behavioral, mental health and cognitive barriers of the service population would impede effective program implementation. Moreover, these problems increased after the pilot period as a relatively harder to-serve group were being detained in the jail. The major consequence was that far fewer participants than projected by the design (which was based on the experience of other MRT programs) received what the program designers considered an adequate "therapeutic dose" of the intervention: Reasons included more youth than anticipated placed in solitary confinement or other restricted settings where the program could not be delivered, as well as high incidences of security problems like lock-down and alarms, which resulted in many group classes being cancelled or shortened. Moreover, the often severe cognitive and behavioral problems many Rikers youth faced meant it took them much longer to complete the curriculum than participants in previous MRT programs. As a result, many more than expected participants were released from jail before they could complete MRT.

Client service lessons learned

Transplanting an evidence-based intervention into a new, exceedingly challenging and untested environment, with a target population that was harder to serve than in other tests of the intervention, and doing it at an unprecedented scale, creates an environment of high implementation risk. The program partners understood that risk to some extent, and as a result, set recidivism reduction targets at levels that were much lower than were achieved in other MRT projects that had been evaluated. However, the results indicate that the risks of not meeting the goals were greater than anticipated. The project did not reduce recidivism, primarily because of constraints imposed by the structure of the program environment, and the changing characteristics of program participants, which made it impossible for participants to adequately participate in the intervention. A longer pilot period with a larger sample might have identified the constraints and allowed the problems to be anticipated, but cost limitations and pressure to have relatively short horizons for paying back investors meant a longer pilot was not feasible.   Moreover, even with a longer pilot, it is far from clear that there were feasible solutions to address client availability.

Partner-to-partner lessons learned

The project demonstrated that the basic terms of the Social Impact Bond financing arranging could be implemented in a large and very complex institutional and bureaucratic setting. However, some contract terms were overly restrictive and did not allow for adapting to a changing external environment. The level of data collection and management required of the service provider was far more extensive than in other contracts, and project funding was not sufficient to cover needed capacity-building and support.

Contract amendments

The original contract required a threshold number of participating individuals to achieve reduced Recidivism Bed Days (RBD) for repayment; however the number of youth coming into Rikers was dramatically lower than projections during contract negotiations. It became impossible to enroll enough individuals to achieve repayment numbers. Partners entered into contract renegotiation to take out the participation requirement and maintain payment based on impact. The process took almost a year to get the contract amended, due to an administration change. Even with good relationships with the incoming mayor, the lengthy process meant that by the time the amendment took place it had little effect on the result of the project.

Threshold of full repayment of principal met	Threshold for full repayment of principal plus maximum success payments met	Actual return to investor
The program as implemented did not reduce recidivism and, therefore, did not meet the pre-defined threshold of success, an 8.5% reduction in RBDs for the study cohort after one year.	The program as implemented did not reduce recidivism and, therefore, did not meet the pre-defined threshold for the maximum pay back: a 20% reduction in RBDs for the study cohort within 3 years.	Guarantor repaid senior investor 75% of its investment to date; investor loss of $1.2 million.

Link

https://www.vera.org/publications/rikers-adolescent-behavioral-learning-experience-evaluation

Table 10: Results and Lessons Learned

Denver Housing to Health Initiative

Outcomes and significance	Trigger for initial repayment of principal met	Outcomes payments made
This project is underway and demonstrating promising initial results in helping clients in Denver secure and maintain stable housing. By Dec. 31, 2017, 255 frequent users of emergency services in Denver were housed. After six months, 95% of participants had remained in stable housing. After one year, 89% of participants remained in stable housing.	By Dec. 31, 2017, 33 individuals stably housed for at least a year (6 planned exits, 1 unplanned exit) resulting in 12,457 days in stable housing Criminal justice results are still TBD	By Dec. 31, 2017, Housing Stability Success Payment, $188,000 ($15.12 for each day each qualifying participant was stably housed.)

Context and considerations

Changes in the healthcare reimbursement have notable relevance to this and other projects. While the transaction pays for a large share of the service budgets for each of the two providers, Medicaid revenue pays for the remainder of the service budgets. There have been large changes in the Colorado Medicaid system in which primary care and behavioral health care organizations were merged into new joint entities called Regional Accountable Entities (RAE). Under the new structure, providers have the opportunity to re-negotiate reimbursements rate. PFS contract negotiations have been long and are not yet complete which leaves some unknowns about the future of possible Medicaid revenue in the project.

Client service lessons learned

Broad stakeholder engagement is required, particularly with criminal justice system (Police Department, courts—District Attorney's Office, judges, public defenders, and jails) to help with jail in-reach and access as well as the sentencing and location of clients.
The ramp up period was very helpful. We learned that in housing projects with new developments to plan for delays in construction.

Partner-to-partner lessons learned

Simplify where possible: including too many project partners may make communications and decision-making with stakeholders and investors difficult at times;
Strive for contract consistencies: ensure similar activities have similar due dates/periods for delivery throughout all contracts.

Contract amendments

Yes: Evaluation plan and Operating Agreement Amendments
Evaluation plan changes included:

1. Pre-screening added which removes participants from the eligibility pool if they have an open felony charges in the last two years. Service providers in the project identified difficulty in serving participants randomized into the project who have open felony charges, particularly in the last two years as this is the time period during which most convictions and sentences are determined. An open felony refers to a felony charge that is still in process and for which conviction and sentencing is still pending. Open felony charges that result in convictions often have sentences longer than 90 days in the state prison system, undermining the significant effort to identify, locate and house participants in these circumstances. Additionally, institutional stays greater than 90 days disqualify participants from housing subsidies connected to the project.
2. Assisted living facilities added as stable housing source. The target population for this project is a highly vulnerable group in which, for a handful of participants, assisted living facilities were the most appropriate housing intervention. This was because of the 24-7 access to primary health care service and assistance provided with activities of daily living such as bathing, cooking, and eating. However, after participations moved in, we found that the supportive housing staff continued to coordinate care through case management when they were in these facilities. Prior to this change, the evaluation plan called for the exit of participants from the program if they had stays in institutions, including assisted living facilities, longer than 90 days. This change allowed days in stable housing to be counted as long as the supportive housing provider continued to provide services to the participant.

Amendments to the Operating Agreement: amendments were made to replace SPV officers due to staff turnover (twice).

Threshold of full repayment of principal met	Threshold for full repayment of principal plus maximum success payments met	Actual return to investor
TBD	TBD	TBD

Link

https://www.denvergov.org/content/denvergov/en/mayors-office/newsroom/2017/independent-evaluator-reports-early-success-is-promising-for-den.html

Table 10: Results and Lessons Learned

Massachusetts Chronic Homelessness Pay for Success Initiative

Outcomes and significance	Trigger for initial repayment of principal met	Outcomes payments made
As of August 2018, MASH had placed 721 high-need individuals into permanent supportive housing.	As of August 2018, 721 tenants have been housed. To date 90% of the tenants are either still in the program of have had a qualified positive exit.	Year 3 Total YTD as of May 31, 2018; $2,205,155.34

Context and considerations

There are some limitations tied to the high number of providers involved (18). We have partnered with homeless/housing providers across Massachusetts. All have shown a history with permanent supportive housing. The high number of providers is limiting in that there is such a high level of involvement in staff training and data collection and reporting with each provider. There is also a limitation in the access to actual cost data to measure the impact of the housing as an intervention. This data is currently collected in a self-reported manner through a multi-phase interview process with tenants reporting patient costs.

Client service lessons learned

The small amount of the annual success payment ($3,000) led to a much more of a leveraged resource mode, where the PFS loan enabled providers to use other sources of funds in new ways; such as innovation in regard to housing support service resources though Medicaid expansion in the State. This leveraged model also helped our sustainability in that no one will lose their housing when the PFS is completed. To assist providers in identifying high cost utilizers of the health care system, a triage form was created which ties the potential of future high costs to particular diagnoses. This tool has given us a tremendous amount of data on a very vulnerable population. An independent study has shown that the triage and assessment tool effectively identifies chronically homeless participants who will frequently use health services.

Partner-to-partner lessons learned

The large number of providers (18) led to an increase in the management of the project. There are continuing training and oversight needs as there is a high level of turnover in the provider agencies over time.

Contract amendments

n/a

Threshold of full repayment of principal met	Threshold for full repayment of principal plus maximum success payments met	Actual return to investor
Year 3 Total YTD Actual as of May 31, 2018—$1,247,382—in line to maximize repayment.	TBD	TBD

Link

http://www.mhsa.net/PFS

Table 10: Results and Lessons Learned

Chicago Child-Parent Center Pay for Success Initiative

Outcomes and significance	Trigger for initial repayment of principal met	Outcomes payments made
Early education has proven to have positive outcomes for individuals served as well as society. This project has successfully supported kindergarten readiness for more than 1,000 children in Chicago. Kindergarten readiness is defined defined as meeting or exceeding the national average on five or six domains of the TS GOLD™ formative assessment system.	2016: 60.97% of Children were Kindergarten-ready 2017: Kindergarten Special Education Utilization rate group difference was 0.56% and retention factor was 92.33% and the savings rate of $9,100. 41.64% of eligible children in the cohort were kindergarten ready with a retention factor of 94.65% 2018: Kindergarten Readiness 44.24% with a retention factor of 93.09%; Special Education Utilization rate difference was 1.73% with a retention factor of 94.65% and a savings rate of $9,191; First Grade Special Education rate difference was 3.04% with a retention factor of 81.79% and a savings rate of $9,191	2016: Kindergarten Readiness Success Payment, $500,705.95; 2017: Kindergarten Special Education Payment, $17,597.21, Kindergarten Readiness Success Payment, $898,791.22; 2018: Kindergarten Readiness Success Payment, $933.948.44, Kindergarten Special Education Payment, $117, 689.09, First Grade Special Education Payment, $85,468.91

Context and considerations

The expectation for the PFS-funded expansion of Child-Parent Center (CPC) to new sites in Chicago Public Schools (CPS) and increasing the number of available CPC preschool slots at existing sites in CPS was based on previous research showing positive impacts on kindergarten readiness and school achievement, and reductions in special education placements over time. It's critical to remember the big picture goal of projects when viewing early initial results. As mentioned elsewhere in this report, success can be viewed in many ways. There has been steady success in achieving payment outcomes and expanding CPC service delivery. However, there is on going discussion of the programmatic success of the program operating at this scale. It's inherently difficult to compare the cohorts because each is made of unique children with unique backgrounds and abilities. There is continued analysis to be done on the variability of the results from year to year to understand why there has been dynamic fluctuations in the programmatic outcomes.

Data Limitations: SRI was unable to identify with certainty children from the comparison group who may have received Pre-K programming in non-CPS funded settings in order to exclude them from the comparison group sample. There is likely some proportion of children in the comparison group samples who did attend some type of public preschool program (e.g., Head Start) or private child care program using child care subsidies and/or tuition. Use of a teacher-report measure as the indicator of kindergarten readiness can be seen as a limitation of this study due to teacher effects or bias.

Client service lessons learned

Lessons learned through the program, particularly those relating to assessment, professional development, student attendance and relationships with community organizations, have benefitted CPS as a whole, furthering the program's positive impact. Collaboration between program leaders and those of CPS have also contributed to improved strategies for teaching English Language Learners and lowering the barriers for families wishing to enroll their children in pre-K programs. Different sites serve different populations, being responsive to cultural differences is important. Through additional analysis it was found that different sites varied significantly on children's English Language and Literacy skills. Choosing a metric for Kindergarten readiness that allows for multilingual assessment is key for diverse communities such as Chicago.

Partner-to-partner lessons learned

Stakeholders are now in the process of determining how to best continue expanding early childhood education opportunities for the city's families. CPS plans to keep the added CPC classrooms open with a mix of federal, state and city funds.
Find ways to centralize data review processes and simplify approvals where possible: Evaluators provide valuable information to begin a conversation, but are not responsible for understanding what the numbers & indicators mean leading project partners to explore interpretation.
This project included an outside advisory board, inclusive of a research community, to provide insight into best practices; however, having too many voices can dominate the program's capacity.
It's difficult to consider bringing in new investors once a project is underway because it is a different type of underwriting, using the project data vs. assumptions on the evidence base, where people want to see success payments.
Rapid expansion of services to new demographics create variability of outcomes.

Contract amendments

Evaluation Agreement for the timeline, because collection of data isn't taken into account for time to clean and approve it for the calculation of success payments. Reports have to be approved by the Board of Education.

Modification to bring in additional funds for unintended expenses. When first success payments came in certain expenses would no longer need to be paid for by the project, assumption of other parties to cover funds. Assumption of attracting sustainable funding from other sources.

Threshold of full repayment of principal met	Threshold for full repayment of principal plus maximum success payments met	Actual return to investor
TBD	Prioritizing student outcomes, investors receive maximum returns only if 50% of a student cohort exceeds the kindergarten-readiness threshold as measured by TS GOLD™ evaluation standards. Because Cohort 3's results fell below this cap, investors will receive a lower return than they would have had the threshold been met.	The PFS program determines special education-related payments based on the difference between the PFS student cohort and the comparison group. Because this difference for Cohorts 1 and 2 in Year 3 was below expectations, investors will receive a lower payment than the anticipated base-case scenarios.

Link

https://www.iff.org/pfs3/

Table 10: Results and Lessons Learned

Utah High Quality Preschool Program

Outcomes and significance	Trigger for initial repayment of principal met	Outcomes payments made	
This project has successfully prepared more than a hundred students for kindergarten, and has sparked ongoing debate about optimal early education outcomes targets and evaluation methods. Only 1 out of 110 students from first cohort deemed at-risk required special education services at kindergarten enrollment	Payments are tied to tracking the performance of the children in each of the 5 cohorts that tested at or below 70% on the Peabody Picture Vocabulary Test in preschool. As the kids in each cohort complete a school year from K-6, success payments are made for the children that tested at or below 70% and remained out of special education.	Cohort 1: 3 yrs of payments = $795,135 Cohort 2: 2 yrs of payments = $564,554 Cohort 3: 1 yr of payments = $304,552 Cohort 4: first payment will be made in 2018 Cohort 5: first payment will be made in 2019	Total payments 2013–2017 = $1,664,241

Context and considerations

One limitation was the outcome for the success payment. The Utah SIB was based on the assumption that providing high quality preschool would result in getting kids grade ready for kindergarten and that would be sustained through successive years in school. This was only the second SIB in the U.S. Since then, most SIBs incorporate more than one measure and earlier, intermittent measures to capture the desired outcomes. The Chicago SIB uses several measures including reading readiness in third grade. The wording used to define the demographic that would be enrolled in the program was "economically disadvantaged." There are a number of other risk factors that could have been included in the legislation that would have better defined the kids at risk. Income is one factor, but parental substance abuse, education level of parents, etc. that affect grade readiness. The use of special education avoidance became controversial with the education community over a concern that kids might not be fully assessed and provided with special education resources. The evaluation tool was the Peabody Picture Vocabulary Test, which is used as one of the assessments for special education. The intent of using it for the SIB was never as a diagnosis tool, but rather a proxy for grade readiness. As mentioned in other parts of this report are the challenges of enrollment and attrition, particularly in a transient population.

Client service lessons learned

There is a challenge with attrition in the preschool population. The school providers have a demographic of people who are transient and move around. Staying in preschool for 2 years or even an entire year is sometimes difficult. Recruitment, with the current political climate, is sometimes difficult with some population segments that are reluctant to register children and provide personal information about the family.

Partner-to-partner lessons learned

The success payments depend on tracking all of the children from each of the cohorts from kindergarten through 6th grade. The State of Utah school administration has to pull the data to determine which of the identified children are or are not in special education. This means that the evaluator has to get the school administration the correct IDs, the administration has to pull the correct data, and the evaluator has to check to make sure everyone is included. There is not an elegant process.

Contract amendments

Each year, a one page amendment is created for the upcoming cohort that reflects the variable factors that change every year and are used in the success payment calculation. These include the Weighted Pupil Unit, which is the amount the state allocates per student in special education. It also includes the rate of interest cap for that cohort, which is 5% plus the AAA 10yr Municipal Money Market rate on the date of the amendment.

Threshold of full repayment of principal met	Threshold for full repayment of principal plus maximum success payments met	Actual return to investor
Principal and interest are included in each annual success payment.	The payments are calculated each year for each cohort. When the last cohort finishes 6th grade, the last success payment will be made. There is a cap on the amount that can be paid back to investors and it is a formula of principal + 5% interest + the rate of the AAA 10 year Municipal Money Market Rate.	This will be calculated in 2025 at the end of the SIB

Link

n/a

Case studies in this section were submitted in large part by project participants.

Table 10: Results and Lessons Learned

Santa Clara County Project Welcome Home

Outcomes and significance	Trigger for initial repayment of principal met	Outcomes payments made
Through December 2017, 102 clients (82%) of the 125 clients who had been placed in housing at least 12 months earlier had achieved 12+ months of housing stability. 108 were in housing on Dec. 31, 2017. This was the first project launched in California and without commercial capital.	Through December 31, 2017, 131 (92%) clients of the 142 clients who had been placed in housing at least 3 months earlier had achieved 3+ months of housing stability.	$2,393,541 through Q11

Context and considerations

Client service lessons learned

Death rate has been significantly higher than projected with this very medically vulnerable population. Initial model projected <1 deaths per year, but there have been 22 to date. Sizable impact upon success and program operations.

Partner-to-partner lessons learned

Relying upon Medi-Cal Speciality Mental Health Services to support clinical services has been very challenging as many of the services needed to engage the target population are not billable. Medi-Cal revenue has been consistently under projection.

Contract amendments

Yes: 1) Modifications to housing budget to better account for housing inventory and to draw upon other County resources; 2) Expansion of program capacity to serve more people; 3) Other minor operational changes

Threshold of full repayment of principal met	Threshold for full repayment of principal plus maximum success payments met	Actual return to investor
n/a	No: Current success payments ~200k (9-10%) below threshold for full payment	n/a

Link

n/a

Case studies in this section were submitted in large part by project participants.

Table 10: Results and Lessons Learned

Cuyahoga County Partnering for Family Success

Outcomes and significance	Trigger for initial repayment of principal met	Outcomes payments made
First project to combine evidence-based practices. Out-of-home placement days avoided; extensive intervention measures on engagement, housing, exits, exit type and return to care.	Any difference between treatment and control groups in out-of-home placement days.	Any difference between treatment and control groups in out-of-home placement days.

Context and considerations

Client service lessons learned

- "Hybrid" staff who provide both case management and therapy can support the continued engagement of clients who may be disinclined to engage with a new service provider as they transition from one phase of treatment to the next.
- Domestic violence is complex and pervasive in the program's target population and complicates the path to reunification as one type of exit.
- Joint client case review meetings help identify barriers, strengths, areas for improvement, and trends across challenging cases.

Partner-to-partner lessons learned

- PFS partners can provide valuable observations on existing system processes, including recommendations for improvements.
- The connection between social service and housing partners can be an effective collaboration but must be nurtured over time.
- Intentional on-boarding of new staff at partnering agencies supports continuous commitment to PFS.
- Securing funding for ongoing process evaluation after program launch is extremely challenging.

Contract amendments

Yes

Threshold of full repayment of principal met	Threshold for full repayment of principal plus maximum success payments met	Actual return to investor
23.46% reduction in out-of-home placement days	35.27% reduction in out-of-home placement days (after this all savings accrue to the County)	Impact evaluation and payments scheduled for early 2020

Link

n/a

Case studies in this section were submitted in large part by project participants.

Table 10: Results and Lessons Learned

Salt Lake County Homes Not Jail

Outcomes and significance	Trigger for initial repayment of principal met	Outcomes payments made
Pilot period metrics met or exceeded: Number of clients housed, over 50% of clients housed within 3 months, no negative exits, behavioral health clinician on staff for a minimum of 6 months. Pilot period built into PFS contract proved invaluable.	TBD	TBD

Context and considerations

Homelessness service delivery policy has undergone significant changes in the County while the PFS project has been underway; recruitment for the PFS project has adapted to the rapidly evolving policy landscape.

Client service lessons learned

Process for identifying chronically homeless benefitted from refinement in order to ensure that the appropriate individuals were identified as eligible for the program.

Partner-to-partner lessons learned

n/a

Contract amendments

None

Threshold of full repayment of principal met	Threshold for full repayment of principal plus maximum success payments met	Actual return to investor
TBD	TBD	TBD

Link

n/a

Case studies in this section were submitted in large part by project participants.

Table 10: Results and Lessons Learned

Salt Lake County REACH

Outcomes and significance	Trigger for initial repayment of principal met	Outcomes payments made
Pilot period metrics met or exceeded: Number of clients enrolled, percentage enrolled after referral, number of treatment hours. Pilot period built into PFS contract proved invaluable.	TBD	TBD

Context and considerations

n/a

Client service lessons learned

Peer support specialists as well as the program's long-term commitments to its clients have been noted as promising practices.

Partner-to-partner lessons learned

Referral pathway processes benefitted from refinement.

Contract amendments

Yes. Referral pathway responsibilities and processes were further refined.

Threshold of full repayment of principal met	Threshold for full repayment of principal plus maximum success payments met	Actual return to investor
TBD	TBD	TBD

Link

n/a

Case studies in this section were submitted in large part by project participants.

Table 10: Results and Lessons Learned

South Carolina Nurse-Family Partnership

Outcomes and significance	Trigger for initial repayment of principal met	Outcomes payments made
This project is underway and currently measuring impact of Nurse-Family Partnership (NFP) on preterm births, childhood hospitalization and emergency department use due to injury, healthy birth spacing, and the percentage of first-time mothers served in high-poverty ZIP codes.	First outcomes payment based on low-income zip code enrollment and pre-term birth rate.	In progress

Context and considerations

Landscape: Another PFS project has been in development in Spartanburg, South Carolina, which may include some overlap in target population and types of services delivered to clients. Given the importance of Spartanburg to the overall enrollment targets of the project, the project partners have been considering ways to maximize the number of mothers who can access services in this geography, while maintaining the integrity of both evaluation protocols.
Policy: This project is supported by funding from Medicaid through a 1915(b) waiver, which expires at the end of 2020. Project partners have been considering the best path forward to ensure that NFP services can remain sustainable over the life of the PFS project and beyond.
PFS: The project includes a 25% cost reduction for service delivery. One of the primary challenges of implementation and expansion into new regions across South Carolina is how to reduce program costs while retaining the quality of and fidelity to the NFP service delivery model.

Client service lessons learned

Evaluation: The randomized controlled trial (RCT) requires that NFP randomly assign one-third of eligible participants to the control group. While the control group is provided a list of other community resources that are available to them, it can be challenging for Nurse Home Visitors (NHVs) and for referral partners to know that some eligible women will not be able to access NFP services.
Enrollment: Meeting enrollment targets becomes more challenging as a result of the RCT for a number of reasons. First, a portion of eligible mothers are assigned to the control group, meaning that NFP needs to find and recruit many more eligible mothers than they actually need to enroll into services. Second, there are knock-on effects of the RCT on outreach, referrals, and recruitment. Referrals may be diminished by community partners who feel uncomfortable with the random allocation of services to the mothers that they refer. Recruitment of referred mothers is also a challenge, as vulnerable mothers may not want to "risk" not getting NFP through the randomization process (even though there is no other way to access NFP in the state).

Partner-to-partner lessons learned

Communication: The governance system put in place by the PFS brings together project partners on a regular basis, allowing for discussion, problem solving, and decision-making on course corrections that all stakeholders are invested in.
Data: NFP collects a significant amount of data from its operations. Sharing key data regularly with project partners helps to maintain operational focus on key targets, and ensures that all partners feel a shared sense of responsibility for the project to deliver on its goals.

Contract amendments

The Contract was amended through the established project governance process to incorporate appropriate course corrections approved by all of the parties.

Threshold of full repayment of principal met	Threshold for full repayment of principal plus maximum success payments met	Actual return to investor
Not publicly available. There are multiple paths to repayment, and repayment starts with initial outcomes.	Not publicly available. There are multiple paths to repayment, and repayment starts with initial outcomes.	Project still active

Link

http://socialfinance.org/focus-areas/health/south-carolina-nurse-family-partnership/

Case studies in this section were submitted in large part by project participants.

Table 10: Results and Lessons Learned

Massachusetts Pathways to Economic Advancement

Outcomes and significance	Trigger for initial repayment of principal met	Outcomes payments made
This project is underway and currently measuring program engagement, earnings, and transition to college.	First outcomes payment based on engagement in JVS services.	As of October 2018, five outcomes payments have been made.

Context and considerations

Policy: Federal immigration policy changes have imposed varying degrees of entry restrictions from immigrants from certain countries, as well as reducing the cap on the number of refugees entering the U.S. This has had an impact on the number of potentially eligible participants for Jewish Vocational Service (JVS) programming. The project has been able to mitigate against these macro-level risks by proactively over-enrolling in the early stages of service delivery to ensure that enrollment targets could be met for the project. All enrolled participants are authorized to work in the United States.

Minimum wage policy changes in the Commonwealth of Massachusetts may affect earnings outcomes, as defined in this project, by affecting the actual wages earned by program participants and control group members.

Client service lessons learned

Evaluation: The implementation of a randomized control trial (RCT) to measure the impact of the English for Advancement program track has required JVS to turn away just under half of individuals who are interested in enrolling in EFA classes. This has posed a challenge by requiring JVS to meet many more individuals than they can enroll in the EFA program track.

Partner-to-partner lessons learned

Communication: JVS is a strong operator who has demonstrated excellent ability to pivot and reallocate resources toward delivering services efficiently to the target population in a number of sites. Flexibility built into the project design, which includes four program tracks, has also helped to facilitate rapid operational decision-making to ensure that the project is able to deliver on enrollment numbers. Additionally, the governance process for this project encourages collaborative problem solving before contract amendments might be required.
Three agencies from the Commonwealth collaborate on this project, bringing together voices from across government that can support the project from different angles. Project partners also recognize the importance of having a single executive champion who feels responsibility for the project's success and sustainability.
Data: Setting up the data sharing systems between project partners to obtain access to administrative wage data was a lengthy process. However, now that the Commonwealth has agreed to provide de-identified wage data for this project, it will be able to use such data for other projects that target earnings increases as an outcome. Furthermore, the project partners have recognized the benefits of having access to preliminary outcomes data, to test data flows in advance of making outcome payments, to inform ongoing performance management efforts, and to better understand the impact of the JVS service model at scale and over the long-term.

Contract amendments

The contract was amended through the established project governance process to incorporate appropriate course corrections approved by all of the parties. The contractual flexibility provided by the PFS governance process allowed the parties to adopt course corrections to further the stated goals of the project.

Threshold of full repayment of principal met	Threshold for full repayment of principal plus maximum success payments met	Actual return to investor
Not publicly available. There are multiple paths to repayment, and repayment starts with initial outcomes.	Not publicly available. There are multiple paths to repayment, and repayment starts with initial outcomes.	Not publicly available. There are multiple paths to repayment, and repayment starts with initial outcomes.

Link

http://socialfinance.org/focus-areas/workforce/massachusetts-pathways-economic-advancement-project/

Case studies in this section were submitted in large part by project participants.

Table 10: Results and Lessons Learned

Ventura County Project to Support Reentry

Outcomes and significance	Trigger for initial repayment of principal met	Outcomes payments made
This project is underway and currently measuring number of arrests and clean quarters (90-day periods without re-arrest).	First outcomes payment based on number of clean quarters achieved.	As of October 2018, three outcomes payments have been made.

Context and considerations

Landscape: The CA PFS Initiative, funded by The Irvine Foundation and administered by Nonprofit Finance Fund, has provided critical financial and peer-learning support to strengthen project operations. For example, the project received funding towards an in-custody probation officer to allow for referrals and service delivery to start in the county jail.
Policy: Ventura County (both Executive Office and Probation Agency) are beholden to state of California rulings and policy changes that impact the target population. An example is the recent Humphreys (2018) (19 Cal.App.5th 1006) ruling that resulted in significant resource allocation to pre-trial services that were not previously required.

Client service lessons learned

Evaluation: Operationalizing the randomized control trial for this project requires the Ventura County Probation Agency to identify more than twice as many eligible individuals than can be enrolled into Interface programming, since a portion are randomized to the control group. It has introduced new processes to ensure a sufficient pipeline of assessed eligible clients and securing client opt-in to the study.
Retention: Enrolled service group members remain under probation officer supervision; the probation officer has an important ongoing role to encourage and support enrolled service group members to continue with services, as well as to provide feedback to the service provider.

Partner-to-partner lessons learned

Communication: Ventura County Probation Agency and Interface Children & Family Services have an established working partnership to serve another target population with similar services; this greatly facilitated executive level buy-in, but did not account for a new set of probation officers involved for project's specific population. To address this issue, partners are holding bi-monthly check-ins to monitor operational progress and challenges, as well as providing additional on-going training to probation officers working with project's target population.
Data: Typically, the PFS operations plan is based on data that is a few years old. Once services are launched, the data used to establish eligibility and referral rates may be even more outdated. Ongoing coordinated data analysis between all project partners is required to confirm the operational feasibility of original plan. The project's governance process provides a meaningful forum to discuss opportunities and challenges to the delivery of services, resulting in cross-agency and cross-sector learnings.

Contract amendments

The Contract was amended through the established project governance process to incorporate operational changes and governance reporting adjustments approved by all of the parties. The contractual flexibility provided by the PFS governance process allowed the parties to adopt course corrections to further the stated goals of the project.

Threshold of full repayment of principal met	Threshold for full repayment of principal plus maximum success payments met	Actual return to investor
There are multiple paths to repayment depending on outcomes achieved.	There are multiple paths to repayment depending on outcomes achieved.	Project still active

Link

http://socialfinance.org/focus-areas/criminal-justice/ventura-county-project-to-support-reentry/

Case studies in this section were submitted in large part by project participants.

Table 10: Results and Lessons Learned

Northern Virginia Team Independence

Outcomes and significance	Trigger for initial repayment of principal met	Outcomes payments made
The Workforce Innovation and Opportunity Act (WIOA) outcome measures being tracked for the participants are: skills gained during programming; placement in training, employment or education six months and a year after exit; and attainment of a degree or certificate within a year after exit. Fairfax DFS can earn up to four bonus payments for each young adult enrolled in NVTI, one for each successful outcome achieved over the course of the project. If Fairfax DFS is able to achieve established performance targets with these at-risk young adults, they have the potential to earn up to $150,000 in P4P bonus payments. The first outcome report has not yet occurred.	The program just began enrolling participants in late 2017 and has not yet hit the first possible checkpoint for repayment.	None to date

Context and considerations

Key innovations resulted in structuring this first local workforce area in the nation to use the P4P provisions in WIOA, which enable workforce boards to encourage providers to focus on harder to reach outcomes through performance—or "bonus"—payments. Over the next three years, SkillSource, the non-profit entity of the Northern Virginia Workforce Development Board, will set aside P4P bonus payments to DFS to incentivize achievement of the WIOA outcome measures for young adults enrolled in the NVTI project.

Client service lessons learned

In the structuring of the project, the client thought through how they selected and enrolled program participants.

Partner-to-partner lessons learned

Bringing relevant stakeholders together often and early allow successful construction of P4P contracts.

Contract amendments

None to date.

Threshold of full repayment of principal met	Threshold for full repayment of principal plus maximum success payments met	Actual return to investor
The program just began enrolling participants in late 2017 and has not yet hit the first possible checkpoint for repayment. The last checkpoint is in 2023.	The program just began enrolling participants in late 2017 and has not yet hit the first possible checkpoint for repayment. The last checkpoint is in 2023.	The program just began enrolling participants in late 2017 and has not yet hit the first possible checkpoint for repayment. The last checkpoint is in 2023.

Link

https://www.thirdsectorcap.org/n-va-skillsource/

Case studies in this section were submitted in large part by project participants.

Table 10: Results and Lessons Learned

Connecticut Family Stability Project

Outcomes and significance	Trigger for initial repayment of principal met	Outcomes payments made
This project is underway and currently measuring out-of-home placements, re-referrals to DCF, negative toxicology screens, and FBR enrollment.	First outcomes payment based on engagement in FBR services and negative toxicology screens.	As of October 2018, one outcome payment has been made.

Context and considerations

Policy: As Connecticut has been heavily impacted by the opioid crisis, the need for new substance use services for families affected by this crisis have remained a high priority. This project has enabled DCF to better meet the demands by offering this intensive in-home service option for parents with a substance use disorder with a focus on preserving families, children's safety and avoiding entries into the foster care system.

Recent policy changes surrounding the legalization of medical marijuana in the state of Connecticut and the availability of medical marijuana certificates among the target population have had some impact on enrollment, as caregivers with medical marijuana certificates are not eligible to participate in FBR services if their only substance of choice is marijuana despite potentially being able to benefit from the service to deal with substance use and co-occurring challenges.

Landscape: Administration transition expected in early 2019 will have forward-looking impacts on project implementation, collaboration, and decision-making.

Client service lessons learned

Evaluation: The project uses an RCT to measure FBR's impact on out-of-home placements and re-referrals. Project partners recognize the challenges of implementing an RCT with this vulnerable population, as well as with a service previously available to caregivers without randomization. The availability of FBR in the community outside the scope of the project has created some hurdles in generating referrals to the project, and in increasing the likelihood of evaluation risks such as control group contamination.

Partner-to-partner lessons learned

Communication: Partners recognize the important role this project has played in increasing and formalizing lines of communication between service providers and government partners, at multiple levels of the organization, to improve service delivery. The close coordination between FBR teams and DCF social workers better supports clients in facing co-occurring challenges like homelessness, mental health disorders, and domestic violence.

Data: Close collaboration through data sharing across project partners has been critical to the implementation of the project. Joint problem-solving has been critical to generating buy-in from staff at all levels, identifying operational challenges, and improving data availability and accuracy.

Contract amendments

The Contract was amended through the established project governance process to document appropriate course corrections approved by all of the parties. The contractual flexibility provided by the PFS governance process allowed the parties to adopt course corrections to further the stated goals of the project.

Threshold of full repayment of principal met	Threshold for full repayment of principal plus maximum success payments met	Actual return to investor
Not publicly available.	Not publicly available.	Project still active.

Link

http://socialfinance.org/focus-areas/children-and-families/connecticut-family-stability-pay-for-success-project/

Case studies in this section were submitted in large part by project participants.

In Closing

The projects summarized in this report are diverse. There are few generalizations or conclusions that can be made about them, or about the rapidly-evolving movement toward outcomes-based funding.

We hope that this report spurs conversations about early lessons learned, and helps light the way for everyone interested in collaborative approaches to improving life in our communities.

We're proud to walk beside many partners in this work, including those who contributed their thoughts, experiences, and data to this report.

Please join us at **www.payforsuccess.org** for additional resources, news, and conversation.

Together, we can build a more just and vibrant society.

Acknowledgements

NFF would like to acknowledge the many partners who contributed to this report by sharing their expertise about the projects detailed herein. We have made our best effort to incorporate input from many sources in a succinct way that allows for project comparison while still capturing the nuances of individual projects; any inaccuracies or omissions are our own. Many thanks go to: David Butler, MDRC; Caitlin Reimers Brumme and Nirav Shah, Social Finance US; Gretchen Anderson, State of Utah; Bill Crim and Chris Ellis, United Way of Salt Lake; Joe Schmidt, IFF; Caroline Wagner, Enterprise Community Partners; David Merriman, Cuyahoga County, OH; Ryan Moser and Stephanie Mercier, CSH; Thomas Brigham, Massachusetts Alliance for Supportive Housing; Greta Hansen, Santa Clara County, CA; Erin Bogue, Nurse-Family Partnership. This report was made possible with the generous support of the Corporation for National and Community Service's Social Innovation Fund (SIF), and the Laura and John Arnold Foundation.

Nonprofit Finance Fund®

Corporation for NATIONAL & COMMUNITY SERVICE

Legislative Assembly

North Dakota House of Representatives

STATE CAPITOL
600 EAST BOULEVARD
BISMARCK, ND 58505-0360

Representative Josh Boschee
District 44
517 First Street North
Fargo, ND 58102-4540
jboschee@ndlegis.gov

Minority Leader

COMMITTEES:
Industry, Business and Labor

February 1, 2023

Good morning Chairman Weisz and members of the House Human Services Committee,

For the record, my name is Josh Boschee and I serve as a Representative from District 44, which comprises downtown and north Fargo. Included in my testimony is a proposed amendment, based on feedback from funders who have experience working with Pay for Success programs.

HB 1480 was introduced as a way for the state of North Dakota to find solutions to one or more challenges facing individuals, families and/or communities throughout our state. Most government funded social services programs are designed to help people with where they are at today. To deal with the crisis in front of them so they can move forward for just one more day, week, month and at times years. The size of our state's human services budget comes from the growing issues facing individuals and families, the increased cost of housing, food, utilities, healthcare, transportation and not enough focus on prevention. As stewards of taxpayer dollars, policy makers like you and I take our job seriously of balancing ongoing and one-time revenues with not only dealing with the issues in front of us, but also building for a strong future.

I have found in my time in the legislature that we can be quick to supporting greater and exciting investments in physical infrastructure such as roads, water projects, buildings and pipelines, but are slow to make greater investments in our state's human infrastructure. However, over the last few sessions we have done some exciting things when you look at the success of pivoting funds that were dedicated to supporting our states prison system to investing in programs like Free through Recovery to help North Dakotans receive peer support in managing their disease of addiction and secure housing, employment and a support network committed to their success post treatment and/or incarceration.

HB 1480 introduces the concept of implementing a Pay for Success model to identify new ways of delivering services to North Dakotans, implement best practices learned locally and throughout the country and focus on accountability of contractually agreed upon outcomes before the state is responsible for funding the delivery of these services. In layman's terms Mr. Chairman, we can secure most of the benefit with little to no financial risk.

Pay for Success funding has been implemented in the United States since 2013 with over 26 ongoing projects in over 13 states. The first of which was the $9.6 million New York city Rikers Adolescent Behavioral Learning Experience (ABLE) program to reduce recidivism among nearly 4,500 formerly incarcerated 16-18 year olds. According to The Heritage Foundation's 2020 report *Pay for Outcomes: Transforming Federal Social Programs to Expand Individual Well Being,* "policymakers would finally have solid evidence that programs either are or not working. Without evidence of positive outcomes, service providers would not be paid, and this would give them a strong incentive to prove that outcomes are not only measured, but actually achieved." The report goes on to say the program "requires that service providers be financially responsible, evaluated based on clear outcomes, and rewarded only for success."

What is Pay for Success funding?
The Pay for Success funding model is a financial tool that allows government entities to pay for programs that deliver results. It allows for the development of innovative delivery of services with minimal to no risk to taxpayers. Pay for Success funding models are potentially powerful tools for us as policy makers to focus our limited resources more efficiently by developing outcomes to improve services for targeted populations to find solutions that work best for our communities and North Dakota as a whole.

What does a performance-based grant, contract or agreement entail?
The government entity establishes a specific, measurable outcome that it wants to achieve within a targeted population and guarantees payment to an intermediary only if the intermediary accomplishes the agreed upon outcomes. The outcomes would be determined through third party validation to ensure independence and provide greater accountability.

If the government isn't paying for the program up front, who is?
Investors provide the working capital for the intermediary to contract with and manage service providers. The up-front investment of capital come from the collaboration between private foundations, private investment funds, corporations and individuals who are committed to finding solutions to the challenges facing our individual communities, states and nation. There are entire networks of investors who have been developing the infrastructure around Pay for Success programs for the past decade.

What kind of programs should North Dakota focus on?
HB 1480 has three targeted populations identified on page 1, lines 12 through 15. Common areas of Pay for Success programs throughout the country include recidivism, home-visiting programs, workforce development, preventative health care, early childhood, and homelessness. This committee may have ideas for areas of focus based on the legislation you have deliberated this session and in previous sessions.

One thing to keep in mind, as we consider Pay for Success funding in North Dakota, to focus on areas in which:

- Outcomes can be clearly defined and historical data already exists
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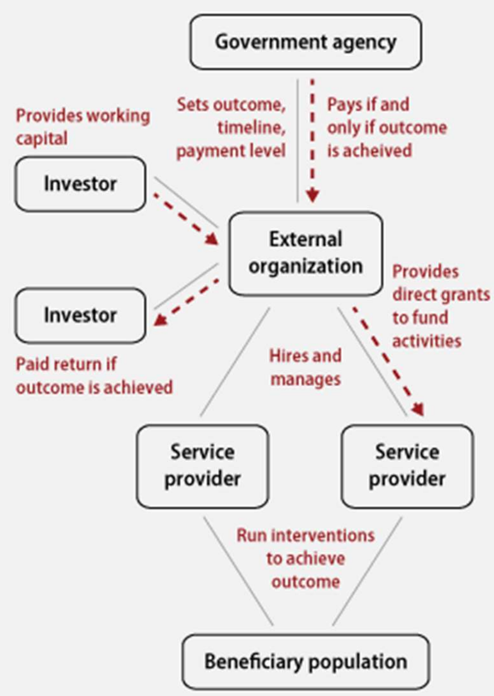

Center for American Progress Fact Sheet:

Social Impact Bonds in the United States

Mr. Chairman, attached to my testimony are a few examples of Pay for Success programs that are occurring throughout the country. Most of which have begun their implementation in the last few years limiting the available data of what their outcomes have determined. However, as indicated previously in my testimony, the government entities will only be responsible for paying for the programs if the contractually agreed upon outcomes are met. Otherwise, they owe nothing. But may have still found ways to make progress. For instance, a contract may require a 20% reduction in recidivism from a specific population of recently incarcerated North Dakotans over a three-year period. If that program reduces recidivism by only 17%, the state wouldn't be obligated to make payment. But may still have found ways to improve the delivery of services saving money in future biennium.

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- Nonprofit Finance Fund 2019 Report, Pay for Success: The First 25

Mr. Chairman, members of the committee, my ask of you is to encourage further discussion of this concept by providing input in areas of priority for North Dakota to focus a Pay for Success initiative or two (page 1, lines 12-15). I believe that beginning to implement outcomes based funding for programs that can improve the health, skillsets and quality of life for North Dakotans will allow our state to identify North Dakota solutions to problems facing individuals, families and our communities. Pay for Success allows for innovation, collaboration and very minimal financial risk to taxpayers.

I ask for you to provide a Do Pass recommendation so that the financial consideration of the bill can be discussed within the Appropriations Committee to see how best a Pay for Success funding model can work within the Department of Health and Human Services budget. Thank you. I am happy to answer any questions.

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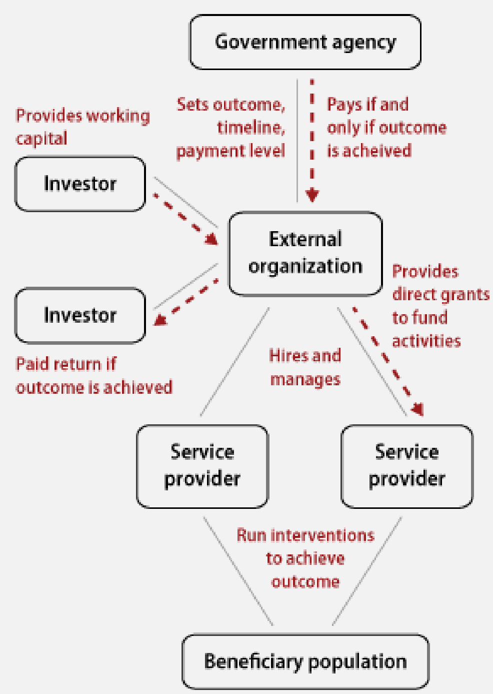

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Madame Chair, members of the committee, my ask of you is to encourage further discussion of this concept by providing input in areas of priority for North Dakota to focus a Pay for Success initiative or two (page 1, lines 12-15). I believe that beginning to implement outcomes based funding for programs that can improve the health, skill sets and quality of life for North Dakotans will allow our state to identify North Dakota solutions to problems facing individuals, families and our communities. Pay for Success allows for innovation, collaboration and very minimal financial risk to taxpayers.

Additionally, if you would be willing to provide myself a few more days to work with DHHS Director Jones on potential amendments. He and I are scheduled to visit tomorrow morning with a national organization that has been working on Pay for Success projects since the concept's inception. In my conversations with them and an investment fund over the past two weeks, we think there are a couple additional opportunities to work within existing budgets to make Pay for Success work for DHHS and any other interested agencies. And then would be looking to see if the $2.5 million currently appropriated in the bill could be used for local and/or regional initiatives.

Thank you for your consideration and hopefully your support. I am happy to answer any questions.

August 2, 2012

THE CITY OF NEW YORK
OFFICE OF THE MAYOR
NEW YORK, NY 10007

Bloomberg Philanthropies

Goldman Sachs

mdrc

FACT SHEET: The NYC ABLE Project for Incarcerated Youth

America's First Social Impact Bond

- The City of New York, Bloomberg Philanthropies, Goldman Sachs and MDRC today announced the nation's first social impact bond.
- This innovative model brings in new private financing for preventive services, especially important in these times of constrained government spending. It aims to unlock a new pool of funding – commercial investment – for evidence-based social services interventions in New York City and throughout the country.
- Launched with the Department of Correction as part of the Young Men's Initiative, the Adolescent Behavioral Learning Experience (ABLE) Program aims to reduce the reincarceration rate among adolescents at Rikers Island through an evidenced-based intervention that focuses on improving personal responsibility and decision-making.
- The financing for this project was inspired by the social impact bond model first employed in Peterborough Prison in the UK.
- In this approach, there is no upfront cost to the taxpayer, instead:
    - **Goldman Sachs** funds the project's delivery and operations through a $9.6 million loan to MDRC;
    - **Bloomberg Philanthropies** provides a $7.2 million grant to MDRC to guarantee a portion of the loan, reducing the lender's risk;
    - **MDRC** through a contract with the City oversees the day-to-day implementation of the project, manages the Osborne Association and Friends of Island Academy – the non-profit service providers who deliver the intervention – and is responsible for any payments to the private investor;
    - **The Vera Institute of Justice**, an independent evaluator, determines whether the project achieves the targeted reductions in reincarceration;
    - **The Department of Correction** pays MDRC based on reduced re-admissions and the associated cost savings.
- If improved outcomes are not achieved, New York City government is not required to pay MDRC, thereby transferring the risk of funding to the private sector and ensuring accountability for taxpayer money. In addition, the City has no responsibility for payments to the private investor, which falls solely on MDRC.
- The ABLE Program has the potential to generate substantial long-term savings for the City and taxpayers. Based on its agreement with MDRC, Goldman Sachs receives its capital back only if

the re-admission rate – measured by total jail days avoided – is reduced by 10% or more. Should the reduction exceed 11%, Goldman Sachs will also receive a financial return that is consistent with typical community development lending.

- The potential for City savings associated with the reductions in re-admission are significant and exceed the possible associated payments to MDRC, which it passes on as a return to the investor *(see chart below)*:

Reduction in Re-Incarceration Rate	City Payment to MDRC ($)	Projected Long-Term City Net Savings ($)*
≥20.0%	$11,712,000	$20,500,000
≥16.0%	$10,944,000	$11,700,000
≥13.0%	$10,368,000	$7,200,000
≥12.5%	$10,272,000	$6,400,000
≥12.0%	$10,176,000	$5,600,000
≥11.0%	$10,080,000	$1,700,000
≥10.0% *(breakeven)*	$9,600,000	$ ≥ 1,000,000
≥8.5%	$4,800,000	$ ≥ 1,000,000

** Savings after repayment and continued funding for program delivery.*

- Funds remaining in the guarantee fund at the end of the intervention will remain at MDRC to facilitate future social impact investments in New York City.

Candid. Philanthropy News Digest

Program Fails But Social Impact Bond Experiment Succeeds

August 2, 2015

Although it failed to produce the desired results, the nation's first social impact bond worked the way it was supposed to, attracting private capital to an effort to reduce juvenile recidivism in New York City and shifting the cost of the program to investors when the program failed to deliver, the ***New York Times*** reports.

Launched in 2012 by social policy research organization **MDRC** and the **Osborne Association**, leading prison reform organization, and financed by a $7.2 million investment from Goldman Sachs — with a $6 million guarantee from **Bloomberg**

Philanthropies — the Adolescent Behavioral Learning Experience (ABLE) program aimed to reduce recidivism among 16- to 18-year-olds at the city's Rikers Island facility by at least 10 percent using an evidence-based intervention focused on improving social skills, personal responsibility, and decision making. Under the terms of the SIB agreement, the city agreed to pay Goldman back only if the program met its target, which would have enabled the jail to close a section and save taxpayer money. If recidivism rates fell below the threshold target, Goldman would have made a profit on its investment and the city would have received a share of the savings.

According to the *Times*, the program ran into trouble from the outset when wardens at Rikers had difficulty separating teenagers who were selected to participate in the program from teens in the control group. Subsequently, the program's budget was cut after the teenage population at the jail fell below the level stipulated in the contract. Three years into the four-year experiment, an **evaluation** conducted by the **Vera Institute of Justice** found that the program did not lead to any statistically significant reduction in juvenile recidivism, leading the city to pull the plug and walk away without spending a dime of taxpayer money. "These vehicles are structured in such a unique way that they carry very little risk for the government," said Kristin Misner-Gutierrez, director of social services in the Office of the Deputy Mayor for Health and Human Services, who was involved in the development of the "pay-for-success" program.

To date, seven social impact bonds have been set up in the United States; Goldman has been involved in four, including the Rikers experiment and a $17 million pre-K program for disadvantaged children in Chicago. "We continue to be enthusiastic about ,ing capital this way," said Andrea Phillips, a vice president in the firm's Urban Investment Group.

At the same time, social impact bonds carry potential drawbacks. MDRC president Gordon Berlin told the *Times* that designing social policy around measurable results and narrow incentive mechanisms to attract private-sector funds could result in reduced funding for harder-to-measure efforts and a scaling back of much-needed services. "If the government objective is to save money, it limits the use of programs like these to things that are very expensive, like prison beds, hospital beds, foster care beds. The choice of projects might be affected."

Nonprofits are starved for funding and governments have little money to finance innovation," said Berlin. "Maybe people are loading a little bit more on this than they should."

Eduardo Porter. "Wall St. Money Meets Social Policy at Rikers Island." New York Times 07/28/2015.

Subjects
Public Affairs; Philanthropy / Voluntarism

People:
Kristin Misner-Gutierrez; Andrea Phillips; Gordon Berlin

Organizations
Bloomberg Philanthropies; Vera Institute Of Justice; Goldman Sachs; MDRC; Osborne Association

Locations

13

Public, Private, Nonprofit Partnership

A Case Study of Social Impact Bonds

CHRIS ELLIS, SOCIAL INNOVATION STRATEGIST, FOURTH ECONOMY CONSULTING, AND FORMER PARTNERSHIP DIRECTOR FOR EARLY LEARNING OUTCOMES, UNITED WAY OF SALT LAKE

ANDREA PHILLIPS, MPP, FOUNDER AND MANAGING PARTNER, MAYCOMB CAPITAL, AND FORMER VICE PRESIDENT, URBAN INVESTMENT GROUP OF GOLDMAN SACHS

JOHN ROMAN, PHD, SENIOR FELLOW, NORC AT THE UNIVERSITY OF CHICAGO, AND FORMER SENIOR FELLOW, URBAN INSTITUTE

Can the delivery of quality social services create returns for private investors? Social impact bonds are trying to answer that question. Incubated in the United Kingdom in 2010 as a way of financing programs to reduce recidivism among offenders, social impact bonds have been scaled to 15 countries, across 60 projects by June 2016. The first social impact bond in the United States was executed in August 2012.

Social impact bonds—a financial tool in which private investment dollars lend capital to finance the expansion of human, health, and social service programs that work—tap into core aspects of building a Culture of Health for all Americans. They require a new type of relationships among private investors, government agencies, social service providers, and evaluators. They rest on the provision of high-quality social programs delivered at enough scale to make a broad impact. They are not quick fixes; they rely instead on solid commitment of multiple actors over time.

Three panelists representing an investment firm, an umbrella social services agency, and an evaluation organization explored how Salt Lake City used a social impact bond to expand access to high-quality early childhood education.

Social Impact Bonds: What They Are and How They Work

A social impact bond is not a bond. It is a working capital loan against the proceeds of a pay-for-success contract."—Andrea Phillips

Social impact bonds—also known as pay-for-success financings or outcomes-based financings—have emerged as a tool for government to fund what works and improve outcomes for disadvantaged communities. In a social impact bond, private investment firms provide upfront working capital to help finance the expansion of a social service to a community. Investors are repaid only if the program achieves outcomes specified in the contract. Social impact bonds rest on the belief that prevention and early intervention programs yield both human and financial benefits—they are a triple-win for governments, service providers, and communities.

Investors provide the necessary working capital to bridge the gap between the time when services are provided and the time when the savings that generate repayment are realized. They also take on the risk of impact (i.e., the chance that the social intervention may not produce results in the community).

"Impact investments aim to generate financial returns while simultaneously driving towards a very intentional social impact," says Andrea Phillips. "These social impact bond opportunities are underwritten as any other loan would be, with additional attention paid to social impact."

Essential actors in a social impact bond relationship are:

- A government agency wanting to address a significant social issue such as homelessness, recidivism, or early childhood development
- A private investor willing to front funds for an intervention to address the issue
- An intermediary organization able to sign the loan agreement, contract with service providers, oversee the initiative, and repay the investor
- One or more community-based organizations with proven interventions and the capacity to deliver the services
- An evaluator prepared to conduct a rigorous study of service outcomes and impacts.

This arrangement among multiple stakeholders aligns incentives and holds everyone accountable for results. Government agencies, service providers, and evaluators come together, with the shared goal of achieving broader impact than each could achieve on its own. Impact investments like these have more typically been utilized to finance brick-and-mortar projects that revitalize communities such as local health centers and mixed-income housing. For example, Goldman Sachs has committed more than $5 billion in impact investments such as these since 2001.

Sharing Risk

A core feature of social impact bonds is shared risk, or "pay for success." This notion of risk is new and at times unusual for social service and government agencies whose historical contractual relationships have been and are still generally based on reimbursement for services rendered.

Standard fee-for-service contracts may reduce risk, but they have limitations. They usually pay based on activity measures such as number of people served and types of services provided. While these measures are essential for active program management, they provide little information about whether the ultimate outcomes are achieved and do not directly address the quality of the services delivered.

When there is a large gap between the time during which a service is delivered and the time when government savings or future benefits are accrued from the provision of effective services, an outcomes-based contract may be helpful. For instance, savings and/or future benefits from improved preventive health care, stable housing, or reduced recidivism are usually not available until long after the costs of delivering these services have been incurred.

"Most service providers don't have the financial wherewithal to take on all the risk of these pay-for-success contracts," says Phillips. "That's what the financial markets do all the time."

Paying for Outcomes and Impacts

When payment is contingent on performance, all stakeholders develop a laser-like focus on the outcomes and impacts. Defining expected targeted outcomes—performance metrics to be attained—and anticipated impacts—changes in behaviors or circumstances to be realized—entails both cooperation and innovation among government, private investors, intermediary agencies, and evaluators.

Considerations include: How long should investors wait for outcomes and impacts? What is a fair interest rate? What are reasonable outcomes and impacts to expect from service providers? How will we know if those have been achieved?

"There is room for negotiation in there," says Phillips. "The expected returns on these deals for the senior investor have been mid-to-high single digits. The terms of these deals and the appetite for typical investors is probably five to eight years."

To offset the full burden of risk, many impact investors seek a level of "de-risking" or credit enhancement in each investment. Typical of other investments, these credit enhancements may include a partial principal guarantee from a philanthropic organization or a secondary investor with more risk appetite.

Theory Meets Practice: Social Impact Bonds in Salt Lake City

Studies and experience have shown that high-quality early childhood education programs lead to improved academic and emotional development, and that these benefits last. Giving a child a solid foundation early in life also saves money in later remedial, special education, and other costs.

Context: A Preschool Program in the Right Place at the Right Time

In the early 2000s, the Granite School District in Salt Lake City sought to expand its Utah High Quality Preschool Program. A request for federal funds for this purpose was approved and the ensuing program enhancements resulted in strong outcomes for all children, but especially for the low-income children who attended the program.

"We followed those kids when they were in third and fourth grade, and found that the achievement gap between these low-income kids and their more affluent peers was effectively closed," says Chris Ellis.

The school district brought to the partnership table, therefore, a program with a solid track record of documented success over a period of years and a desire to expand its reach by recruiting more children. The United Way brought a consortium of business, government, evaluation, and nonprofit leaders with a history of working together for the Salt Lake community. Goldman Sachs and J. B. Pritzker brought money and a willingness to risk it on investments in children.

Enter Social Impact Bonds

Discussions with Goldman Sachs began in 2010, which is the first year social impact bonds appeared on the policy and financing horizon in the United States. According to Phillips, "The first thing we asked was 'How do we know that you are going to achieve the impacts you need to achieve that will allow the contract to repay us?' Achieving these goals drives both the social impact and repayment of the loan."

The team on the ground in Salt Lake City had answers. They were able to produce several years of outcome data from evaluations of the preschool program, describe and share its curriculum, and offer detailed projections about expansion plans. Importantly, the team also demonstrated a shared vision and cohesive management and leadership capacity.

By June 2013, officials at United Way of Salt Lake had negotiated $7 million in private-sector loans, to be repaid with interest from savings realized by reduced costs of special education services attributed to the Utah High Quality Preschool Program.

With the start of the 2013-14 school year, Utah's "Pay-for-Success" program became the country's first social impact bond for early childhood services. It financed an expansion of the Utah High Quality Preschool Program to serve 3,500 new children recruited in five cohorts. There were no upfront costs to taxpayers.

Key actors at the outset of Pay-for-Success were:

- Government: State and county officials
- Investors: Goldman Sachs (the primary investor, $4.6 million loan); J. B. Pritzker (secondary investor, $2.4 million loan)
- Intermediary: United Way of Salt Lake
- Service provider: Granite School District
- Evaluator: Utah State University

Chris Ellis recalls, "We saw this as an opportunity to further our collective impact work. We played the backbone role, helping facilitate and align partnerships at schools, at system levels and with other preschool providers."

In the 2013–14 school year, 595 low-income children entered the preschool program. All 595 children were screened using the Peabody Picture Vocabulary Test. Some 110 were identified through screening as likely to require special education services while in grade school.

Evaluators from Utah State University are tracking these 110 children through sixth grade to determine whether they utilize special education services, and for how long. No one from the preschool program, the United Way, or Goldman Sachs knows which children are being tracked.

Following the Money

By 2015, early findings from the evaluator suggested that the preschool program and the Pay-for-Success financing strategy were working. Of the 110 children identified as likely to need special education in grade school, only one went on to use those services in kindergarten.

With that milestone, investors were due their first repayment, the first such payment for a social impact bond in the United States. Through formulas used to determine the cost of special education services avoided, savings were determined to be $281,550 in the first year, or $2,607 per child[1] for children served by the program during its first year. These savings generated a payment to investors of about $267,000.[2] If performance continues as expected, estimated savings to the State of Utah for the first cohort of children would exceed $1 million through 12th grade.[3]

Under the Pay-for-Success contract with the State of Utah, investors receive 95 percent of state savings in special education costs until the investments are repaid with interest.[4] The base interest rate on the loan is 5 percent.[5] Thereafter, Goldman Sachs and Pritzker will receive "success fees" until the children complete sixth grade or until the return is 7.25 percent. Savings after that time will accrue to the state and school districts.[6] Chris Ellis recalled, "Once the rest of the partnerships were established, all we needed was an agency to repay the loan investment based on the success of the program for cohorts 2–5. We figured that the government made the most sense and securing their participation would be fairly straightforward. This, however, proved to be a complex process."

Initial efforts to pass state legislation to repay investors did not succeed. To keep Pay-for-Success on track, therefore, the board of directors of the United Way of Salt Lake set aside $1 million and Salt Lake County set aside $350,000 to repay investors for the first cohort of children.

In the next year, with passage of HB96: the Utah School Readiness Initiative in March 2014, the Utah State Legislature allocated funds for repayment of investor loans for the remaining four cohorts of children. The Act also allows a newly established School Readiness Board to enter into Pay-for-Success contracts with private investors on behalf of the state, and authorizes other expansions of early childhood education throughout the state. "We were expanding access to proven quality programs and through the legislation were able to change the conversation in Utah around early childhood education," said Ellis.

[1] *www.ssir.org/articles/entry/pay_for_success_is_working_in_utah*

[2] *www.sltrib.com/home/3032598-155/preschool-paying-off-for-goldman-sachs*

[3] *www.goldmansachs.com/what-we-do/investing-and-lending/impact-investing/case-studies/sib-slc-fact-sheet.pdf*

[4] *www.sltrib.com/home/3032598-155/preschool-paying-off-for-goldman-sachs*

[5] *www.hceconomics.uchicago.edu/sites/default/files/file_uploads/SIB-RBFFact_SheetUtahVersion.pdf*

[6] *www.hceconomics.uchicago.edu/sites/default/files/file_uploads/SIB-RBFFact_SheetUtahVersion.pdf*

Reflections

> *I think there is a little myopia about raising private capital to help government do the things it doesn't do, and one of the things I get asked is, "Why doesn't government just do these things?"*—John Roman

The experience in Utah is encouraging, but social impact bonds are new and many questions remain unresolved.[7] Utah's experience illuminates these questions and raises other issues that warrant further exploration.

Why Has Uptake Been Slow?

As of March 2016, Goldman Sachs had executed four social impact bond investments. Executing the contract in Utah, which was especially well positioned to use this approach, took three years.

What is a reasonable time line for developing a social impact bond or outcomes-based financing? Will experience lead to shorter time lines? What accounts for a slow uptake in interest?

Government agencies and investment firms are cautious about doing business in such a fundamentally different way. Some point to government as a major source of bottleneck and others point to the investment firms.

John Roman holds that there are high-net-worth individuals, venture capitalists, and private investment firms "who are looking for investments like this and want to invest in good works." He asks why government agencies in particular seem reticent to get involved in these transactions. "We are talking about 100 percent reduction in their risk, and the government says 'No, thank you.'"

There are reasons for government hesitancy. City and county officials, those most likely to pursue social impact bonds, are not necessarily familiar with the language and intricacies of private investment. In addition, public entities responsible for repaying the loans must feel confident that the programs they propose are well developed and are backed by enough of the "right kind" of evidence.

Higher levels of government impose multiple regulatory and reporting requirements on city and county government agencies, and those requirements have to be considered. "The good news is there is a lot of work going on

[7] For example, some have challenged use of the Peabody Picture Vocabulary test as an appropriate method of screening children for special education needs. See *www.nytimes.com/2015/11/04/business/dealbook/did-goldman-make-the-grade.html?_r=0* for this discussion and *www.nytimes.com/2015/11/14/business/dealbook/why-social-impact-bonds-still-have-promise.html.*

in Washington to get the federal government to okay these types of structures," says Phillips.

Louise Cohen, MPH, CEO of the Primary Care Development Corporation and moderator of the panel, asked why investors weren't flocking to opportunities that purport to offer "high-digit" return on investments in proven social programs. In response, Andrea Phillips explained that "the deals are hard to do because they ask government and other stakeholders to do business in a new way. But with 60 deals done globally, we believe we are on the cusp of seeing more standardization and simplification. I'm cautiously optimistic that these efficiencies will lead to real growth of this nascent market."

How Much Evidence Is Enough Evidence?

Investors seeking reassurance that they will be repaid understandably favor programs with long track records of outcomes and impacts. But how much evidence is enough? How often do proven programs have to re-prove their effectiveness? Are investors open to financing less mature programs that show promise? Those questions have not been answered.

Cohen argues that government agencies use evidence-based interventions that yield strong outcomes "all the time." The bigger challenge, she maintains, is scaling an innovative approach that evidence has shown to work in a "boutique" setting. How seriously would private investors consider investing in one of these programs without needing a new randomized controlled trial?

Phillips suggests an alternative to asking investors to support these younger but promising interventions. "I do think that is a great role for philanthropy, as an angel investor in the early stages of innovation."

At the other end of the evidence spectrum, some programs—Nurse-Family Partnership for one—have decades of solid evidence behind them demonstrating their long-term impacts and cost savings. Do they need yet more evidence to establish their value? Perhaps the evaluation should examine the financing mechanism rather than the intervention.

"From where we sit as investors, we are looking for a contract that clearly defines the outcomes we expect and how we will know if we got there," says Phillips. "Investors will look at prior evaluations and historical data to assess the likelihood of achieving the agreed-upon outcomes."

There is not a simple or single way to address these challenges. Decisions about whether to propose or finance a program for a social impact bond require shared confidence that at some future date there will be consensus about whether the intervention unfolded as it was supposed to and whether it achieved the intended outcomes.

Arriving at that shared confidence may entail negotiating an acceptable middle ground. The city of Chicago, for example, aimed to use its social impact bond to increase high school graduation rates, but investors wanted a more immediate repayment trigger. The city, the school district, and the investors ultimately agreed on three benchmarks—kindergarten readiness, third-grade reading, and decreased rates of special education usage—which, taken together, would be strong enough indicators of future high school graduation.

In the case of Utah's preschool program, it was not hard for all partners to agree on the big goal—keeping young children in Utah on track at school. The question then became how to measure progress to reach consensus on whether that happened.

How Big Is Big Enough? What Is Adequate Scale?

What does it mean to go to scale? Salt Lake City's Pay-for-Success, for example, increased participation in quality preschool programs, eliminated the 400-child waiting list for early childhood services in Salt Lake, and allowed new children to be recruited. It also expanded from the Granite School District to one additional district, two private providers, a charter school, and one nonprofit organization. Is that a reasonable expectation for one social impact bond? Does this expansion "count" as scale?

Roman believes that, with good data, there are ways to answer those questions. He characterizes social impact bonds as "forcing mechanisms" that promote both scaling and quality improvement. Within evaluations of stable programs trying to expand their reach, "there also tends to be a component that examines, 'Are we implementing with fidelity?' and 'Are there subgroups for whom this works better?'."

Ellis took a broad perspective. He noted that the social impact bond had prompted the first expansion of early education services, which in turn prompted state legislation in Utah that added yet more capacity and provided a stable source of funding over time. Importantly, this experience also engendered significant changes in how stakeholders talk about early childhood education.

"We have seen that new grants are improving quality around the state. I don't know if social impact bonds alone are going to be the strategy that allows us to meet the commitment we have to all children, but the bonds have been able to catalyze more conversations about early childhood education," he said. "The providers are not talking only about programmatic-level outcomes. They are also talking about how what they are doing aligns with the broader atmosphere around early childhood education."

Can the System Be Gamed?

Is there potential for manipulating an intervention to skew results? Are there protections against paying or otherwise coercing people to engage in a desired behavior, thereby falsely suggesting that the social intervention reached its intended outcomes?

Roman notes that, while "there is a lot of pressure for me to put my finger on the dial toward a particular outcome," the partnership structure of social impact bonds reduces the likelihood that will happen. The participation of multiple partners in intensive contract negotiations surfaces and clarifies the incentives that drive each partner to participate. This means the intervention takes on a collective nature. As Roman puts it, "This is the only place in governance where there is a collective understanding of other people's incentives, and if we want to scale the use of evidence, having that collective among all the partners is absolutely critical."

What Attributes of a Community Suggest Success?

Phillips noted several characteristics investors value in deciding whether to invest in community financing: a group of people capable of implementing the project, a system with capacity to scale, a management team with depth, and sound systems of performance management and professional development. "This is similar to what we consider with any type of investment. We are not trying to micromanage what is happening on the ground. We ask the service providers to explain to us what the core principles of the program are and how they have delivered the outcomes in the past. Then, they can have nimbleness around that."

Investors also look for reassurance as to the creditworthiness of the proposed contract. Two, three, or even five years down the road, will the government in fact repay the loan? The issue of future appropriation is not unique to social impact bonds but is a challenge faced in many government contracts. Particularly in this nascent phase of the social impact bond market, this is a risk that investors acknowledge and for which they have developed strategies such as legislative action, contractual language, and more.

Social impact bonds in the United States are little more than four years old. Only a handful of contracts have been executed, and, although it is too early to be certain whether this approach to growing and improving social services will endure, early results show strong signs of success. Within the context of building a Culture of Health, a strategy in which public, nonprofit, and private-sector partners collaborate and put their financial and programmatic assets on the table deserves a full and fair test.

Paying for success: The story of how Utah became a leader in social impact investing

02/08/2019

Author: Deseret News

Original Article

SALT LAKE CITY — A Utah preschool program that has helped hundreds of severely at-risk 4-year-olds avoid costly special education programs is making waves across the country.

And it didn't cost taxpayers a penny to pilot the program.

The Utah High Quality Preschool Program, which launched in 2013, uses a new model called "pay for success" in which private investors, mission-based organizations and the government team up to address social issues, such as criminal justice, health care access, graduation rates and youth employment.

In this model, the government doesn't pay for any social program that isn't successful. If there isn't a measurable impact, private investors take the financial hit — not taxpayers. If carefully measured data proves that the program was successful, only then does the government pay back investors.

Utah's program was the second in the nation — and the first addressing early child education — to employ the pay-for-success model, which was first explored in 2011. Now, around 83 pay-for-success programs have launched nationwide amid rising excitement about the model's potential to cut wasteful government spending while improving the quality of social services delivered.

It also laid the foundation for a piece of federal legislation that Congress passed in February 2018 that set aside $100 million in federal funds for state and local governments to implement

It's difficult to pin down exactly what the United States spends annually on social services, but a 2017 report from the Congressional Budget Office showed $1.2 trillion had been collected to fund social services. However, sometimes it can be difficult to tell if that money is being spent effectively or if real results are being achieved, said Jeremy Keele, former president and CEO of the Sorenson Impact Center, who was involved in implementing the preschool program.

On the other hand, the Utah preschool program has measurable results. Its pay-for-success component ran from 2013 to 2018, serving about 4,000 preschoolers in the Granite and Park City districts and four nonprofit or private preschools. To date, only 10 percent of the 454 preschoolers originally determined to be severely at risk for needing special education services have actually needed to access those services, saving the state of Utah $2.5 million. Before the program was instituted, 100 percent of those children would have been expected to access remedial services, said Bill Crim, the president and CEO of United Way of Salt Lake, the project facilitator. Goldman Sachs and the Pritzker Family Foundation were the private investors that backed the project.

As those kids continue through the public school system, Utah will ultimately see savings of $18 million in special education costs, Crim said. Because of the proven effectiveness of the program, the Utah Legislature decided in 2014 to take over funding after the initial five-year period, and another 1,200 preschoolers entered the state-funded program this past fall. The state has begun to repay investors, but even after all loans and interest are paid, it will still see overall savings of $10 million, Crim said.

Nevertheless, the program has faced criticism. Because the success rate was so high, concerns were initially raised that the program evaluation wasn't serious enough, said Janis Dubno, managing director of impact analytics and social innovation at Salt Lake City's Sorenson Impact Center, who constructed the financial model behind the preschool program.

In addition, some question the concept behind pay-for-success programs, wondering if it wouldn't make more sense for the government to just pay for the programs upfront, rather than retroactively pay back the loan plus interest, which is more expensive, Dubno said. Plus, these programs are "complicated and they can take a long time to put together," she added, which can discourage involvement.

However, pay-for-success programs represent "a paradigm shift in government," Keele said. "The whole notion is shifting to a social sector where your government and philanthropy and impact investors are paying on the basis of actual events achieved rather than services delivered. The implications of that are pretty powerful."

Powerful enough, in fact, to catch the attention of the White House.

Utah's impact

The act, and the pay-for-success programs its $100 million in federal funds could be used for, were hot topics at the Sorenson Impact Center's annual Winter Innovation Summit in Salt Lake City, which ran Feb. 6-8.

Audience members applaud a speaker during the Sorenson Impact Center's Winter Innovation Summit at the David Eccles School of Business at the University of Utah in Salt Lake City on Wednesday, Feb. 6, 2019. -Kristin Murphy, Deseret News

"SIPPRA became known colloquially as the Sorenson Act in Washington, D.C., because Jim Sorenson played such a big role in it," Keele said.

Sorenson, who founded the Sorenson Impact Center, has a lot to do with why Utah is considered a national thought leader in the fields of pay-for-success and impact investing.

Sorenson built a decadeslong career as an entrepreneur — he developed communication technology for the hard of hearing — and philanthropist, but soon realized he was "unsatisfied with traditional philanthropy. It seemed inefficient and lacked transparency and accountability. It didn't move the needle enough to solve the core intractable problems we see in the world today," he said.

In 2013, he entered the newly formed field of impact investing, or investing in businesses that help solve social problems in a sustainable, scalable way. That same year, he endowed the Sorenson Impact Lab at the University of Utah, which facilitates impact investing around the world.

Jim Sorenson, Sorenson Impact Foundation president, speaks during the Sorenson Impact Center's Winter Innovation Summit at the David Eccles School of Business at the University of Utah in Salt Lake City on Wednesday, Feb. 6, 2019. -Kristin Murphy, Deseret News

Soon after, he invested in the country's first pay-for-success program in New York, which was ultimately deemed unsuccessful, and became an advocate for Utah's preschool pay-for-success program. In 2014, the Sorenson Impact Center won a grant from the White House's Social Innovation Fund and used the money to help scale the center from one to two employees to more than 40, Keele said. This put the Sorenson Impact Center on the map in the world of pay-for-success and impact investing.

That same year, Sorenson became aware that new legislation was being proposed to create a federal fund for pay-for-success programs, and he got involved with the bill, helping answer questions about technicalities and feasibility. He also led several briefings to help legislators understand the ins and outs of pay-for-success programs.

Sorenson encouraged then-Sen. Orrin Hatch, R-Utah, to sponsor the bill in December 2014, and, in 2018, Hatch appointed Keele to serve as one of nine members on a federal then-Rep. John Delaney, D-Md., as his counterpoint in the House. It was passed in February 2018.

Rep. John Delaney, D-Md., speaks during the Sorenson Impact Center's Winter Innovation Summit at the David Eccles School of Business at the University of Utah in Salt Lake City on Wednesday, Feb. 6, 2019. -Kristin Murphy, Deseret News

The act is, as Delaney said at the Winter Innovation Summit, "a bipartisan solution."

It "brings together things each party has advocated for a long time," Delaney said. "Democrats want more investment against the great issues that we face in society. Republicans want a more conservative structure around the efficiency of these programs, more metrics, more opportunity for innovation. This notion is advancing ideas that each side cares about."

Of that $100 million in federal funds set aside by the act, $60 million will be available for projects once administrative and other fees are taken out, said Kathleen Victorino, chief of staff at the U.S. Treasury's Office of Financial Research.

"Of that $60 million, half is targeted for projects that have a direct benefit on children," Victorino added — something that can be traced in part back to Utah's trailblazing pay-for-success preschool program.

"Paying for prevention is more effective than paying for remediation. High quality preschool will save the government money in a wide range of areas, including health, education, juvenile and adult crime, and welfare dependency," Dubno said.

What's next?

Since the Utah High Quality Preschool Program, state and local entities have been involved with several other pay-for-success programs, said Fraser Nelson, managing director of field building at the Sorenson Impact Center.

Two Salt Lake County programs, called Homes Not Jails and REACH (Recovery, Engagement, Assessment, Career, Housing), just finished their first full year of implementation. The programs aim to help individuals who cycle in and out of homelessness and the criminal justice system by working with nonprofits The Road Home and First Step House. Another program under development, called Healthy Homes Salt Lake, seeks to improve the health of people affected by asthma living along the Wasatch Front.

Fraser Nelson, Sorenson Impact Center's strategic partnerships and communication managing director, speaks during the Sorenson Impact Center's Winter Innovation Summit at the David Eccles School of Business at the University of Utah in Salt Lake City on Wednesday, Feb. 6, 2019. -Kristin Murphy, Deseret News

"It'll be interesting to see how SIPPRA unfolds and begins to scale and how we can utilize this in making better decisions on how the government pays for social services in the future," he said.

It will also be illuminating to finally be able to track how many people are actually helped by these social programs, and how they can be adjusted to better serve communities in the future, Nelson said.

"It's one thing to waste people's money," Nelson said. "That's a tragedy, but it's not the biggest tragedy. The real tragedy is the harm we cause the people we purport to serve. We're promising something we don't deliver, which harms all of us. If we can help a person become the person they could always have been, that saves our community heartache and hardship."

Program Aimed at Keeping Kids Out of Foster Care Expands Through Pay for Success Contract

Media Release

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OKLAHOMA CITY, OK — A program keeping children out of the foster care system and safely in their homes is expanding in Garfield, Cleveland and Comanche counties. The expansion was made possible due to a recently signed Pay for Success contract between the Oklahoma Department of Human Services and the Impact Accelerator, a subsidiary of Oklahoma-based non-profit, MetaFund.

Pay for Success, also known as a social impact bond, is a model for supporting public-private partnerships. Taxpayer dollars are only spent on successful outcomes while private philanthropy takes on the risk by providing upfront capital to implement evidence-based or promising interventions.

In this case, the program receiving funding is Intensive Safety Services (ISS). It is designed to keep children, who are at significant risk of removal due to abuse and/or neglect, safe in their home. The program provides in-home support to parents/caregivers from a Master's-level therapist to address the needs that led to the abuse or neglect. To keep the children from entering foster care, the parents must complete the services. DHS and therapists continually monitor the children's safety in the home.

The ISS program was started in Oklahoma County in 2015. It has since expanded and is operational statewide. Evaluators at the University of Oklahoma Health Sciences Center have evaluated the program and continue to measure its performance. Their evaluation shows that about 80 percent of the children served through the program have been able to remain safely in their homes while their parents/guardians completed their service plans. This compared to 30 percent for families receiving services as usual.

"Programs like ISS create positive generational impacts by reducing the level of trauma that children and families would otherwise experience through the removal process and strengthening protective factors that we believe are inherent in all families," said Dr. Deborah Shropshire, OKDHS Child Welfare Director. "Parenting is hard for all of us and we know, without a doubt, that families can be successful with the right supports. When we can keep children safely at home, it is ultimately better for children and families and builds skills that will pay dividends for generations to come."

In 2018, DHS signed a three-year Pay for Success contract with the Arnall Family Foundation to expand the program in Oklahoma County. That upfront private funding enabled an increase in the number of cases served and the program enjoyed continued success of keeping children out of foster care.

The most recent Pay for Success contract expands the program even farther by increasing the number of cases served in Garfield, Cleveland and Comanche counties. The majority of the funds for this expansion were again contributed by the Arnall Family Foundation and were combined with dollars from MetaFund through the Impact Accelerator. Up to $730,336 is being dedicated for the addition of ISS therapists and staff to enable the program to serve more families over the next 12 months. NorthCare is the contracted service provider for the ISS program providing the needed therapists.

"We are excited to enter into our second Pay for Success contract with the Department of Human Services to expand ISS which will help to strengthen families and keep children safely out of foster care," said Sue Ann Arnall, president of the Arnall Family Foundation. "While an 80% success rate is impressive, we know that every successful case represents a child who is able to remain safely with their parent and that is invaluable."

A case is deemed successful if the child/children whose family are receiving services are not placed in foster care at 12 months post ISS engagement. For each successful case that closes, DHS pays Impact Accelerator back a set amount until the original investment is repaid.

"MetaFund and our Impact Accelerator investors are uniquely positioned to support sustainable social impact. The ISS program fits one of our priorities, child well-being, perfectly. The program has shown it improves outcomes for the child and family, and it has the added bonus of avoiding cost to the taxpayer," said Ed Long, MetaFund's Chief Impact Officer.

About MetaFund and Impact Accelerator

MetaFund is an Oklahoma-based 501(c)(3) nonprofit working with other nonprofits, the private sector, and government toward a just world free of poverty. MetaFund invests in creative solutions for under-resourced communities, with a primary focus on employment, housing, health, and child well-being. Impact Accelerator is a collaboration among MetaFund, Advanced Legacy Fund, Arnall Family Foundation, Inasmuch Foundation, and Potts Family Foundation. Visit: https://www.metafund.org.

About the Arnall Family Foundation

Established in 2015, the Arnall Family Foundation was founded by Sue Ann Arnall with the vision to create lasting, transformative improvements to the systems and programs that serve individuals and families involved in criminal justice and child welfare through results-driven investments. To learn more about the Arnall Family Foundation, visit www.arnallfamilyfoundation.org.

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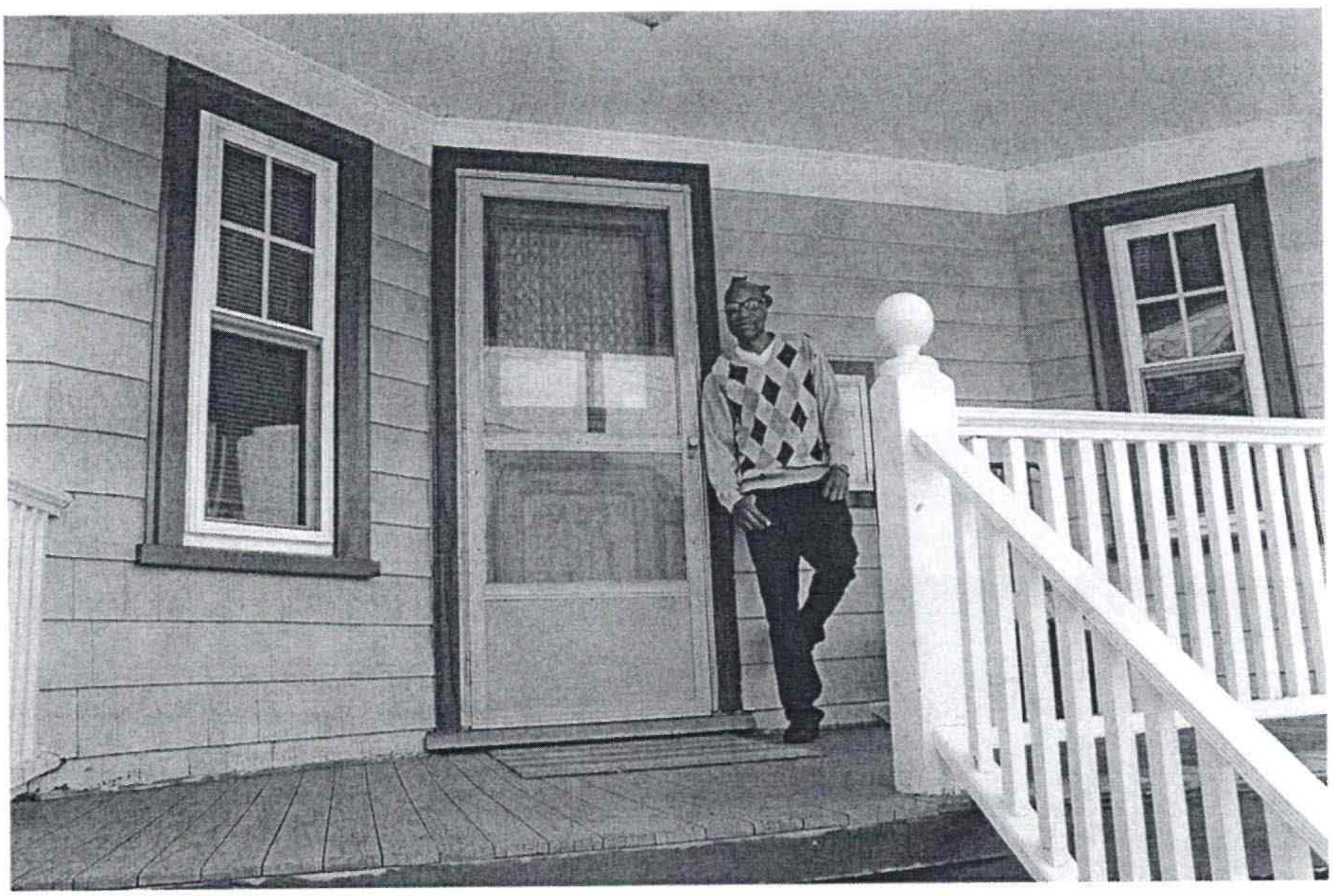

The Pay for Success (PFS) initiative showcases the effectiveness of adopting a Housing First approach. PFS is a permanent supportive housing initiative that has housed more than 1,000 tenants since its launch in 2015. PFS integrates housing dollars with service dollars to keep people in housing and out of emergency shelters.

PFS program participants represent the most vulnerable in our community, particularly those who have disabling conditions and are at risk of high health care costs. In the six months prior to entering housing, PFS participants accumulated more than:

Privacy · Terms

73,000 nights in shelter

4,500 days in the hospital

1,800 emergency room visits

1,400 nights in detox

850 ambulance calls

MHSA partners with the United Way of Massachusetts Bay and Merrimack Valley and Corporation of Supportive Housing (CSH) to serve as the intermediary between investors, providers and the Commonwealth, and to subcontract with homeless service providers for housing and support services. The innovative PFS initiative leverages a mix of philanthropic funding and private investor capital from United Way, Santander Bank and CSH to provide the upfront funding with supplemental public resources like subsidies. An independent evaluator, Root Cause, evaluates PFS regularly for its impact.

PFS was created with the objective to house 500 to 800 individuals experiencing homelessness over six years. In July 2020, after just five years, PFS successfully housed 1,000 people, including 248 Veterans. More than 80% of PFS tenants have been enrolled in the Community Support Program for People Experiencing Chronic Homelessness (CSPECH). CSPECH is recognized nationally as a model for funding the support services component of permanent supportive housing with Medicaid dollars.

Category: Partnerships • November 10, 2020

PREVIOUS
Home & Healthy for Good

NEXT
A Place to Live

MAILING ADDRESS

PO Box 8638
Boston, MA 02114

STREET ADDRESS

7 Bulfinch Place, Suite 201
Boston, MA 02114

STAY IN TOUCH

MHSA is a 501(c)3 Nonprofit Organization
MHSA Federal ID Number: 22-3068653

Financials

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First Name | Last Name

Email (required) *

Sign up

hello family

PROJECT DESCRIPTION: The Hello Family Pay for Success (PFS) Project launched its ramp-up phase in the City of Spartanburg, South Carolina, on October 1, 2021, with expanded service delivery expected in early 2022. The project seeks to improve outcomes for young children and their families by providing a continuum of evidence-based services for all children born in the City of Spartanburg, from prenatal care through age five, and linking payment to actual improvements in families' lives. The Hello Family PFS Project sits within the broader envisioned Hello Family continuum of services, to form a comprehensive age 0-5 support structure for City families.

PROJECT PARTNERS:

- **Leadership Team:** City of Spartanburg, South Carolina, Mary Black Foundation, and Institute for Child Success.
- **Financial Support From:** City of Spartanburg, The Duke Endowment, Blue Cross Blue Shield of SC Foundation, Mary Black Foundation, Spartanburg Regional Healthcare System, South Carolina Department of Health and Environmental Control, South Carolina Department of Health and Human Services, Spartanburg School District 7, Spartanburg Academic Movement, South Carolina First Steps, ReGenesis Health Care, Spartanburg County Foundation, and an anonymous individual contributor.
- **Impact Investor:** The Community Outcomes Fund at Maycomb Capital
- **Service Providers (and intervention models):** BirthMatters (Community Doula), Spartanburg Regional Healthcare System (Family Connects), The Hope Center for Children (Triple P), Spartanburg County First Steps (Quality Counts).
- **Project Development and Transaction Structuring**: Sorenson Impact Center, David Eccles School of Business, University of Utah; Institute for Child Success, Nonprofit Finance Fund, Social Innovation Fund.
- **Additional Partners:** Urban Institute, Riley Institute at Furman University, Way to Wellville, Children's Trust of South Carolina, Spartanburg County Foundation, and Optus Bank.

SERVICES TO BE EXPANDED THROUGH THE PROJECT:

- **BirthMatters**. Community-based doulas educate and support low-income moms under age 25 from 24 weeks of pregnancy until each baby is 12 months old through home visits and other supports.
- **Family Connects (administered by Spartanburg Regional Health System).** Nurses visit moms and newborns in their homes regardless of income and assess families for potential risks and connect them with community resources.
- **Triple P, or Positive Parenting Program (administered by the Hope Center for Children)**. Community-level communications campaigns, along with individual sessions with families, equip caregivers with the skills and confidence they need to be self-sufficient in helping their children realize their potential.
- **Quality Counts (administered by Spartanburg County First Steps).** Professional development to help early care and learning centers and staff improve the quality and effectiveness of the services they provide.

OUTCOME TARGETS

- **Improving birth outcomes and early childhood health and development.** Specifically, we expect reductions in cesarean deliveries, NICU admissions, and low birth weight births. We also expect increased breastfeeding at birth.
- **Reducing avoidable ER visits.** Specifically, we expect reduced avoidable infant (0-6 months) emergency medical care utilization.
- **Reducing the incidences of child abuse and neglect.** Specifically, we expect reduced substantiated cases of child maltreatment.
- **Increasing school readiness.** Specifically, we expect increased Early Development Inventory scores measuring kindergarten readiness.

FAST FIGURES:

- Anticipated length of service delivery: 5 years
- Anticipated level of service over 5 years:
    1. **BirthMatters:** approximately 360 mothers
    2. **Family Connects:** approximately 1,100 families
    3. **Triple P:** caregivers of approximately 4,000 children under age 8
    4. **Quality Counts:** approximately 500 families

INNOVATIONS AND DISTINCTIONS:
In addition to serving families in the City of Spartanburg, Hello Family also provides a proof point for how other communities can accountably drive investment towards a continuum of evidence-based supports for young children and their families.

WHAT IS A PAY FOR SUCCESS (PFS) PROJECT? A PFS project is a public-private partnership that drives better results for communities by aligning government spending with positive, measurable outcomes. This structure transforms how government does business: moving from contracts that largely reimburse costs or pay a fee for services delivered, to outcomes-based contracts where government only pays as service providers achieve community responsive, pre-defined outcomes. An independent evaluator tracks and measures outcomes over time to determine the amount of "outcome payments" earned.

If government pays based on outcomes at a future date, service providers often need resources today to run their programs. To fill this working capital need, impact investors provide a social impact loan so that providers can deliver the intervention and cover other costs of the project. When outcomes are achieved, outcome payments are used to repay the social impact loan. If outcomes are not achieved as expected, full principal and interest may not be repaid.

In this way, the private sector, nonprofit service providers, and government can partner to focus squarely on the singular task of improving people's lives – tapping the resources of private markets and philanthropy for public good, allowing service providers to focus less on fundraising and more on mission, and aligning government funding with priority outcomes and real impact.

CONTACT: For more information, please contact Bryan Boroughs, Vice President and General Counsel, Institute for Child Success (bboroughs@instituteforchildsuccess.org). Last updated 02.28.2022.

23.1007.02001
Title.

Prepared by the Legislative Council staff for
Representative Boschee
March 21, 2023

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1480

Page 1, line 3, after the second semicolon insert "and to provide for a legislative management study;"

Page 1, line 19, replace "and" with "or"

Page 1, remove lines 21 through 23

Page 2, line 1, replace "c." with "a."

Page 2, line 3, replace "d." with "b."

Page 2, line 6, replace "e." with "c."

Page 2, line 7, replace "f." with "d."

Page 2, line 7, replace "third-party" with "formal"

Page 2, line 9, replace "g." with "e."

Page 2, after line 9, insert:

"4. The requirements of chapter 54-44.4 do not apply to the selection of a grant recipient, the grant award, or payments made under this section.

5. All moneys designated for the fund from whatever source derived must be deposited by the state treasurer in the pay for success fund. The state treasurer shall invest moneys in the fund in interest-bearing accounts as is designated by the department of health and human services and the interest earned must be retained in the fund. The state treasurer shall apply the prudent investor rule in investing the moneys in the fund. The executive director of the department of health and human services or the executive director's designee shall administer the fund."

Page 2, after line 15, insert:

"**SECTION 3. LEGISLATIVE MANAGEMENT STUDY - PAY FOR SUCCESS FUNDING MODEL.** During the 2023-24 interim, the legislative management shall consider studying the pay for success funding model as a tool to identify ways for state and local government to provide outcomes-based services. The study must review the ways the pay for success model may be implemented at the state and local level, examine pay for success programs of other states, and include input from the executive director of the department of health and human services and the state treasurer."

Page 2, line 16, replace "This" with "Section 1 of this"

Renumber accordingly

23.1007.02001

Sixty-eighth
Legislative Assembly
of North Dakota

FIRST ENGROSSMENT

ENGROSSED HOUSE BILL NO. 1480

Introduced by

Representatives Boschee, Mitskog, Nelson, O'Brien, M. Ruby, Weisz

Senators Burckhard, Cleary, Dever, Hogan, Lee, Mathern

A BILL for an Act to create and enact a new section to chapter 50-06 of the North Dakota Century Code, relating to a pay for success fund; to provide for a report; to provide for a continuing appropriation; to provide for a transfer; and to provide for a legislative management study; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. A new section to chapter 50-06 of the North Dakota Century Code is created and enacted as follows:

Pay for success fund - Continuing appropriation - Report to legislative management.

1. There is created in the state treasury the pay for success fund. The fund consists of all transfers to the fund and fund earnings. Moneys in the fund are appropriated to the department of health and human services on a continuing basis for defraying the expenses associated with a pay for success program developed by the department. The department shall develop the program with outcomes focused on improving educational, social, or emotional achievement of at-risk children, improving the health of children, and increasing participation in the workforce by individuals who qualify for government assistance.
2. The pay for success program may include a performance-based grant, contract, or other agreement for initiatives to improve outcomes that result in increased public value and social benefits, including improved outcomes, cost-savings, increased public revenue, ~~and~~or minimal administrative requirements.
3. The pay for success program must include the following:
   ~~a. A feasibility study to determine the effectiveness of a proposed initiative;~~
   ~~b. A requirement that payments are made to the recipient of a grant, contract, or agreement only when agreed-upon outcomes are achieved;~~

~~c.~~a. A provision that a bonus payment may be provided to the recipient of the grant, contract, or agreement to expand capacity for a proposed initiative;

~~d.~~b. A provision that a bonus payment may be provided to the recipient of the grant, contract, or agreement only after a twenty-percent cost reduction has been achieved;

~~e.~~c. A provision that a bonus payment may not exceed half of the cost reduction;

~~f.~~d. A ~~third-party~~formal evaluation to determine whether the program has met its proposed outcomes; and

~~g.~~e. An annual report to the legislative management on the progress of the program.

4. The requirements of chapter 54-44.4 do not apply to the selection of a grant recipient, the grant award, or payments made under this section.

5. All moneys designated for the fund from whatever source derived must be deposited by the state treasurer in the pay for success fund. The state treasurer shall invest moneys in the fund in interest-bearing accounts as is designated by the department of health and human services and the interest earned must be retained in the fund. The state treasurer shall apply the prudent investor rule in investing the moneys in the fund. The executive director of the department of health and human services or the director's designee shall administer the fund.

SECTION 2. TRANSFER - STRATEGIC INVESTMENT AND IMPROVEMENTS FUND - PAY FOR SUCCESS FUND. During the biennium beginning July 1, 2023, and ending June 30, 2025, the office of management and budget shall transfer the sum of $2,500,000 from the strategic investment and improvements fund to the pay for success fund. On July 1, 2027, the director of the office of management and budget shall transfer the unobligated balance in the pay for success fund to the strategic investment and improvements fund.

SECTION 3. LEGISLATIVE MANAGEMENT STUDY - PAY FOR SUCCESS FUNDING MODEL. During the 2023-24 interim, the legislative management shall consider studying the pay for success funding model as a tool to identify ways for state and local government to provide outcomes-based services. The study must review the ways the pay for success model may be implemented at the state and local level, examine pay for success programs of other states, and include input from the executive director of the department of health and human services and the state treasurer.

SECTION 4. EFFECTIVE DATE. ~~This~~Section 1 of this Act is effective January 1, 2024.

Wolf, Sheldon

From: Lee, Judy E.
Sent: Wednesday, March 22, 2023 1:26 PM
To: Wolf, Sheldon
Subject: FW: (Rep. Boschee) Amendment Request - HB 1480 - LC# 23.1007.02001
Attachments: 23.1007.02001a.pdf; 23.1007.02001m.pdf

Rep. Boschee sent this to Lindsey, but you may want to load it.

Senator Judy Lee
1822 Brentwood Court
West Fargo, ND 58078
Home phone: 701-282-6512
Email: jlee@ndlegis.gov

From: Boschee, Joshua A. <jboschee@ndlegis.gov>
Sent: Wednesday, March 22, 2023 11:59 AM
To: -Grp-NDLA Senate Human Services <ndlashumserv@ndlegis.gov>
Cc: NDLA, Intern 02 - Pouliot, Lindsey <intern2@ndlegis.gov>
Subject: FW: (Rep. Boschee) Amendment Request - HB 1480 - LC# 23.1007.02001

Good Morning Committee Members,

Attached are my proposed amendments for HB 1480 after consulting with Chris Jones, Thomas Beadle, Social Finance (has been doing Pay for Success since it's inception) and Maycomb Capitol (one of the many funders/investors in the Pay for Success space). I will come down to your committee room following my subcommittee meeting at 2:30.

Here's a rundown of them to help you prepare for the conversation:

- Page 1, line 19 switch from "and" to "or" is to provide flexibility
- Page 1, lines 21-23 removal is suggested change from stakeholders as this was antiquated model language used in the infancy of Pay for Success. Especially line 21.
- Page 2, line 7 switch "third-party" to "formal" is suggested from stakeholders to keep costs down as third party evaluations are an additional expense. Also suggest we change "evaluation" to "validation".
- Page 2, line 9 – sets up the Pay for Success fund to be similar to the Children's Health Trust which DHHS and Treasurer's office already coordinate on. Additionally, allows flexibility in procurement (54-44.4) and finding interest bearing accounts outside of the Bank of ND.

Looking forward to our visit this afternoon,

josh

From: donotreply@ndlegis.gov <donotreply@ndlegis.gov>
Sent: Tuesday, March 21, 2023 6:48 PM
To: Boschee, Joshua A. <jboschee@ndlegis.gov>
Cc: Mertz, Toby <tmertz@ndlegis.gov>
Subject: (Rep. Boschee) Amendment Request - HB 1480 - LC# 23.1007.02001

Please see the attached Amendment documents.

Thank you.

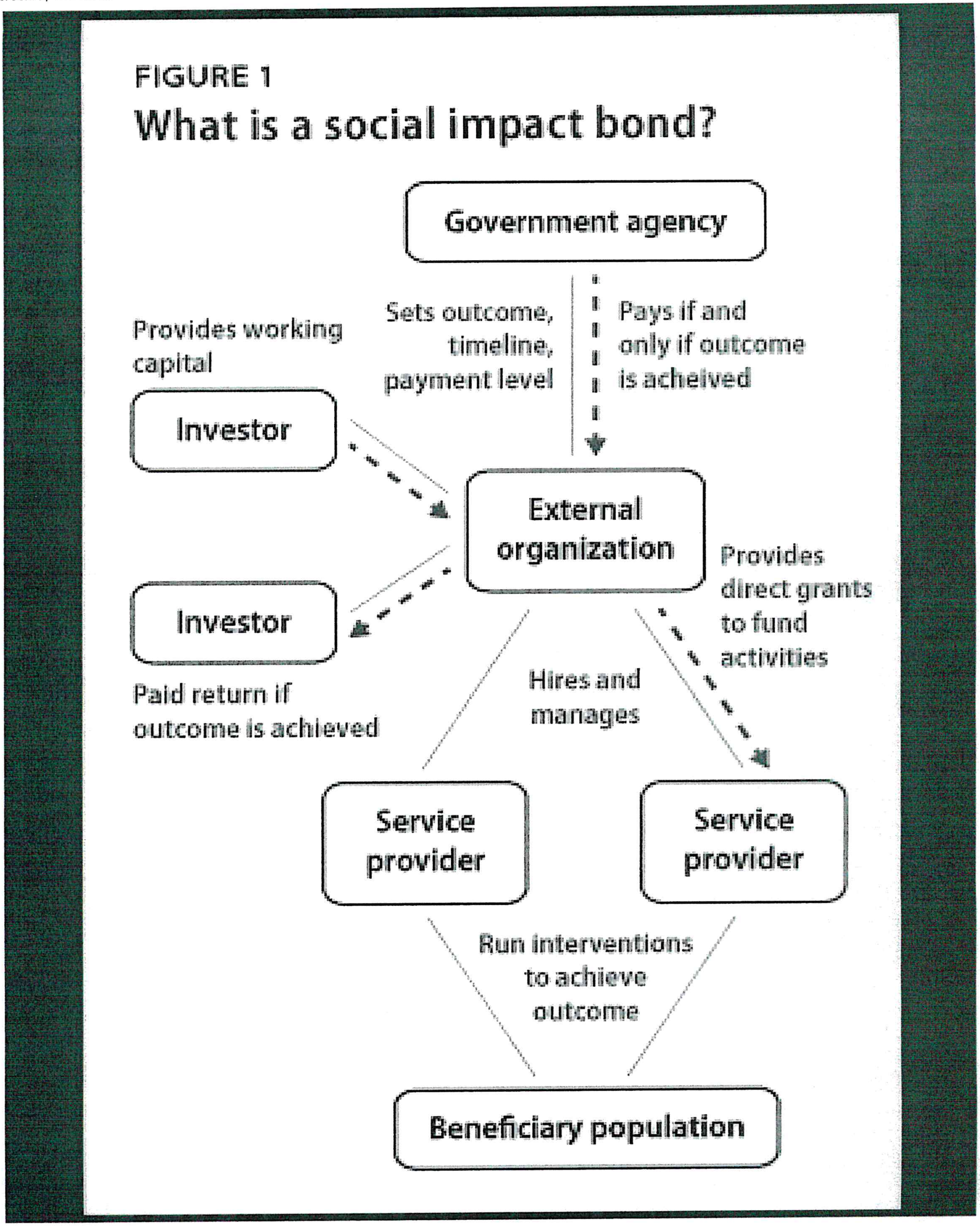
FIGURE 1
What is a social impact bond?
Government agency
Sets outcome, timeline, payment level
Pays if and only if outcome is acheived
Provides working capital
Investor
External organization
Investor
Paid return if outcome is achieved
Provides direct grants to fund activities
Hires and manages
Service provider
Service provider
Run interventions to achieve outcome
Beneficiary population