

Pay for Success

An Overview for the MORE Commission

August 15, 2014

Connecticut Center for
SOCIAL INNOVATION

Harnessing innovative brilliance for social good

Innovative New Concept

- ▶ **Private investment** funds needed human services
- ▶ Government pays **only for successful outcomes**
- ▶ Requires **rigorous focus** on measurement and outcomes



Social Impact Bonds & Pay for Success

Social Impact Bonds (SIBs) are not bonds in the traditional sense, because payment is contingent upon achieving agreed goals that save the government money.

The term **Pay-for-Success (PFS)** is used to describe emerging transactions that emphasize **outcomes** over **outputs**, including Social Impact Bonds and similar projects.

Three Key Elements

1. High-quality preventative services
2. Rigorous measurement of results
3. Capturing savings or avoided costs

*Most attract private investment to pay for **proven, high-quality preventative social services.***

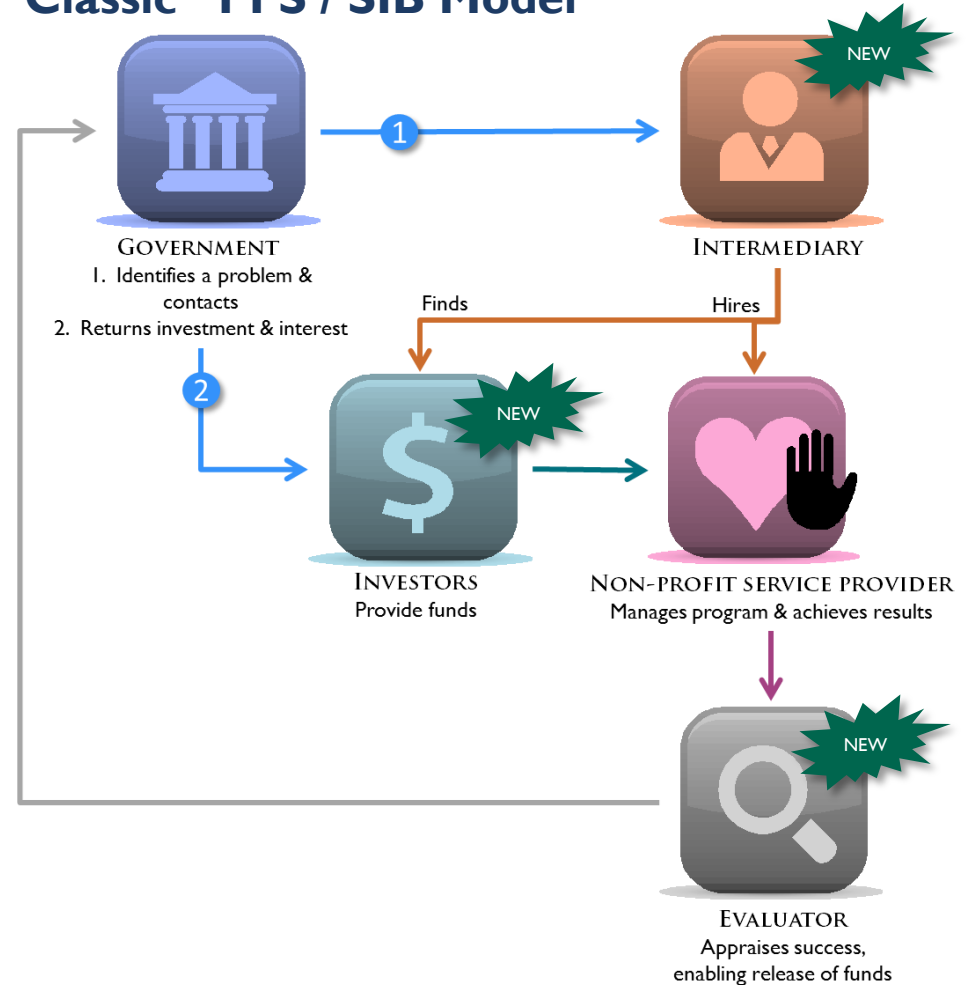
*Government only pays after **agreed-upon outcomes, which will save money,** have been attained.*

Government pays only for services that work.

New Architecture

- ▶ New roles critical to PFS/SIB transactions: **Intermediary, investor & evaluator**
- ▶ All parties agree at outset to **goals, metrics & timeline**
- ▶ Providers get **stable funding** for the life of the contract, usually several years, avoiding need to continually fight budget cuts

“Classic” PFS / SIB Model



Not for Everything... *Needed Conditions*

1. Potential for broad, scalable impact
2. Potential for government savings or societal benefit
3. Measurable outcomes **that can be agreed upon by all parties**
4. Defined population
5. Reliable comparison groups or counterfactuals
6. Safeguards against harm for target population
7. Issue ranks high among government priorities

*Pay for Success should
NEVER replace a
society's safety net.*

From the San Francisco Federal Reserve:

Financing structure to capture downstream government savings to fund upstream community investments.



What Is Pay for Success?, continued

- Performance-based contracting
 - Government commits funding for successful outcomes (i.e., increased high school graduation rates).
 - Independent impact auditor evaluates program effectiveness.
 - Government only “pays for success”.

From the San Francisco Federal Reserve:

What Is Pay for Success?, continued

- Service provider financing
 - Private investors fund service provider operating costs in exchange for a share of the success payment
 - Financing terms are based on:
 - Difficulty of achieving success
 - Track record of the service provider
 - Length of the contract
 - Investors bear the risk that success won't be achieved (and that the government payment won't be triggered)

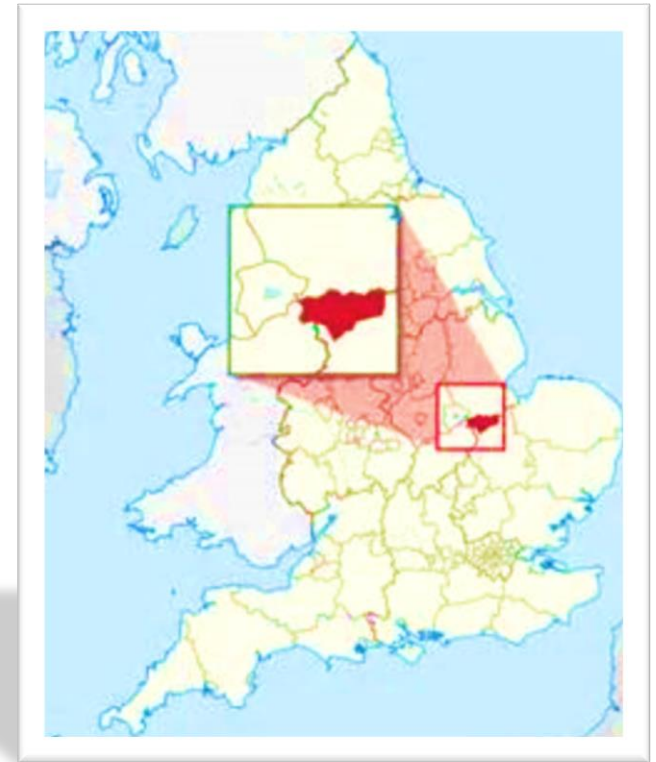
~“The Next Frontier of Community Development: Pay for Success and Social Impact Bonds,” July 24, 2014

A Comprehensive History is Brief.

The first SIB:

2010, Peterborough England

- ▶ Investors pay for comprehensive services that begin prior to release for all inmates in Peterborough county.
- ▶ Investors are repaid if and when recidivism drops as agreed.
- ▶ Services involve numerous providers; begin pre-release and continue with participants into community. Outcomes closely and continuously tracked.



Recent Developments Include:

2012:

- ▶ New York City/Rikers Island SIB for youth
- ▶ Commonwealth of Massachusetts issues two RFRs; opts to fund juvenile recidivism and homelessness prevention
- ▶ Cuyahoga County OH: First county-level PFS Request for Responses for Interventions

2013:

- ▶ “SIB Labs” in CO, IL, MI, SC, CT, NY and OH
- ▶ US DOL awards \$23 million PFS contracts in NY and MA
- ▶ Utah United Way Early Childhood SIB
- ▶ Fresno CA “health impact bond”
- ▶ Santa Clara County CA announces two deal constructions in chronic homelessness and acute mental health
- ▶ New York state SIB

2014:

- ▶ MA juvenile justice initiative finalized
- ▶ CT DCF issues RFP
- ▶ US CNCS \$11 million RFP for Social Innovation Fund to build SIB capacity
- ▶ Denver CO mayor and CSH announce \$8 million homelessness SIB
- ▶ Bi-partisan SIB bill in Congress. Larson among supporters.

Intense Interest

- ▶ PFS and SIBs garner enormous attention
 - ▶ Potential to **align incentives**
 - ▶ Rewarding **outcomes** rather than **outputs**
 - ▶ Requiring **greater coordination, rigorous evaluation,** and **focus on quality**

- ▶ Message also attracts attention in current funding climate
 - ▶ **Shrinking budgets** at all levels of government pit worthy service providers against each other in **competition for scarce resources**

Most Promising Focus Areas

1. Recidivism
2. Health Care
3. Workforce Development
4. Homelessness
5. Early Childhood

*Recent RFPs and RFIs also allow for programming in areas of **public safety, avoiding foster care and substance abuse treatment.***

Implications for Regional Service Delivery

PFS Continuum

Conventional Contracting

Complete Pay-for-Success



Pays for SERVICES

Pays for OUTCOMES

Limited capacity to collect and analyze data. Limited ability to use data to inform program design or service delivery.

Frequent re-bids; generally limited provider input into service design. State payments don't necessarily cover cost of providing service.

Providers report on expenditures and services delivered.

Little incentive for systems to share information on the people they all serve.

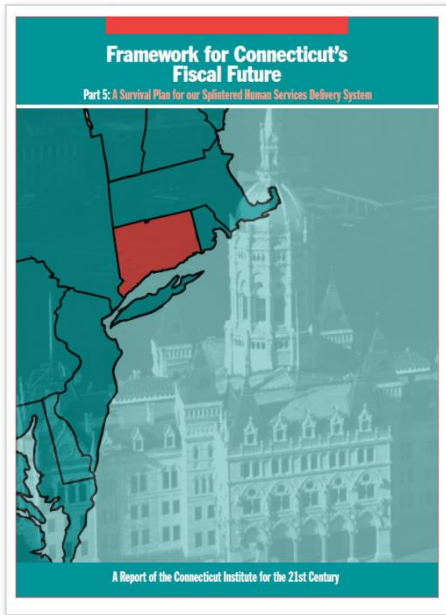
Rigorous independent data collection and evaluation inherent in design. Data used continuously to make needed modifications to services to ensure results.

Providers, government/payors, evaluators and intermediaries all negotiate contract and terms.

Evaluators determine outcomes as agreed. Avoided costs/savings are identified and can be captured and re-invested.

Systems encouraged and incentivized to share information.

Why Bother with PFS? *Connecticut's non-profit sector struggles to provide core services...and the system is not able to attain desired population-level outcomes.*



CT nonprofit service providers:

- ▶ 50% report deficits
 - ▶ **5th highest** in U.S.
- ▶ 77%: payments don't cover cost of service:
 - ▶ **7th highest** in the U.S.
- ▶ Many employees eligible for state assistance themselves.

-Institute for the 21st Century

Meanwhile: 53% of Hartford's children are in poverty. Youth and adult unemployment, poverty overall, recidivism and other measures also unacceptably high.

Lessons Being Learned: Ohio

A series of public meetings explored pay-for-success and available services, resulting in a program to offer housing and services to stabilize and reunite families that have been weakened through poverty, illness or crisis, resulting in neglect of children.

- ▶ “This has resulted in our fiscal and administrative staff breaking down costs and expenses in a way we’ve never seen. We are also now matching administrative data sets that were never compared before: child welfare, homelessness, juvenile justice and adult jail systems.”
~*David Merriman, Deputy Chief of Staff*

PFS Investors & Supporters Include:

- ▶ U.S. Department of Labor
- ▶ J.B. Pritzker
- ▶ Harvard's Kennedy School of Government
- ▶ MDRC
- ▶ Center for American Progress
- ▶ Rockefeller Foundation, investing to develop capacity and knowledge of Pay-for-Success and guaranteeing transactions
- ▶ Corporation for Supportive Housing
- ▶ California Endowment
- ▶ United Way of Salt Lake
- ▶ ReadyNation
- ▶ Cleveland Foundation
- ▶ James Irvine Foundation
- ▶ George Gund Foundation
- ▶ Goldman Sachs: New York, Utah, and \$250 million fund
- ▶ Merrill Lynch/Bank of America
- ▶ White House Office of Social Innovation and Civic Participation

Pitfalls & FAQs

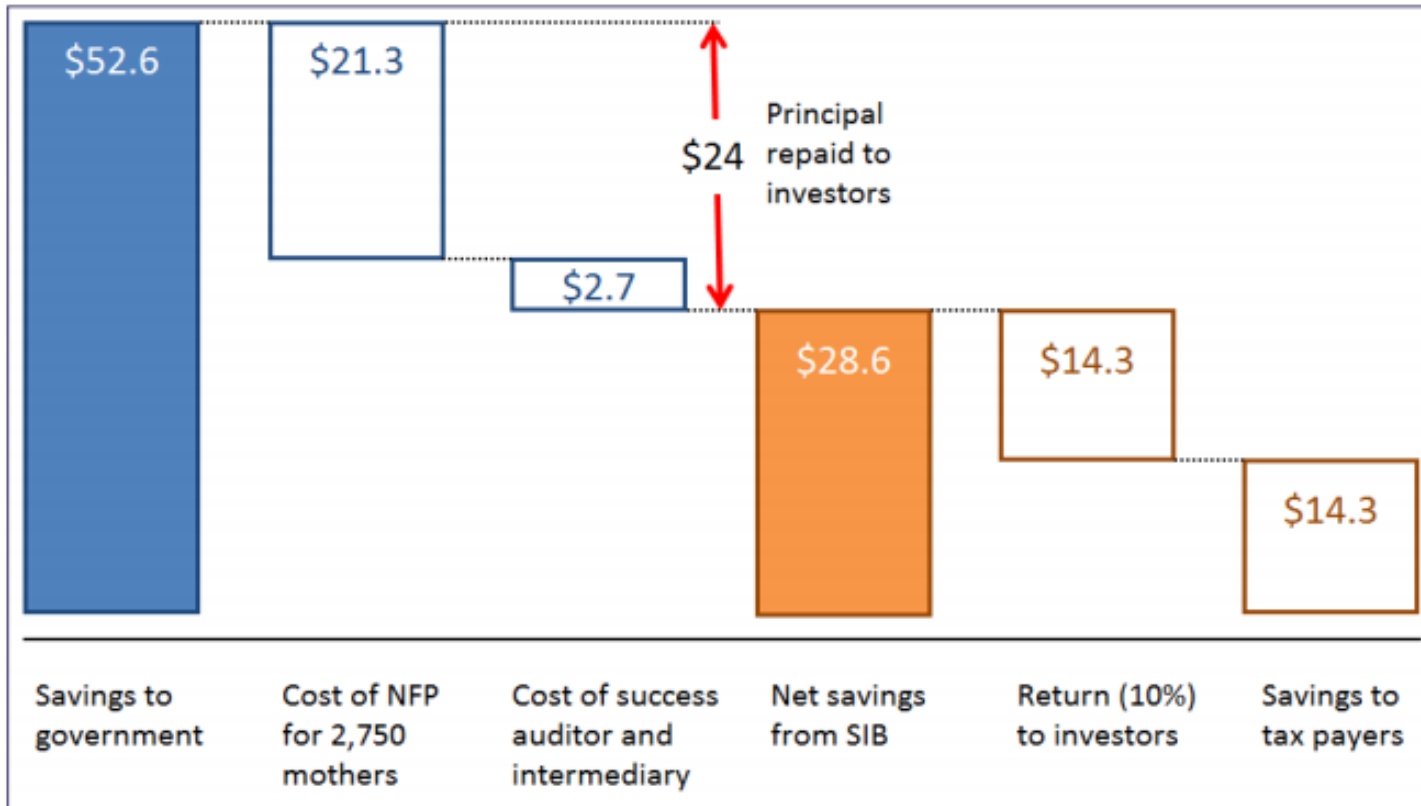
- ▶ Cost savings alone is not a sufficient driver. Public good and better outcomes must be paramount.
- ▶ Must guard against pressure to “fudge” data.
- ▶ Strong government/payor commitment and cooperation is needed.
- ▶ Increased transaction cost due to intermediary and evaluator.
- ▶ Is the private sector making money off of poor people? Shouldn't government be doing this on its own?

Upsides:

“The number one advantage of advantage to a Pay-for-Success Program is that, by definition, it includes a continuously improving, multi-disciplinary approach to big problems.”
~Joe Recchie, *Praxia Partners*

San Francisco Federal Reserve Illustration of NFP

Illustrative Six-Year Nurse-Family Partnership SIB (millions)



Spillover Benefits

What are we learning?

- ▶ The new measurement tools and systems required for these transactions prove useful for ALL services
- ▶ As governments see quality preventative services prove their value and ROI, they may well opt to fund them directly

Additionally, when providers ready themselves for the increased evaluation and performance elements of a PFS transaction, their **outcomes and functioning for ALL contracts improves.**

Connecticut Center for SOCIAL INNOVATION

Harnessing innovative brilliance for social good

CCSI offers consultation to non-profits, funders and other parties in locating and developing promising PFS projects, developing and designing metrics, and identifying and aligning investors and funders with providers. CCSI also educates staff, boards of directors and stakeholders on how to improve operations and outcomes through preparation for a PFS environment.

Dr. Sandra Martin

(203) 468-8379

sandramartin@connecticutcenter.org

Liz Dupont-Diehl

(203) 667-5956

lizdupont-diehl@connecticutcenter.org

www.connecticutcenter.org