State of the Pay for Success Field:

Opportunities, Trends, and Recommendations

2015

Corporation for National & Community Service

Social Innovation Fund

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The Social Innovation Fund (SIF), a program of the Corporation for National and Community Service (CNCS), combines public and private resources to grow the impact of innovative, community-based solutions that have compelling evidence of improving the lives of people in low-income communities throughout the United States. The SIF invests in three priority areas: economic opportunity, healthy futures, and youth development.

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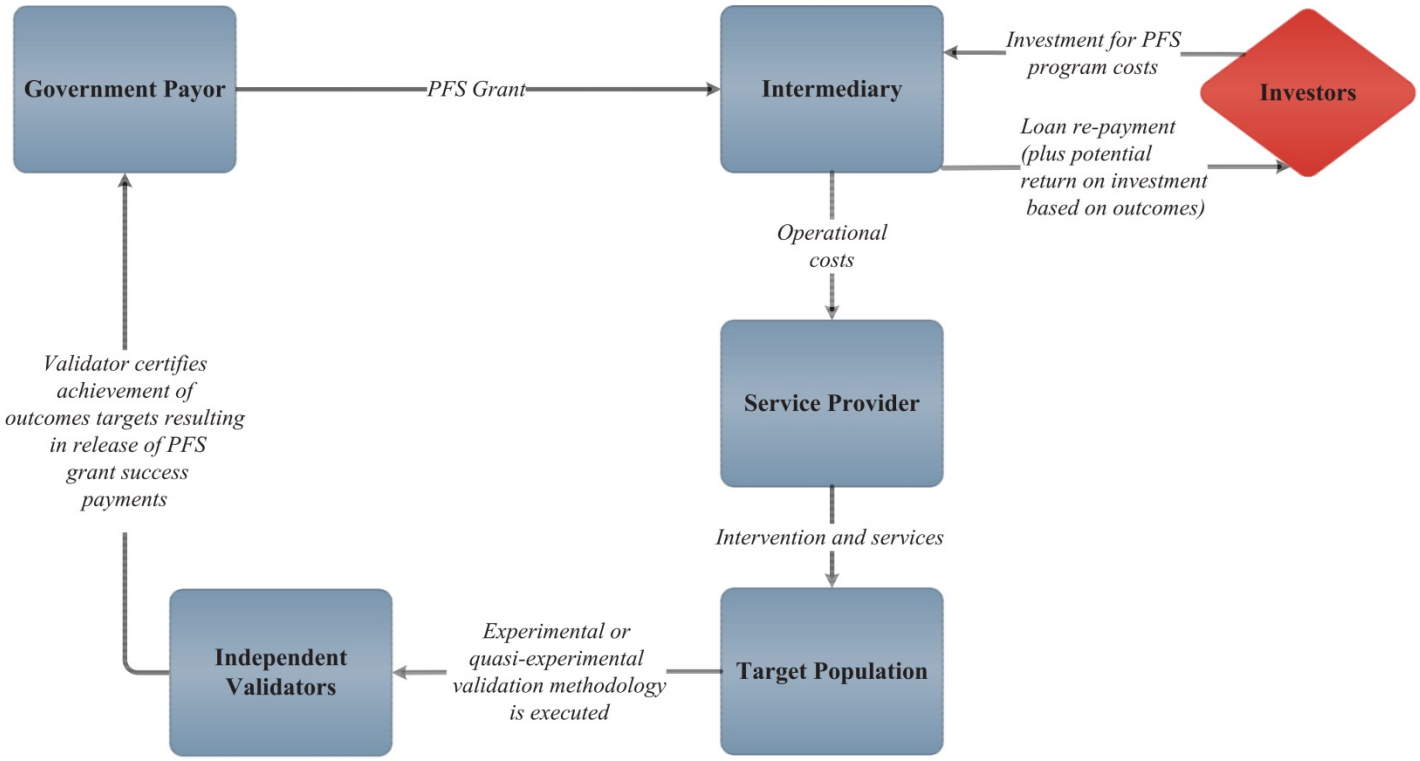
I. Introduction

The term "Pay for Success" (PFS) refers to an innovative method of financing social services that shares risks and rewards through collaboration of public, private, and nonprofit sectors. PFS is based upon two core premises: first, that government should pay only for services that are demonstrably effective; and second, that the risk of providing social services—which may or may not prove to be effective—can be transferred from local and state governments that usually fund these services to the private sector. As in private-sector markets, the assumption of risk is rewarded or penalized in proportion to the degree of success attained.

While the application of private funding to support provision of social services for a PFS project will naturally draw comparisons to public-private partnerships (PPP) and privatization, the PFS model contains important distinctions from these other financing strategies. First, unlike privatization and PPPs, in PFS models services are managed and provided by nonprofit organizations and/or service providers with proven records of success in providing a specific intervention to the identified target population. Second, and most importantly, unlike many privatization projects where the government pays a private entity to provide services (e.g., to house previously incarcerated individuals), the payor in a PFS project (most commonly a government entity) only pays for programs or services if they prove successful (as defined by predetermined outcome targets). The concept of sharing risk among stakeholder groups (private investors, service providers, etc.) is a key component of the PFS model that is not applied in PPPs and privatization models.

The roles of principal stakeholders in PFS transactions are shown in **Figure 1**. In a typical PFS transaction structure, a government entity contracts with an intermediary to act as coordinator for the PFS project. The intermediary's responsibilities include: selecting a service provider or in some cases multiple providers, raising capital from private and philanthropic funders, facilitating contract negotiations and agreements between partners, overseeing project implementation, and commissioning evaluation activities.

Figure 1. Principal Stakeholders in a PFS Project



Program evaluation is a key component of a PFS project, as it allows PFS programs to assess the effectiveness of their intervention and measure the extent to which performance benchmarks are achieved in order to determine the level of repayment(s) to investors. All performance benchmarks must be carefully defined, with evaluation metrics specified, in advance of the start of service provision. To ensure that evaluations are conducted rigorously and the determinants of "success" are legitimate, PFS projects sometimes contract independent evaluation experts (often referred to as "evaluation validators") to monitor evaluation activities (e.g., random assignment, data collection). These experts are involved with every stage of the PFS project and ultimately examine the validity of the findings as a precondition for approval of success payments to investors.

The PFS field is new and continues to evolve. The first ever PFS project was launched in the United Kingdom (U.K.) in 2010, and the first domestic PFS project was initiated in 2012 at Rikers Island Jail in New York City. Currently, there are approximately 20 active PFS projects around the world. These projects are primarily taking place in Western Europe and increasingly in the United States (U.S.), where six PFS projects are currently in operation and many more are under consideration or under development. Although the PFS field is still in its infancy, an exciting body of knowledge is emerging, illustrating the variety of forms that PFS projects can take and the span of issues they can address.

By applying a private-sector investment mentality to the provision of social sector services, PFS offers tremendous potential for promoting a "double bottom line"—providing effective solutions for social problems while simultaneously rewarding risk-bearing investors for their support of successful initiatives.

Amidst general enthusiasm about the potential of PFS, however, various stakeholders caution the field to consider potentially negative and/or unanticipated outcomes of such a model. Several experts in the field have expressed concerns regarding *perverse incentives*, or incentives that produce unintended negative results (Roman et al., 2014; Preston, 2012). One concern is that tying conditional success payments to diminished- or non-use of a social service creates the incentive to withhold that service. A second concern is that PFS' reliance on evaluation metrics to gauge success may create the incentive to poorly implement (or simply not comply with) a seemingly rigorous evaluation design, resulting in inaccurate or ambiguous results. For this reason, some existing PFS projects, such as those supported by the U.S. Department of Labor, have insisted that independent validators, external to the success payment relationship, review evaluation activities, analyses, and results.

Other critics are concerned that the PFS model creates the incentive to reduce tax-funded government revenue and philanthropic donations as a mechanism for funding social services (lower taxes, lower charitable giving) while increasing the role of for-profit funding, ultimately shifting power to profit-driven entities to determine which social problems should be prioritized and targeted (Rosenman, 2013; Preston, 2012). Such a shift in roles may result in a disproportionate focus on addressing lower-risk social problems in low-risk ways (e.g., social issues that are relatively tractable and that produce immediate and measurable results).

These concerns about perverse incentives are not necessarily unique to the PFS model, nor inherent to it. It may prove that wisely-structured PFS projects circumvent these pitfalls. However, these factors warrant significant consideration when conceptualizing and implementing PFS projects.

Purpose of Document

This report was developed by Abt Associates under contract to the Corporation for National and Community Service (CNCS) as a component of the CNCS Process Evaluation of the Social Innovation Fund (SIF) Pay for Success Grant Program. In 2010, CNCS launched the SIF, which funds grantmaking intermediaries to identify and grow nonprofits that address pressing social problems in three focus areas— youth development, economic opportunity, and healthy futures. The SIF's intermediary structure, and its focus on public-private partnerships to leverage investments in evidence-based programs, provides a new model for social finance that is currently being evaluated. In 2014, the SIF launched an initiative to support the expansion of another public-private partnership model of social finance, pay for success (PFS).

The initiative, known as the "PFS Grant Program," funded eight grantees in its inaugural year to either provide technical assistance or implement deal structuring activities for PFS initiatives in the SIF's three focus areas. According to CNCS, the SIF PFS program aims to:

- Strengthen and diversify the pipeline of governments and nonprofit organizations that are prepared to engage in PFS projects.
- Assess the potential of PFS to address a variety of social issues relating to diverse populations in diverse geographic contexts.
- Attract capital to high-performing institutions seeking to strengthen, grow, and sustain effective solutions for challenges facing low-income communities.[1]

Together, the SIF and the SIF PFS grant programs use innovative structures to increase the return on taxpayer dollars and direct services to communities where they are most needed.

The purpose of this document is three-fold:

- To provide a brief historical context of PFS projects and descriptions of the six PFS projects currently being implemented in the United States, based on publicly available documentation.
- To provide a brief summary of key formative and conceptual literature in the PFS field to date, and various themes and recommendations that may inform the continued development of the PFS model.
- To provide information that can be used as a reference for CNCS and stakeholders interested in the Social Innovation Fund's PFS Grant Program.

The original intent of this document was to present a review of existing literature in this emerging field. As the research began, however, the team realized that a wealth of knowledge on the PFS model had already been collected and synthesized. Upon further review and screening, it became apparent that a number of existing documents (broadly summarized in Section IV and presented in Appendix B) contained thorough reviews of existing PFS literature and resources in the field. Rather than duplicate existing work, the focus of this document was shifted to focus on a survey of the current PFS landscape in the U.S., and a review of key articles and documents that present and/or analyze the concepts and themes of PFS, describe specific projects, or discuss the current state of the literature surrounding PFS. This decision was made in collaboration with CNCS to ensure that this document will address the interests and meet the needs of the anticipated audience.

Organization of Document

The core of this document lies in Section II, which provides a brief history of the earliest PFS project and descriptive profiles of the six PFS projects currently being implemented in the U.S. As the inaugural PFS projects in the U.S. are still in their infancy, no data are available on program impacts. Notwithstanding this limitation, in Section III we provide an overview of emerging developments in the PFS field along with relevant federal and state legislation that may shape the future of these types of projects. Section IV of the document includes recommendations from our own analyses as well as the PFS literature that can inform the scale-up of this emerging model of social finance. The report then concludes with a series of Appendices: Appendix A contains a detailed glossary of PFS-related terms and associated organizations included in this document; Appendix B includes a short review of key documents in the PFS field that focus on PFS concepts and components, points of emphasis, and specific PFS projects, intended as a starting point for those interested in further readings on the topic; and Appendix C provides a summary of state legislative actions related to PFS.

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[1] A full description of the PFS grant program is available on CNCS's website: http://www.nationalservice.gov/programs/social-innovation-fund/pay-success

II. Project Descriptions

Section II of this report provides descriptions of existing PFS projects, beginning with a description of the widely referenced Peterborough Social Impact Bond in the United Kingdom (U.K.). Next, we present profiles of each of the six PFS projects with signed PFS contracts currently being implemented in the U.S. These snapshots of PFS projects were compiled using information and data from Google and Google Scholar, PFS project reports, evaluation reports, requests for information/proposals, and PFS contracts (when available). The content in this section is fully based on publicly available sources of information.

It should be noted that throughout the documents reviewed, the term "social impact bond" (SIB) was often used interchangeably with the term "pay for success." However, SIBs are one of multiple mechanisms for PFS financing. For the purposes of this report, we therefore use the term "pay for success" when referring to PFS activities, unless the text of relevant documents reviewed related to a specific discussion or project used the term "social impact bond." We opted to maintain consistency with the language used by study authors in order to preserve the intent and meaning of the discussion.

Peterborough Social Impact Bond

The first PFS project—the Peterborough Social Impact Bond (SIB)—was launched in September 2010 at the Peterborough Prison located approximately 75 miles north of London, U.K., and continues through 2016. The project is facilitated by Social Finance U.K., a nonprofit social investment organization, and the U.K. Ministry of Justice, with supplemental funding provided by the Big Lottery Fund, an executive non-departmental public body that distributes both National Lottery and non-Lottery funds throughout the U.K. to support health, education, environment and charitable projects (Disley, Rubin, Scraggs, Burrowes & Culley, 2011; Big Lottery Fund website, n.d.). The goal of the Peterborough SIB is to reduce recidivism among approximately 3,000 short-term incarcerated young men released from Peterborough Prison by providing comprehensive services and support to facilitate their reentry to the community. A small group of community and social service agencies, called the "One Service," provide assistance and support to participants in areas such as housing, budgeting, family support, health, and employment and training. The project obtained a commitment of £5 million (almost $8.0 million) from 17 private individuals, trusts, and foundations, including the Barrow Cadbury Charitable Trust, Esmée Fairbairn Foundation, Friends Provident Foundation, the Henry Smith Charity, Johansson Family Foundation, the Monument Trust, Panahpur Charitable Trust, Paul Hamlyn Foundation and the Tudor Trust (Disley et al., 2011).

The key performance benchmark is set as a 10% reduction in the number of reconviction events for each cohort of 1,000 participants, or a 7.5 percent reduction across the three cohorts compared to a control group (Ministry of Justice, 2014). The payback arrangement is graduated such that investors receive larger returns (up to a maximum of 13%) as the reconviction rate decreases (Hughes, 2014; Social Impact Investment, n.d.). The Ministry of Justice has contracted independent assessors from QinetiQ and the University of Leicester to conduct data analysis and compare the reconviction rates of offenders who receive services from One Service, compared with members of the control group (Disley et al., 2011). In addition, the Ministry of Justice has contracted with RAND Europe to conduct a separate independent evaluation of the project.

In August 2014, Social Finance U.K. released a first set of results of the project, indicating a reduction in reconviction events among the first cohort of 1,000 ex-prisoners, but reported that the results were not strong enough yet to trigger an outcome payment to investors (Hughes, 2014). Concurrently, the U.K. Ministry of Justice reported that it is transitioning to a new nationwide program that will replace existing probation services for medium- and low-risk prisoners, and will also include a "payment-by-results element aimed at reducing reoffending" (Ainsworth, 2014). The new program, *Transforming Rehabilitation*, will replace existing probation services and contract services for all medium and low-risk prisoners with a group of providers from the private and voluntary sectors. As one of these new service providers will be

responsible for working with prisoners from the Peterborough Prison, the U.K. Ministry of Justice announced that they would be closing the Peterborough SIB before completing the third cohort in order to allow the new service provider to begin service provision (Ainsworth, 2014). The Ministry of Justice will provide funding for the current SIB project to maintain service provision to the first two cohorts of prisoners until the new program is in place and transition plans can be made for the third cohort.

Current Project Profiles

Since the implementation of the Peterborough SIB, the U.K. has witnessed continued activity in the PFS field. Other countries, including Australia, Belgium, Canada, France, Germany, Ireland, Israel, Korea, the Netherlands, and the U.S., have followed suit and begun exploring and implementing PFS projects in the criminal justice arena, as well as in health, child welfare, early childhood education, housing, and workforce development (Ganguly, 2014; Patton, 2013). According to the U.K. Cabinet Office Centre for Social Impact Bonds website, there are currently 17 SIBs funded, 15 in development, and another 11 being explored throughout the world (Centre for Social Impact Bonds, n.d.).

The first PFS project in the U.S. was launched in August 2012 at Rikers Island Jail by the New York City Department of Correction. At the time of publication of this report, five additional PFS projects were underway in Illinois, Massachusetts, New York, Ohio, and Utah, with dozens more being explored and developed across the U.S. The six PFS projects that are currently being implemented in the U.S. are described throughout the remainder of Section II. In this section, we describe the current PFS initiatives operating in the U.S., starting with the first project implemented at Rikers Island Jail in New York City, and working chronologically through to the most recent initiative in Cuyahoga County, Ohio. While many local governments and states are exploring the establishment of PFS projects and taking initial steps to develop partnerships and financing strategies, to the best of our knowledge, these six projects are the only currently operational PFS initiatives with signed contracts in the U.S.

The key players in the majority of PFS projects include: the lead organization, typically a public-sector agency held accountable for the project; an intermediary that coordinates and structures the project, obtains financing, and manages repayments; service providers; investors and other funders; and evaluators responsible for determining if success benchmarks are attained. (More detailed descriptions of these key players can be found in the Glossary of Key Terms, located in Appendix A of this report.)

It is important to note that among the PFS project descriptions that follow, key partners and their roles are identified, but the terms used to describe them sometimes differ. For example, the entity that coordinates the PFS project is usually called the “intermediary,” but a few of the projects refer to this partner as the “project coordinator.” For purposes of consistency, we will refer to the partners according to the terms most commonly cited in the literature (i.e., lead organization, intermediary, service provider, funder/investor, and evaluator) unless there are additional partners, in which case we refer to them by the title used by the project (e.g., project coordinator). Two PFS projects (in the Commonwealth of Massachusetts and New York State) that are part of a U.S. Department of Labor PFS grant program were also required to identify an independent evaluation validator to ensure that evaluations are conducted rigorously and the determinations of “success” are legitimate.

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Project SNAPSHOT

The New York City ABLE Project for Incarcerated Youth

Lead Organization: City of New York
Intermediary: MDRC
Service Provider: Osborne Academy and Friends of the Island Academy
Focus Area: Juvenile justice (3,400 high-risk minority young men at-risk for reincarceration)
Service Location: Rikers Island Jail (NY)
Target Outcome: Reduction in rates of recidivism
Contract Execution Date: August 2012
Investment Amount: $9.6 million

Introduction

In 2012, Goldman Sachs (GS) approached the New York City (NYC) Mayor's Office upon hearing that NYC and MDRC were in talks about a potential PFS project to reduce the 50 percent recidivism rate among adolescent men released from Rikers Island Jail (Chen, 2012). GS offered to provide an initial investment to the program and was therefore given the opportunity to review the capabilities of the service provider and the intermediary, as well as the program design in order to better understand the players, the intervention, and the risks involved. The project is set to last four years and includes an ongoing evaluation component. This PFS project is the first to be implemented in the U.S.

Service Intervention

The Adolescent Behavioral Learning Experience (ABLE) intervention was developed as part of the Young Men's Initiative, an existing program at Rikers Island Jail. The Young Men's Initiative is a $30 million dollar program funded by the City of New York under former Mayor Bloomberg that aims to reduce racial disparities among young male inmates related to employment, health, education, and recidivism. ABLE provides cognitive behavioral therapy to young Black and Latino men (16-18 years old) at Rikers Island Jail as well as counseling, training, and educational services to approximately 3,400 young incarcerated men. The purpose of the training is to improve personal responsibility skills, decision making skills, and problem-solving skills, as well as to reduce idleness and increase opportunities for teamwork (Goldman, 2012; New York City Office of the Mayor, Goldman Sachs, Bloomberg Philanthropies & MDRC, 2012). Service providers include two nonprofit organizations, the Osborne Association and Friends of Island Academy.

Project Partnership and Structure

With the City of New York as the lead public agency, the key partners in this project include:

- ***Intermediary:*** MDRC serves as the intermediary and is responsible for program design, oversight of day-to-day operations, management of the service providers, and repayments to Goldman Sachs.
- ***Service Provider:*** The Osborne Association and Friends of the Island Academy are nonprofit organizations that offer extensive experience working with incarcerated youth. Together, they provide the services for this program.

- ***Funder/investor:*** The primary lender for this project is Goldman Sachs, supported by a financial guarantee from Bloomberg Philanthropies.
- ***Evaluator:*** The Vera Institute of Justice, an independent, non-partisan, nonprofit organization committed to issues of justice policy, is conducting the third-party evaluation.

Funding Strategy

Goldman Sachs invested $9.6 million in this project, supported by a $7.2 million (75 percent) guarantee from Bloomberg Philanthropies. The financial guarantee made by Bloomberg Philanthropies is relatively large. For comparison, philanthropic guarantees typically range from 10 percent to 75 percent (Finn & Hayward, 2013).

Evaluation

The Vera Institute of Justice will conduct 12- and 24-month post-release evaluations to determine rates of recidivism. Recidivism rates are determined by the total number of days in the evaluation period divided by the total number of jail days avoided. As in some other juvenile-justice PFS projects, there is no denial of service for participants referred to the program through an alternate source.

Targeted Outcomes and Repayment Structure

This project seeks to reduce recidivism among young men incarcerated at Rikers Island Jail, with an overall goal of a 10 percent reduction in recidivism from 50 percent to 40 percent. The maximum total repayment amount is $11.7 million.

Repayment amounts are graduated based on the percentage decline in recidivism rates, as demonstrated in ***Exhibit 1*** below. It is important to note that repayment amounts from NYC are channeled through the intermediary, MDRC.

Exhibit 1. Repayment Schedule, ABLE PFS Project

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

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

Source: New York City Office of the Mayor, 2012

Project SNAPSHOT

Utah Pre-K Project

Lead Organization: State of Utah

Intermediary: United Way of Salt Lake

Service Provider: Six organizations, including public school districts and private educational providers

Focus Area: Early childhood education

Service Location: Park City School District and Granite School District, Utah

Target Outcomes: Avoidance of special education or remedial education services

Contract Execution Date: June 2013

Investment Amount: $6.8 million

Introduction

This project is the first PFS initiative in the U.S. to focus on early childhood education. A longitudinal study conducted as a pilot to this project demonstrated that nearly 33 percent of low-income students in Utah would likely need special education services during their primary school years (UWSL, 2013). This number presents a challenge to meeting Utah's state goals of 90 percent proficiency in core subjects, a 90 percent high school graduation rate, and 66 percent of Utahans attending post-secondary education (UWSL, 2013). There are also large achievement gaps in Utah between low-income and high-income students in language arts, math, and the need for special education (UWSL, 2013).

Service Intervention

This project funds the extension of an existing school-readiness curriculum to 3,500 additional preschoolers (grouped into five cohorts) in two school districts—Park City and Granite. To address early educational deficits, Utah developed a targeted curriculum for three- and four-year-olds from low-income families. The program had been piloted by Voices for Utah Children, the Granite School District, and the United Way of Salt Lake (UWSL) from 2006-2009. It uses a locally-designed, structured curriculum to prepare children for kindergarten and to reduce the need for special education programming (UWSL, 2013). The pilot program demonstrated a 95 percent reduction in the need for special education among children who were at-risk and savings of an estimated $2,067 per student, per year, for twelve years (UWSL, 2013). Additional cost savings were identified for local communities, the school district and the state, totaling to a $1.8 million reduction in the need for special education services with just three cohorts of students (737 children total) over the twelve year period.

Project Partnership and Structure

With the State of Utah as the lead public entity, the key partners in this project include:

- ***Intermediary:*** United Way of Salt Lake is the intermediary for this project, responsible for the overall implementation of the project and for managing repayments to the lenders. Utah has established a separate Performance Account Manager, under the auspices of the Park City Community Foundation, responsible for holding the repayment funds in a performance account and then distributing repayments as appropriate.

- ***Service Providers:*** The Granite School District, Park City School District, Guadalupe School, YMCA of Northern Utah, Children's Express, and Lit'l Scholars are providing the program services to low-income three- and four-year-olds.
- ***Project Coordinator:*** Voices for Utah Children, a nonprofit child advocacy group, is providing research and analytic support.
- ***Funders/investors:*** Goldman Sachs and the J.B. and M.K. Pritzker Family Foundation are the primary investors for the initiative, providing loans of $4.6 million and $2.4 million respectively.
- ***Evaluator:*** Utah State University's Early Intervention Research Institute is the third-party evaluator.

Funding Strategy

Goldman Sachs contributed $4.6 million in the form of a senior loan, while the J.B. and M.K. Pritzker Family Foundation contributed $2.4 million in the form of a junior loan—or guarantee loan—to reduce the risk to Goldman Sachs, for a total investment amount of $6.8 million.

Evaluation

Success is defined in terms of a child's use or non-use of special education or remedial services each year between kindergarten and grade 6 (K-6); each year that a student does not use a special education or remedial service will generate a PFS payment.

In preschool, children are given the Peabody Picture Vocabulary Test (PPVT), a diagnostic test that predicts whether the child is likely to need special education or remedial services in elementary school. Preschoolers thus identified as likely to need special education or remedial services will be tracked until 6th grade for their use of such services. As described in more detail below, if a participating child utilizes services in a particular year, there is no repayment to investors. If he or she does not utilize services, repayments are triggered.

Target Outcomes and Repayment Structure

Success will be measured in terms of the cost savings accruing from children not utilizing special education and remedial services. If a child does not utilize special education or remedial services in a particular year between grades K-6, investors are paid an amount equal to 95 percent of the state's cost savings ($2,470) plus 5 percent interest. Thereafter, repayments drop to 40 percent of the cost savings, or $1,040 per child per year, for every year the child does not utilize these services. On average, school districts receive $2,600 per child, per year from the State of Utah to provide special education and remedial services. This amount is therefore deemed the value of cost savings to the state if a child does not use these services in a particular year.

Project SNAPSHOT

New York Increasing Employment and Improving Public Safety Pay for Success Project

Lead Organization: New York State Department of Labor

Intermediary: Social Finance Inc.

Service Provider: Center for Employment Opportunities (CEO)

Focus Area: Formerly incarcerated men (2,000 recently released prisoners at-risk for recidivism)

Service Location: New York City and Rochester (NY)

Target Outcomes: (a) Employment gains; (b) bed days avoided

Contract Execution Date: December 2013

Investment Amount: $13.5 million

Introduction

This project aims to improve economic and personal outcomes for men recently released from prison who are at high risk for re-offending. Rates of recidivism are high throughout the state of New York: it is estimated that approximately 41 percent of the 24,000 inmates released in 2013 will return to prison within three years, or nearly 10,000 individuals will return per year. The New York Department of Corrections estimated in 2012 that high-risk offenders spend an average of 460 days (1.2 years) in prison in the five years after their release, with an average incarceration cost of $60,000 per year, per person.

The objective of this project is to reduce recidivism for 2,000 recently-released criminal offenders. The project model is based on a central premise that employment is the critical path by which individuals can reestablish themselves in society after their time in prison. The benefits of such an outcome accrue for both the ex-offenders as well as the community at large. By becoming self-sufficient members of their communities, ex-offenders improve their personal and economic prospects. In addition, society benefits from reduction in crime, less money spent on incarceration and public assistance, and higher tax revenues from ex-offenders' successful employment.

This PFS project began in 2012 when the Governor of New York established as a priority the state's use of a PFS approach to reduce recidivism and improve employment opportunities among ex-offenders. The state contracted with Social Finance Inc. to serve as the project intermediary. Social Finance Inc. then selected the service provider, Center for Employment Opportunities, Inc. (CEO), which has a long track record of implementing successful, evidence-based interventions with ex-offenders across the state. Working together over the course of the following year, the partners designed and developed this project. New York's project, formally launched is 2013, is the first state-led PFS project initiated in the U.S.

Service Intervention

The service provider (CEO) is utilizing an intervention model that was deemed successful on a smaller scale by a prior evaluation. It is predicated on the belief that in order to succeed in life after prison, ex-offenders need to become attached

to their communities and the job market as soon as possible after release. Accordingly, provision of core services begins immediately upon release. Core services include: intensive life skills training for five days; immediate placement into a part-time subsidized transitional job (typically nine weeks of work over a period of four months); job placement into an unsubsidized job as participants are assessed to be job-ready; and job retention support for one year.

It is anticipated that the project will serve a total of 2,000 individuals in New York City and Rochester over 5.5 years. Participants will be served sequentially in two cohorts of 1,000 individuals each, with each cohort defined as a phase of the project. Each phase of the project will entail: the drawdown of funds to serve the cohort; random assignment of participants into a treatment or control group for evaluation purposes; service delivery; observation of outcomes for three years after entry into the program; outcome measurement and evaluation; and performance-based payment if target outcomes for the cohort are met.

Project Partnership and Structure

With the State of New York as the lead public entity, the key partners in this project include:

- ***Intermediary:*** Social Finance, Inc., a nonprofit organization that specializes in social impact bonds, is serving as project intermediary.
- ***Service Provider:*** Center for Economic Opportunities (CEO) is a nonprofit organization that provides employment services to individuals with recent criminal convictions throughout New York State, as well as in California and Oklahoma.
- ***Funders/investors:*** Major funders include approximately 40 high-net-worth investors brought in by Bank of America Merrill Lynch, as well as the Rockefeller Foundation and the Robin Hood Foundation.
- ***Evaluator:*** The evaluation will be conducted by the research divisions of two agencies of the State of New York: the Department of Corrections and Community Supervision, and the Department of Labor.
- ***Independent validator:*** Chesapeake Research Associates, a small evaluation research firm, specializing in data-driven evaluation methodologies, will independently validate the evaluation findings.

In addition, in the early stages of the project, the law firm Jones Day provided legal assistance in structuring partnership agreements, and the Harvard Kennedy School Social Impact Bond Lab (Harvard SIB Lab) provided pro bono assistance on matters of project design and development.

Funding Strategy

With a total maximum possible value of $24.5 million, this project was the largest in the U.S. at the time of its launch (it has since been exceeded in size by the Commonwealth of Massachusetts' PFS project, which launched one month later). The project brings together funding from federal and state governments, private investors, and philanthropic sources. Social Finance and Bank of America Merrill Lynch recruited over 40 individual and institutional investors to contribute $13.5 million in equity for the project.

A distinctive feature of the financing for this project is that it mobilized individual and institutional investments through a brokerage firm. Over $13 million was raised in less than 60 days and the investments were made through a Private Placement Agreement vehicle established by the intermediary, called the Social Finance NYS Workforce Re-entry 2013 LLC. The investment option was made available only to high-net-worth and institutional clients of Bank of America Merrill Lynch and U.S. Trust. The minimum investment was $100,000, with an average investment of $300,000.

The 40 investors were split nearly equally between individuals and institutions, with the majority of the institutions comprising of personal or established foundations. If program benchmarks are met, investors stand to receive a return on investment of as much as 12.5 percent annually, although investors were advised to expect a probable return rate in the high single digits. Repayment funds will come from the U.S. Department of Labor (DOL) PFS grant program and the State of New York.

Evaluation

This PFS project is noteworthy in that it was the first in the U.S. to utilize a randomized controlled trial (RCT) evaluation methodology. This approach generates the most rigorous empirical results, as it allows evaluators to identify impacts that can be directly attributable to the intervention. In this instance, the evaluation will be conducted by the research divisions of the Department of Corrections and Community Supervision, and the Department of Labor, of the State of New York. Independent validation of the evaluation will be conducted by the evaluation research firm Chesapeake Research Associates. As in other PFS projects, there will be no denial of service (in contrast to classic random-assignment evaluations, where control-group participants would be denied services in order to maintain a sharp distinction between "treated" and "untreated" individuals). In this study, some treatment-group participants may choose not to participate in the intervention and some control-group participants may enroll in CEO's services of their own volition. Services will not be denied to any applicant. To account for this in the measurement of impacts, the evaluation methodology will employ a "treatment on the treated" measure to develop the instrumental variable estimates.[2] The project also specifies a backup evaluation plan: in the event that randomization proves unworkable in practice (for example, because of unresolvable implementation problems or "treatment contamination"), the team will use a difference-in-differences approach, comparing outcomes before and after implementation.

Target Outcomes and Repayment Structure

Three benchmarks define success in this project: (1) engagement in transitional (subsidized) jobs; (2) employment in an unsubsidized job one year after release from prison; and (3) reduced rates of recidivism (using jail/prison bed-days as the metric). Minimum benchmarks are also defined for each benchmark. For example, in order for investors to be repaid, the program must improve employment rates by 5 percent and/or reduce recidivism by 8 percent. If impacts exceed the minimum performance targets, investors receive repayment proportional to the state's cost savings and benefits. To calculate these metrics, impact levels will be multiplied by a pre-established "price per outcome" to determine the public-sector benefit. The pricing methodology ensures that the payouts never exceed the public-sector's cost savings. Payouts are capped at $11 million for Phase I (the first cohort) and $10.5 million for Phase II (the second cohort).

[2] More detail on these evaluation methods is available in the State of New York Budget Office's, "Investing in What Works: Pay for success in New York State, Increasing Employment and Improving Public Safety Detailed Project Summary," published in March 2014.

Project SNAPSHOT

Massachusetts Juvenile Justice PFS Initiative

Lead Organization: Executive Office for Administration and Finance, Commonwealth of Massachusetts

Intermediary: Third Sector Capital Partners, Inc.

Service Provider: Roca, Inc.

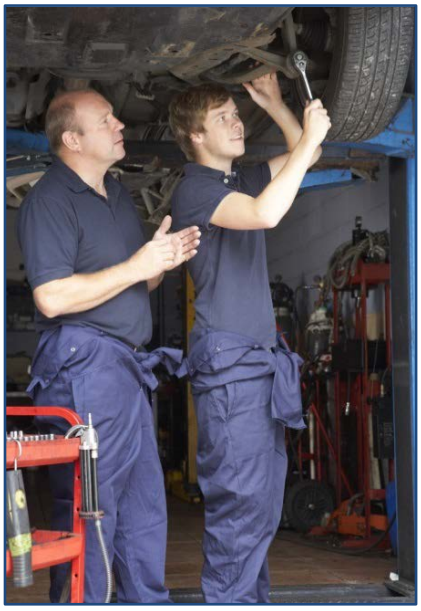
Focus Area: Juvenile justice (between 929 and 1,320 young men at-risk for recidivism)

Service Locations: Areas surrounding Chelsea, Springfield, and Boston (MA)

Target Outcomes: (a) Employment gains; (b) bed days avoided

Contract Execution Date: January 2014

Investment Amount: $21.3 million



Introduction

The Massachusetts Juvenile Justice PFS Initiative aims to improve life and employment outcomes for high-risk young men that are aging out of the juvenile detention and probation systems. The savings to the state are defined as savings accrued from avoided reincarceration.

The idea for this project originated in 2011, when the Commonwealth of Massachusetts solicited input about "areas of government activity where success-based contracting strategies have the potential to improve outcomes and/or reduce costs." The focus on young men in juvenile detention was proposed by entities that would later form the core of the PFS project: Third Sector Inc., a nonprofit organization that helps various entities to develop and implement PFS initiatives; Roca, Inc., a service provider that serves high-risk youth; and New Profit, Inc. a venture philanthropy firm that funds innovations in social enterprise.

By January 2012, the Commonwealth had defined its intended target population as high-risk youth aging out of the juvenile corrections system. Each year, approximately 4,000 young men in Massachusetts age out of the juvenile justice system or are released from probation. Their life and employment prospects are poor; nearly two-thirds (64 percent) are re-incarcerated within five years, with an average prison stay of 2.4 years. This is estimated to cost the state approximately $280 million each year (Kodali, Grossman & Overholser, 2014A).

In July 2012, the Massachusetts Legislature passed enabling legislation that created the Social Innovation Financing Trust Fund and authorized the state to enter into PFS contracts in the value of $50 million, backed by the full faith and credit of the Commonwealth—a legislative provision that provides the maximum possible protection to investors. The project intermediary (Third Sector) and service provider (Roca) were selected in August 2012 through a competitive process and the PFS project was formally launched in January 2014 (as one of the two PFS initiatives in the DOL PFS grant program). If successful, this project will have the potential to help as many as 1,320 young men to improve their life prospects and to reduce reincarceration bed days by at least 40 percent.

Service Intervention

This four-year service delivery model provides two years of intensive engagement with high-risk young men and two years of follow-up services. The approach is characterized by: intensive outreach and case management; multi-dimensional programming in life skills, education and vocational training; and work opportunities through community partners. Roca has successfully delivered this intervention model in Massachusetts since 1988 and reports that the approach has reduced three-year incarceration rates by 33 percent (Third Sector Capital Partners, 2014d).

Roca intends to deliver this intervention to 929 high-risk young men over a period of seven years. If the project proves successful, an additional 391 young men would be added, for a potential total of 1,320 high-risk young men served.

Project Partnership and Structure

With the Commonwealth of Massachusetts as the lead public entity, the key partners in this project include:

- ***Intermediary:*** Third Sector, Inc., the intermediary for this project, is a nonprofit organization that works with government, commercial and nonprofit entities to develop and implement PFS initiatives. A separate nonprofit organization, Youth Services, Inc., was created within the intermediary organization to house and manage this PFS project.
- ***Service Provider:*** Roca, Inc., a nonprofit organization that has been working with high-risk youth in the Boston and Springfield areas for 25 years, will provide services for this project.
- ***Funders/investors:*** The senior lender for this project is Goldman Sachs and junior lenders include the Kresge Foundation and Living Cities. The project has also obtained a number of smaller philanthropic grants.
- ***Evaluator:*** SIBalytics, Inc., a small evaluation firm, will conduct the PFS evaluation.
- ***Independent validator:*** Public Consulting Group (PCG), a large management consulting firm that works primarily with public-sector clients to achieve their performance goals, is the independent evaluation validator for this project. Having an independent validator was a requirement of the DOL PFS grant program.

In addition, several local law firms provided pro bono assistance to the PFS project partners in developing and reviewing the project contracts, and the Harvard SIB Lab provided pro bono assistance through a full-time Harvard SIB Lab fellow based in the state's Executive Office for Administration and Finance related to project development and design.

Funding Strategy

This project is one of two DOL PFS grant programs that could receive up to $11 million from the DOL if benchmarks are met. Including the potential DOL funds, the total investment in the project is $21.3 million, with a cap on success payments of $27 million. Investor financing is composed of $12 million in loans and $6.0 million in "recyclable" grants (whose payouts would go toward continued services). The largest lender, Goldman Sachs, contributed a $9.0 million senior loan, while Living Cities and the Kresge Foundation provided junior loans totaling $3.0 million. Other investors provided recyclable grants ranging from $300,000 to $3.7 million. The financing also includes $3.31 million in deferred service fees by the intermediary and service provider; payment of these fees is conditional upon program success.

Evaluation

The evaluation of this project employs a randomized controlled trial (RCT) design. However, unlike most random assignment evaluations, services will not be denied to young men in the control group if they come to Roca on their own or through a referral outside of the initiative. In order to avoid "treatment contamination" (providing treatment to control-group participants), Roca agreed to serve a larger number of young men than would have otherwise been necessary for evaluation purposes. As in the NY State project, this project also specifies a backup evaluation plan. In the

event that randomization proves unworkable in practice (for example, because of unresolvable implementation problems or "treatment contamination"), the team will use a difference-in-differences approach to compare Roca's outcomes to those in matched cities where Roca did not provide services.

Target Outcomes and Repayment Structure

Repayment is based on three target metrics, where participants' outcomes will be compared to those of control-group members. These include:

- Reduction in days of incarceration,
- Increases in job readiness, and
- Increases in time employed.

If reincarceration days are reduced by at least 40 percent, investor loans will be fully repaid with the associated level of interest, and all deferred payments will be paid. Repayments will be administered in a tiered fashion: first the senior loan (to Goldman Sachs) will be repaid at 5 percent annual interest, followed by the junior loans at 2 percent interest, then deferred service fees will be repaid to the intermediary and service provider, and finally any remaining profits will go toward the recycling of grant funds.

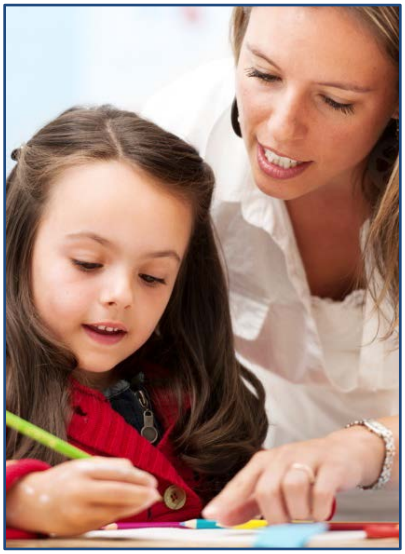
Increases in job readiness (compared with the control group) will be paid at $789 per participant that engages with the service provider nine or more times per quarter, and increases in time employed will be paid at $750 per participant for each participant's additional quarter of employment compared to control group participants.

If days of reincarceration are reduced by at least 40 percent, investors will receive $22 million in payments. If success rates exceed the benchmarks (a 70 percent reduction in reincarceration days), then the investors receive the maximum possible level of repayments—$27 million (and the state would save an estimated $45 million). If the project fails to meet the lowest benchmarks (approximately 5 percent reduction in reincarceration), the three lenders will receive no return on their investment.

Project SNAPSHOT

Chicago's Child-Parent Center Pay for Success Initiative/SIB

Lead Organization: City of Chicago
Intermediary: Metropolitan Family Services
Service Provider: Chicago Public School District
Focus Area: Early childhood education
Service Location: Chicago (IL)
Target Outcomes: (a) Reduction in need for special education classes in schools; (b) increased third grade literacy rate
Contract Execution Date: October 2014
Investment Amount: $16.6 million



Introduction

Chicago has approximately 400,000 students in 664 public schools throughout the city, making it the nation's third largest public school system in the nation (CPS, 2014). This PFS initiative is one of a number of early education programs piloted by Chicago Mayor Rahm Emanuel, who also established the Chicago: Ready to Learn! Initiative which coordinates and expands access to early childhood education programs across the city. He has also worked to implement full-day kindergarten and Science, Technology, Engineering and Math programs (STEM). These efforts have increased Chicago's graduation rates from 58 percent in 2011 to 69.4 percent in 2014 (Chicago's Mayor's Office, 2014). The PFS initiative was passed by the Chicago City Council in early November, 2014, and is now the fifth active PFS program in the United States.

Service Intervention

This initiative funds pre-kindergarten education for 2,620 Chicago public school children over four years, and works with both parents and students to improve educational outcomes. This intervention caters to both children and their parents, and provides not only preschool services but also support services for parents who must remain strongly engaged in the program. A 2002 study found this program to be effective and to result in a 41 percent reduction in the need for special education programs (Sanchez, 2014). Another study estimated that for every one dollar invested in early childhood education, nearly $11 are returned to society over the lifetime of the child—an 18 percent return on investment (Arthur et al., 2011). Arthur et al. also suggest that this specific child-parent early education program has the highest level of evidence base in the country among this type of program.

In year one (the 2014-15 school year), the program will fund 374 half-day slots; in years two and three it will provide 782 full-day slots; and in years four and five, it will fund 680 slots each. A total of six schools are involved that serve low-income families in communities with a shortage of publically funded, high quality pre-kindergarten programs.

Project Partnership and Structure

With the City of Chicago as the lead public agency, the key partners in this project include:

- ***Intermediary:*** Metropolitan Family Services (MFS), the program intermediary, has extensive experience working with high-need and low-income families through parental engagement. MFS will help Chicago Public Schools identify the key best practices in early-childhood education to adapt to the Chicago model.
- ***Service provider:*** Chicago Public Schools will provide services for this project.
- ***Project coordinator:*** The Illinois Facility Fund (IFF) in Chicago, a lender and consultant to nonprofits, is acting as the project coordinator, responsible for the flow of funding between all funding partners and Chicago Public Schools. IFF will repay lenders and hold the contracts with additional partners, including MFS.
- ***Funders/investors:*** Goldman Sachs and the Northern Trust are the primary lenders for this project. The J.B. and M.K. Pritzker Family Foundation, a longtime advocate of early childhood education, serves as subordinate lender and will assume any financial burden before Goldman Sachs or the Northern Trust if the program is unsuccessful.
- ***Evaluators:*** The third-party evaluator had not yet been named when this report was published.

Funding Strategy

The total value of investments for this project is $16.6 million. The primary lenders are Goldman Sachs and Northern Trust and the secondary lender is the J.B. and M.K. Pritzker Family Foundation. The Finnegan Family Foundation and the City of Chicago are providing funding for the project evaluation.

Before funding is provided directly to the early education programs, $470,000 will go to IFF for its project coordination services; $200,000 will go to MFS for parent support and training; $170,000 will reimburse incurred audit fees; $75,000 will reimburse IFF's legal fees, and $100,000 will reimburse legal fees for the City of Chicago and Chicago Public Schools (Sanchez, 2014).

Evaluation

This project will evaluate students at the end of their kindergarten year using an existing kindergarten evaluation, and will use a comparison group of students from similar low-income neighborhoods who did not attend preschool in a Chicago Public School program or Head Start. In addition, third grade students will be evaluated using the Partnership for Assessment of Readiness for College and Careers (PARCC), which was administered for the first time in 2014 in Chicago Public Schools and is considered more rigorous than the prior tests. Children must score at or above the 25th national percentile on the reading portion of the PARCC to be considered for repayment. There are potential challenges with this evaluation method as Chicago Mayor Rahm Emanuel has committed to providing preschool education to all low-income four-year-olds by 2015, reducing the potential number of comparison group participants. Children with severe disabilities, such as autism and deafness, will be excluded from the study.

Target Outcomes and Repayment Structure

This program aims to reduce the number of children who use special education services for mild disabilities, including mild learning disabilities, emotional disturbances, developmental delays, and speech or language impairments. Additionally, the program seeks to improve kindergarten readiness and increase rates of third grade literacy among those involved in the preschool program.

If there is a decrease in the need for special education services among program participants, lenders will be repaid $9,100 per student, per year, with a 1.0 percent compounded interest rate per student. This value was calculated based on the

time teachers typically spend with students who have learning disabilities and the additional costs associated with the needs of these students. If there is an increase in kindergarten readiness, lenders will receive $2,900 per student. If there is an increase in third grade literacy, lenders will receive $750 per student who tests above the national literacy average.

The lenders will be repaid by Chicago Public Schools and the City of Chicago. It is projected that Chicago Public Schools will pay approximately $21.5 million over the 16-year program in payments based on the reduction in need for special education services, and the City of Chicago will pay an additional $4.4 million for improvements in kindergarten readiness and third-grade literacy results. Overall, it is expected that investors will potentially earn twice the return on their initial investments if the program is successful (Sanchez, 2014).

Project SNAPSHOT

Cuyahoga County Partnering for Family Success Program

Lead Organization: Cuyahoga County Division of Children and Family Services

Intermediary: Enterprise Community Partners, Inc.

Service Provider: Frontline Services

Focus Area: Homelessness and child welfare

Service Location: Cuyahoga County (OH)

Target Outcomes: Reduction in out-of-home foster care placement

Contract Execution Date: December 2014

Investment Amount: $4.0 million

Introduction

The issue of homeless caregivers has posed a serious problem for the government of Cuyahoga County (which encompasses the greater Cleveland area). Often faced with a number of issues, including domestic violence, substance abuse and mental illness, homeless caregivers often struggle to provide a safe and stable home environment—a requirement for reunification with their children. As a result, children of these individuals, approximately two-thirds of whom are under six years of age, spend a significantly longer period of time in out-of-home foster care than the children of caregivers with secure housing (Third Sector Capital Partners, 2014c). Cuyahoga County currently spends about $35 million per year on foster care payments (Tobias, 2013). The extended period of time children are spending in foster care has historically been a leading cause of high human service costs to the county (Third Sector Capital Partners, 2014c).

The PFS initiative in Cuyahoga County has been championed by former County Executive Edward Fitzgerald, who was inspired to explore the idea of a PFS model in the county after attending a White House PFS conference in 2011. In July of 2014, Fitzgerald, along with County Councilman Dale Miller, sponsored and passed a bill that created the Social Impact Investing Fund in Cuyahoga, which set aside $1.0 million annually, with a cap of $5.0 million, to fund PFS initiatives in the county.

Local officials' interest in PFS and the preeminent problem of out-of-home foster care led to the creation of the Partnering for Family Success Program. Working with a variety of partners, the program will provide 135 homeless caregivers with links to affordable housing while also providing them with intensive case management in the form of an evidence-based program called "Critical Time Intervention" (CTI). In July 2014, Cuyahoga County launched a pilot version of the program for 33 individuals funded by a $780,000 grant from the Laura and John Arnold Foundation. The pilot period allowed the service provider, FrontLine Services, to hire and train staff and to test the referral and random assignment process.

Service Intervention

FrontLine Services, the service provider for this PFS project, will link each homeless caregiver to housing though an established network of housing service providers, and will deliver CTI, an evidence-based homelessness transition therapy program. CTI aims to help vulnerable, homeless families to slowly reconnect to community support networks,

while settling successfully into newly attained housing. CTI participants will be provided age-appropriate, evidence-based trauma services that will strengthen healthy and secure caregiver-child relationships (Third Sector Capital Partners, 2014c). The hope is that by providing housing and CTI services before reunification, the program will allow participants to more successfully participate in mental health services and substance abuse counseling, to find employment, and to achieve the level of stability necessary to regain visitation rights. By coordinating the service intervention with the County's Division of Children and Family Services (DCFS) and their reunification checklist, the PFS project will empower DCFS to grant reunification decisions sooner and allow children to exit out-of-home foster care quicker (Third Sector Capital Partners, 2014b).

FrontLine Services will provide the 12-15 month treatment program to 135 families over a three year period. To assist FrontLine Services, the PFS project partnered with a number of housing providers and referral partners—including the Cuyahoga Metropolitan Housing Authority, Emerald Development and Economic Network, Inc., and Famicos Foundation—to find affordable, stable and reunification-appropriate housing though public housing and voucher-based resources. In order to ensure enough participants for both the treatment and control groups for the project, the Partnering for Family Success PFS Program will coordinate referrals from the County's Office of Homelessness, the Domestic Violence and Child Advocacy Center, and the County's Division of Children and Family Services (Third Sector Capital Partners, 2014a).

Project Partnership and Structure

With Cuyahoga County as the lead public entity, the key partners and roles in this project include:

- ***Intermediary:*** Enterprise Community Partners, Inc., the Project Manager and Fiscal Agent, will be responsible for disbursing upfront payments from the funders to the service provider to cover project costs through Cuyahoga PFS, LLC, an affiliated entity. They will also disburse success payments to funders and monitor the program in accordance with the PFS contract, and will work to resolve any issues that arise throughout the life of the project. Third Sector Capital Partners will serve as an advisor to the government as well as the transaction coordinator for the project.
- ***Service provider:*** Frontline Services Inc. will function as the service provider for this project.
- ***Funders/investors:*** The funders and investors include the Reinvestment Fund, the George Gund Foundation, the Nonprofit Finance Fund, the Cleveland Foundation, and the Sisters of Charity Foundation of Cleveland.
- ***Evaluators:*** The Center on Urban Poverty and Community Development at the Jack, Joseph and Morton Mandel School of Applied Social Sciences at Case Western Reserve University will serve as the project evaluators.

Funding Strategy

The total value of investments for the main project is $4.0 million. Prior to raising these funds, the Laura and John Arnold Foundation donated $750,000 to conduct a pilot program, which is not included in the $4.0 million raised as part of the primary PFS investment. The Cuyahoga County Partnering for Family Success Program has a two-tiered loan structure. Senior loans, which were provided exclusively by the Reinvestment Fund, receive a 5 percent interest rate, while subordinate or junior loans receive a 2 percent interest rate. The Reinvestment Fund provided $1,575,000 in senior loans, while the George Gund Fund and the Nonprofit Finance Fund provided junior loans of $725,000 and $325,000, respectively. In addition, the Cleveland Foundation and the Sisters of Charity Foundation of Cleveland provided junior loans of undisclosed amounts, the George Gund Fund provided a $275,000 loan at 0 percent interest, and the Sisters of Charity Foundation of Cleveland donated two $75,000 recoverable grants (Third Sector Capital Partners, 2014a).

Evaluation

The Center on Urban Poverty and Community Development at the Jack, Joseph and Morton Mandel School of Applied Social Sciences at Case Western Reserve University (CWRU) is serving as the evaluator and will conduct a randomized controlled trial (RCT) to determine the impacts of the intervention. As the evaluator, CWRU worked with the partner organizations to identify the size, characteristics, and potential cost savings associated with the PFS program's target families (Third Sector Capital Partners, 2014c). The result was a five-year evaluation where at least 270 eligible families will be randomly assigned at a one-to-one ratio to either the treatment or control groups. Random assignment will occur for the first three years of the program, with final impact determinations and payments occurring in the sixth year. The evaluation will examine the total number of out-of-home foster care days accumulated by families assigned to FrontLine Services as compared to the number of out-of-home foster care days accumulated by families served by the existing resources in the community (Third Sector Capital Partners, 2014b). In addition to the impact evaluation, CWRU will also conduct a process study during the first two years of the program to examine implementation challenges and successes (Third Sector Capital Partners, 2014c).

Target Outcomes and Repayment Structure

For each day that the number out-of-home foster care days is reduced for children in the treatment group as compared to children in the control group, Cuyahoga County will pay $75, which represents the combined average cost of foster care and related social services per child, per day. The target impact for the project is a 25 percent reduction in out-of-home foster care days for treatment group participants. If this level of impact is achieved, all investors will be reimbursed for their original investments plus the associated interest, and the County of Cuyahoga will net approximately $130,000 in savings (Third Sector Capital Partners, 2014c). At higher levels of impact, the subordinate/junior lenders could receive up to $1.0 million in success payments based on the additional savings to the county. **Exhibit 2** lays out success payments and savings for the potential impact levels.

Exhibit 2. Government Savings and Success Payments by Level of Impact[3]

Percent Reduction in OHP Days	Gross Savings for Cuyahoga County	Success Payments Paid by Cuyahoga County	Net Savings for Cuyahoga County
50 percent	$8.5 million	$5.0 million	$3.5 million
40 percent	$6.8 million	$5.0 million	$1.8 million
30 percent	$5.1 million	$4.55 million	$550,000
25 percent	$4.25 million	$4.125 million	$130,000
20 percent	$3.4 million	$3.4 million	$0
10 percent	$1.7 million	$1.7 million	$0

All success payments will be made in the sixth year of the program. The George Gund Foundation has pledged to use any success payments to fund future PFS projects, while the Sisters of Charity Foundation of Cleveland will reinvest any repaid grant funding into Frontline Services (Third Sector Capital Partners, 2014c).

[3] http://www.thirdsectorcap.org/wp-content/uploads/2014/12/141204_Cuyahoga_PFS_Fact-Sheet.pdf

III. PFS Activity in Development

In addition to the six existing PFS projects discussed in Section II, as of February 4, 2015 there are a number of other initiatives across the U.S. in different phases of exploration and development. This includes the eight grantees recently funded by the CNCS Social Innovation Fund Pay for Success Grant Program. These projects are described below, along with several other PFS projects discussed in the literature that are under development, but not yet executed. We also include a summary of a number of federal and state legislative efforts being undertaken that reflect the growing interest in the PFS model and may result in funding for future PFS activity.

CNCS Social Innovation Fund PFS Grantees

The eight grantees funded by the PFS Grant Program in October 2014 for up to three years in duration are described below. Seven of the grantees were funded to provide technical assistance in assessing project feasibility and developing capacity among subrecipients (i.e., government and nonprofit entities interested in using PFS financial models). The eighth grantee, the Nonprofit Finance Fund, will help subrecipients that have already confirmed the feasibility of implementing a PFS model in their target location to structure their PFS transactions by helping the stakeholders and partners to negotiate the terms of the PFS deal. Brief summaries of the grantees and their initial plans are provided below.

- ***Coalition to End Childhood Lead Poisoning (CECLP):*** CECLP will receive approximately $1.0 million to fund its Green & Healthy Homes Initiative (GHHI) to reduce asthma in low-income children across the country through the implementation of PFS projects in five cities or counties. CECLP will fund one health care entity as the private payor and one nonprofit service provider per site, for a total of ten subrecipients funded through an open competition.
- ***The Corporation for Supportive Housing (CSH):*** CSH will receive $750,000 over three years to focus on economic opportunity and healthy futures among homeless youth and families, and disabled residents of health care institutions who want to live in the community. CSH intends to identify evidence-based preventive interventions, conduct feasibility studies, prepare for PFS implementation, and analyze alternate social financing strategies. Up to 12 subrecipients will be selected from an open competition to receive technical assistance and participate in peer learning initiatives.
- ***Institute for Child Success, Inc. (ICS):*** ICS will receive $782,000 over two years to provide technical assistance to subrecipients to help improve outcomes for children and families through early childhood interventions in the Southern U.S. Each jurisdiction will receive up to one year of specialized coaching to help analyze the feasibility of a PFS initiative, convene stakeholders, and prepare for PFS financing.
- ***Third Sector Capital Partners, Inc. (Third Sector):*** Third Sector will receive $1.91 million over three years in order to help develop multi-government-level contracting and financing. Third Sector plans to create a laboratory through ten government subrecipients across two cohorts who have decision makers from multiple levels of government and/or have a high degree of PFS readiness. In partnership with these subrecipients, Third Sector will help develop PFS blueprints that can be translated to other audiences through lessons learned from working with multiple levels of government.
- ***University of Utah David Eccles School of Business PFS Lab:*** The University of Utah's David Eccles School of Business PFS Lab (also known as the James Lee Sorenson Center for Global Impact Investing or SGII) will receive approximately $1.15 million for one year to facilitate PFS deals across the Western U.S. The lab will work with service providers to provide technical assistance and support, including back-office support, staff capacity building, impact measurement and reporting capacity, governance capacity, and general business support. The lab will also work directly with select government jurisdictions to analyze PFS viability and governmental support.

- ***Harvard Kennedy School Social Impact Bond Lab (Harvard SIB Lab):*** The Harvard SIB Lab will receive $1.93 million in grant funding over three years to provide technical assistance to state and local governments. The Harvard SIB Lab will provide full-time technical assistance to ten local and state government partners over 15 months. It will also test a cohort-based model for developing government capacity in sites where there are multiple government partners. Additionally, the Harvard SIB lab is funded to continue to publish key lessons from their technical assistance provision in order to help build capacity and disseminate information about PFS.
- ***National Council on Crime and Delinquency (NCCD):*** NCCD will receive $864,000 over two years to assist three state or local governments or nonprofit organizations to determine the feasibility of using PFS to promote interventions focused on the positive development of youth involved or at-risk for involvement with the juvenile justice or child welfare systems. NCCD will target states with the highest rates of racial and ethnic disparities in juvenile justice and child welfare system involvement in order to support the capacity of these systems to implement evidence-based practices and create positive outcomes for system-involved youth.
- ***Nonprofit Finance Fund (NFF):*** The NFF will receive $3.6 million over two years to: provide subgrants through an open and competitive process; create criteria to assess opportunities to create and close PFS transactions; and collect and share knowledge using the PFS Learning Hub website. NFF is expected to fund 12 subrecipients through an open competition to structure and close PFS transactions within two years.

PFS Projects with Executed Contracts, Pre-Implementation

In December 2014, the Commonwealth of Massachusetts announced a new PFS initiative to reduce chronic homelessness through a program that will provide 500 units of stable supportive housing for up to 800 chronically homeless individuals over six years. The initiative was initially conceptualized when Governor Deval Patrick signed "An Act Relative to Community Housing and Services" in March of 2012, legislation that increased government coordination and efficiency through commitments of an MOU, creating a demonstration program that would generate up to 1,000 new permanent housing units (Corporation for Supportive Housing, 2012). The PFS program is utilizing $1.0 million in philanthropic funding and $2.5 million in private capital investments from Santander Bank N.A., the Corporation for Supportive Housing (CSH) and United Way of Massachusetts Bay and Merrimack Valley. If successful, the Commonwealth anticipates generating up to $6.0 million to repay investors a maximum return rate of 5.33 percent and also covering all evaluation and intermediary costs. The intermediary for the initiative, the Massachusetts Housing and Shelter Alliance (MHSA)—created by the United Way of Massachusetts Bay and Merrimack Valley, the Massachusetts Housing and Shelter Alliance, and CNCS—will work with providers to secure housing, job training and medical care for tenants. This project is unique in that MHSA will sign contracts directly with service providers rather than the Commonwealth. Root Cause will then act as the independent evaluator for the PFS project, verifying the outcomes produced by the service providers (Commonwealth of Massachusetts, 2014). As of January 2015, some service provider contracts had been signed, but contracts with other key partners had not yet been executed. The Commonwealth anticipates that MHSA will begin coordinating service provision for chronically homeless individuals in February 2015.

Other Pay for Success Projects Nearing Implementation

Outside of the CNCS SIF PFS grantees, there are at least three other projects nearly ready to execute a PFS contract and implement a PFS model. In Denver, the Denver's Road Home organization is working with Social Impact Solutions, the Corporation for Supportive Housing, and Enterprise Community Partners to assist 300 homeless individuals by combining housing support with intensive case management services to address underlying issues of mental health and substance abuse (Denver Mayor's Office, 2014). This project was selected after a 2012 request for information from the Denver Mayor's office. The city hopes to raise $8.0 million for the PFS project and begin providing services in 2015.

In October of 2012 in Fresno, CA, the California Endowment granted Social Finance and Collective Health a $220,000 pilot grant to test the efficacy of PFS initiatives in addressing childhood asthma. Through the Central California Asthma Collaborative and Clinica Serra Vista, 200 children with uncontrolled asthma received home visits from community health workers who provided education and support in reducing environmental asthma triggers (Childhood Asthma Leadership Coalition & Green and Healthy Homes Initiative, n.d.). This program aims to reduce asthma-related emergency room visits by 30 percent and decrease hospitalizations by 50 percent over two years, and will serve as the first step in establishing a PFS initiative around childhood asthma (Social Finance, 2013).

In May of 2014, Illinois Governor Pat Quinn announced that the state of Illinois will pursue a PFS program to increase support for at-risk youth involved in both the juvenile justice and child welfare systems in the state. After a competitive request for proposals process in September 2013, the contract was awarded to One Hope United with the Conscience Community Network, which will implement a project based on the evidence-based Crossover Youth Practice Model to improve placement and reduce rates of recidivism among 700 youth involved with the Illinois Department of Children and Family Services. The project is expected to be operational by the middle of 2015 and is anticipated to generate approximately $30 million in direct investment. The Harvard SIB Lab will support the initiative through technical assistance.

The projects listed above are just some of the PFS initiatives in early phases of planning and implementation. The Harvard SIB lab estimates that in 2015 there will be more than $200 million in PFS contracts within the U.S. dedicated to projects across the country (Lester, 2014). This growth in PFS projects may correlate to an increase in the number of specialized intermediaries helping to broker these transactions, including the Corporation for Supportive Housing, the Green & Healthy Homes Initiative, the National Council on Crime and Delinquency, and others. New investors have also become engaged in PFS projects, including for-profit banks such as Goldman Sachs and Community Development Financial Institutions such as the Nonprofit Finance Fund. There has been a broad and growing interest in the field of "impact investing" in general, and a noticeable shift in the availability of capital from private banks to local funders and foundations that has been encouraged by intermediaries such as Third Sector, which plans to give preference to projects with local funders and foundations in their call for proposals for the PFS Grant Program.

It is clear that government support will be critical to the future development of the PFS model. As observers have noted (Shah, 2013b), different levels of government are better suited to play different roles in the PFS field. State and municipal governments appear to be best suited for implementing PFS projects, while the federal government is arguably best suited to remove administrative roadblocks to PFS implementation, to provide financial support that allows states and municipalities to undertake PFS projects, and to help set PFS standards. To further this discussion, we next explore the nature of support for PFS that currently exists at the federal and state levels.

Federal Support

In line with its focus on promotion of evidence-based programming, the Obama Administration has sought to advance PFS approaches in a number of ways. The White House included proposals for PFS funding budgets for fiscal years (FY) 2012 and 2013: the 2012 budget called for $100 million of funding for discretionary spending programs that focus on recidivism, workforce training, and homelessness; and the 2013 budget called for $109 million for PFS programming. However, neither of these proposals were approved by Congress (Shah & Costa, 2013b).

The FY 2014 budget request for PFS increased considerably to approximately $500 million. Of these funds, $195 million were intended to fund discretionary spending in program areas identified in previous years' requests, and to support PFS projects across nine programs the Departments of Labor, Education, and Justice. The budget request also included $300 million for a new PFS Incentive Fund to be administered by the U.S. Department of the Treasury. Modeled on the U.K.'s Social Outcomes Fund which helps to fund a portion of the expenses for PFS projects beyond what local governments are able to finance, the Incentive Fund would provide support in two primary ways: (1) it would partially fund cities' and states' outcome payments for PFS deals; and, (2) through credit enhancements, it would fund partial guarantees to

philanthropic organizations that engage in PFS deals (Shah & Costa, 2013b). The proposal was not funded in FY 2014 or FY2015 (White House, 2014). The $300 million request was resubmitted again in the Administration's FY 2016 budget (White House, 2015).

In addition to the $300 million requested annually for the PFS Incentive Fund, the FY 2015 budget requested $82 million and the FY 2016 budget requested $64 million to support PFS initiatives at the U.S. Departments of Education, Labor, and Justice and the Corporation for National and Community Service in the areas of job training, education, criminal justice, housing and other human services. The FY 2015 and FY 2016 budgets also proposed a new demonstration allowing the U.S. Department of Housing and Urban Development to use a PFS model to finance energy-efficient retrofits in HUD-assisted housing that would lead to reductions in utility costs (White House, 2014; White House, 2015). Additionally, $70 million was budgeted in FY 2016 specifically for the Social Innovation Fund, up to 20 percent of which can be used for PFS projects (White House, 2015).

At the time of publication, two PFS bills were in committee in Congress: the Social Impact Bond Act in the House, and the Pay For Performance Bill in the Senate. Despite some setbacks at the federal appropriations level, PFS has also gained federal support in other ways. First, several federal grant programs have been developed to support PFS programs. One of these grant programs is the Workforce Innovation Fund, housed within the U.S. Department of Labor, which committed up to $20 million in 2012 to finance the New York and Massachusetts PFS projects described in Section II of this report. The 2014 Workforce Innovation and Opportunity Act (WOIA), also housed within the U.S. Department of Labor, contains a number of provisions that facilitate PFS projects focused on workforce preparation.[4] The WOIA takes effect in July, 2015. Second, PFS has gained federal support through grant programs authorized through the 2008 Second Chance Act, housed in the U.S. Department of Justice. These grant programs focus on facilitating recently released inmates' re-entry into society. In 2012, Second Chance grant programs began providing "priority consideration" to proposals that featured a PFS approach. Third, through the U.S. Office of Management and Budget's Performance Partnership Pilots for Disconnected Youth (P3) program, which focuses on improving outcomes for at-risk youth aged 14-24, several federal agencies (including the Departments of Education, Health and Human Services, and Labor, and the Corporation for National and Community Service's Social Innovation Fund) will be allowed to enter into ten "performance partnership" agreements with local, regional, and state governments. Lastly, as described earlier in this report, the Social Innovation Fund at the Corporation for National and Community Service is sponsoring grants aimed at facilitating PFS at the state and local level.

State Legislation

It is beyond the scope of this report to inventory the full range of state efforts that promote PFS, but legislative efforts merit particular attention. A number of states have undertaken legislation to authorize PFS programs, including California, Colorado, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, Utah, and Washington.[5] Of these states, only two have passed bills through the full legislative process (Massachusetts and Utah) and the rest have proposed legislation that are currently under review by committees or have not been passed.

- ***Utah:*** In 2014, Utah established H.B. 96—the Utah School Readiness Initiative—which allows the state to pay for PFS programs targeting early childhood education. It gives the School Readiness Board in the Governor's Office of Management and Budget the authority to negotiate PFS contracts and an ongoing appropriation of $3 million. The bill was signed on April 1, 2014.

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[4] The WIOA essentially updates and supersedes the Workforce Investment Act (WIA). It establishes PFS as an eligible use of WIA funds, allows WIA funds to be used to help local workforce areas implement PFS projects, and makes new service providers—such as intermediaries, community based organizations, and others—eligible for PFS contracts (New Profit, Inc., 2014).

[5] See **Appendix C** for a summary of legislative actions taken at the state level.

- ***Massachusetts:*** Massachusetts gave its Secretary of Administration and Finance the authority to enter into up to $50 million in PFS contracts backed by full faith and credit of the Commonwealth. This bill established a sinking fund and requires the Secretary to request appropriations in each year equal to the maximum performance payments that may ultimately be needed, based on the services delivered in that year, in order to ensure funds are available when performance payments are due.
- ***Oklahoma:*** In April 2014, the Oklahoma governor approved SB 1278 establishing a PFS revolving fund to provide payment to social service providers for the delivery of predefined criminal justice outcomes.

Taken together, the PFS projects currently in place, combined with a highly engaged body of stakeholders and legislative efforts at the state and federal level, are establishing momentum for the next wave of PFS initiatives throughout the country. We are seeing a PFS emergence in new fields, transitioning from mostly justice-related projects to projects focusing on child welfare, early childhood education, workforce development, chronic conditions, and more. The projects and legislation listed here, and the myriad of others in progress, reflect the growth in political and financial investment in the PFS model, and the promise of future investment in the model moving forward.

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IV. Emerging Themes

As the preceding chapters illustrate, the PFS field is nascent and evolving. Even though the first PFS project was launched only five years ago, there are currently six PFS projects with signed contracts in the U.S. and many more PFS projects in the development stage. Our initial literature search on the subject produced thousands of citations on this model of social finance: an initial search of peer reviewed and gray literature using the search terms "pay for success," "social impact bonds," "social benefit bonds," "impact investing," "social impact partnership," "social impact financing," and "development impact bonds" yielded over 25,000 results. It is clear from this literature base that the PFS model has captured a great deal of attention, and there is great interest in the field and its future.

In this section, we briefly summarize some of the common themes derived from a review of key documents within the current body of PFS literature. The literature focusing on PFS can be grouped into three general categories: (1) articles providing a broad overview of the PFS model, its components, and potential benefits and risks;[6] (2) articles offering a series of broad recommendations to advance the PFS field based on preliminary qualitative information-gathering;[7] and (3) articles specific to newly conceptualized or implemented PFS models, often written by key players within a PFS relationship, offering themes, initial lessons learned and recommendations for future PFS programming.[8]

As most PFS projects are so new—the first PFS project in the U.S. is yet to be completed—there is little information in the literature related to actual outcomes, or unintended consequences of PFS transactions. Overall, there is not yet sufficient evidence in the field to determine which interventions will prove effective, how contract structures and partner relationships will fare in the face of PFS transaction challenges, and whether stakeholders will ultimately confirm that their investments of time, energy, and funds were worth the gains that accrued to their organizations.

As such, our ability to draw definitive conclusions about best practices, lessons learned, and recommendations is severely limited. However, there is still much to be learned from the early experiences of existing PFS projects both in the U.S. and abroad. A variety of themes have emerged across the literature that are highly suggestive of both the future direction of the PFS field and best practices for key players implementing a PFS transaction. Those contemplating PFS projects can benefit from the current body of lessons learned related to launching a PFS project, and barriers and facilitators to a smooth implementation process.

Overarching themes and lessons learned from the current body of PFS literature are summarized below. More detail about PFS project-specific lessons learned can be found in Appendix B, which provides descriptive overviews and key takeaways for nearly three dozen key PFS articles and reports reviewed for this report.

Commonly cited insights about PFS implementation include:

- ***Data-driven analysis is a key element of PFS initiatives.*** This includes data-based analysis of the social policy landscape, key players, and of community, government, and investor priorities (Disley, Rubin, Scraggs, Burrowes & Culley, 2011; Liebman, 2011; Mason, Lloyd, Andrew & Henry; Kodali, Grossman & Overholser, 2014a).
- ***Not all social interventions are well suited for PFS arrangements***. Feasible interventions will offer: proven track records of success at small (and ideally large) scales; potential scalability; cost-effective programming able to produce fiscal savings for the government; measurable outcomes; credible approaches to impact assessment; and

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6 For example, Callanan & Law, 2012; CNCS, 2014; Kohli, Besharov & Costa, 2012b; Merrill Lynch & Social Finance, 2014

7 For example, information gathered from task force meetings or key informant interviews as in Giantris & Pinakiewica, 2013; Liebman & Sellman, 2013; Nonprofit Finance Fund & White House, 2012; Palandijan & Hughes, 2014; Social Impact Investment Task Force, 2014

8 For example, Mason, Lloyd, Andrews & Henry, 2014; Kodali, Grossman & Overholser, 2014b; Rudd, Nicoletti, Misner & Bonsu, 2013; Third Sector Capital Partners Inc. & Rockefeller, 2013

well-defined treatment populations (Azemati et al., 2013; Liebman & Sellman, 2013; Rudd, Nicoletti, Misner & Bonsu, 2013; Third Sector Capital Partners & Rockefeller, 2013).

- ***Sustained cooperation and commitment of all key players are key to implementing and maintaining a long-term PFS program.*** This includes government actors, intermediaries, investors, service providers, and evaluators (Callanan, Law & Mendonca, 2012; Kodali, Grossman & Overholser, 2014a; Kodali, Grossman & Overholser, 2014b; Palandijan & Hughes, 2014; Rudd, Nicoletti, Misner & Bonsu, 2013).
- ***PFS arrangements should take into account the range of risks assumed by each key actor involved with a PFS transaction*** (Giantris & Pinakiewicz, 2013; Mason, Lloyd, Andrew & Henry). This includes risks to investors (Rudd, Nicoletti, Misner & Bonsu, 2013) as well as risks to nonprofit service providers (Schaeffer, 2014).
- ***As PFS projects are in their infancy, there is not yet evidence to identify the most effective model types*** (Azemati et al, 2013; Mason, Lloyd, Andrews, Henry, 2014). A variety of models have been conceptualized or implemented, including: a standard PFS model where the intermediary serves as the link between the government and investors/evaluators; an "investor-provider partnership" model with no intermediary (Dermine, 2014); a PFS strategy with full or partial private investor guarantee; a hybrid structure of a Human Capital Performance (HuCap) bond paired with a PFS model with a private guarantee (providers receive working capital up front from private investors at no cost via HuCap bond proceeds) (Giantris & Pinakiewicz, 2013); and a tiered system of SIBs structured around levels of investor risk (Butler, Bloom & Rudd, 2013).
- Impact evaluations are key to determining the effectiveness of PFS models, but they must address logistical and, in some cases, ethical concerns. Impact evaluations can best demonstrate whether a project has achieved cost-savings outcomes for the government, and assess the utility of PFS as a replicable model for future programs (Butler, Bloom & Rudd, 2013; Rudd, Nicoletti, Misner & Bonsu, 2013; Social Impact Investment Task Force, 2014). Randomized controlled trials (RCT) are the gold standard for establishing counterfactuals in a PFS evaluation. However, PFS model implementers also identify the need to overcome logistical and ethical concerns associated with the evaluation of social service provision with innovative RCT designs (Dermine, 2014; Kodali et al., 2014b; NYS Government, CEO & Social Finance, 2014).
- ***To expand commitment to and investment in PFS models, it is necessary to remove and/or adjust federal regulatory barriers.*** These include barriers inhibiting commission of PFS payments, cross-agency collaboration, and private investment. It is also necessary to develop streamlined and supportive PFS financing policy (Azemati et al., 2013; Burrowes & Culley, 2011; Liebman, 2013; Palandijan & Hughes, 2014; Social Impact Investment Task Force, 2014; U.S. National Advisory Board on Impact Investing, 2014).
- ***Standardized processes and implementation resources would help advance the PFS field.*** Examples include standardizing contract terms and definitions, common pricing processes and diagnostic tools, and developing best practices for cost-benefit analyses (Burrowes & Culley, 2011; Callanan, Law & Mendonca, 2012; Palandijan & Hughes, 2014; Roman, Walsh, Bieler & Taxy, 2014; U.S. National Advisory Board on Impact Investing, 2014).

Looking Forward

This report has summarized the current state of a nascent field that is quickly evolving, even as we examine it. Factors that could have a major impact on the PFS field—including legislative infrastructure and the degree of federal and state funding support—are still in flux. With only six PFS projects operating in the U.S. at the time this report was written (all of them in the early stages), it is clear that insights about PFS projects are still emerging; at this point there are suggestive indications, but certainly not universal truths, about the best way to implement such projects or under which conditions they are most effective.

In this context, CNCS's Pay for Success Grant Program will be an important contributor to the discussion about PFS in the U.S. moving forward. The program is well positioned to: further the growth of the PFS field by funding organizations committed to providing technical assistance to new stakeholders; provide critical capacity-building assistance to organizations seeking to engage in PFS transactions; and provide a forum for reflecting on what has been learned in the field so far, and disseminating this knowledge to those in a position to move the field forward. Furthermore, the evaluation of the PFS Grant Program is expected to provide important insights about many aspects of PFS implementation, including:

- The effects of CNCS grant assistance in catalyzing PFS initiatives and bolstering organizations' capacities to sustain them;
- Lessons learned relative to the strengths of the CNCS grant program and challenges encountered in supporting PFS initiatives in diverse programmatic environments;
- Lessons learned relative to the role of government support in advancing the PFS field; and
- Lessons learned relative to the status of the PFS model within the larger policy discussion of service provision.

Among stakeholders in the public, nonprofit and for-profit sectors there is excitement about the potential of PFS to bring the necessary resources to bear in order to to address some of the most pressing social problems today. There are also unanswered questions about PFS' appropriateness and effectiveness in various circumstances, as well as about the larger social implications of this model. As in any new field, it is important to temper excitement with patience, for not all PFS-financed interventions described in this report will prove equally effective, sustainable, or replicable. Nonetheless, among them, some will surely meet expectations and perhaps even exceed them—and to the extent that PFS rewards those who bear the risk of failure, society can only stand to gain.

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Appendix A: Glossary of Key Terms

Key Terms	Definition
Corporation for National and Community Service (CNCS)	Established in 1993, the Corporation for National and Community Service (CNCS) is a federal agency that engages more than 5 million Americans in service through its core programs -- Senior Corps, AmeriCorps, and the Social Innovation Fund -- and leads President Obama's national call to service initiative, United We Serve. As the nation's largest grantmaker for service and volunteering, CNCS plays a critical role in strengthening America's nonprofit sector and addressing our nation's challenges through service. **Other Terms Used:** N/A
Counterfactual	The condition that would result in the absence of a given action or intervention. For example, within randomized controlled trial (RCT) evaluations, use of a control group establishes a counterfactual to estimate what would have happened in the absence of the intervention. **Other Terms Used:** N/A
Evaluator	The independent party responsible for implementing evaluation-related activities (e.g., random assignment), collecting and tracking data, and performing analyses to assess the effectiveness and integrity of a given pay for success intervention in achieving defined objectives/outcomes. **Other Terms Used:** Independent evaluator
Evidenced-based practices	Practices, services, or activities that have been shown to be effective based on data and/or research. **Other Terms Used:** Promising practices
Funder	The entity or entities that provide up-front capital to fund pay for success intervention operations, with the dual objectives of receiving financial and social returns. Funders may include foundations, nonprofits, investment banks, individual investors, and private banks. **Other Terms Used:** Investor
Guarantor	Insurer on the initial investment made by the pay for success funder/investor to guarantee loans to reduce the investment risk. Not all Pay-for-Success transactions include a guarantor. For example, as part of the New York City ABLE Project for Incarcerated Youth, the primary lender for the project, Goldman Sachs, is supported by a financial guarantee from Bloomberg Philanthropies (the guarantor). **Other Terms Used:** N/A
Impact investing	A general term used to describe socially conscious investment of funds to generate both social and financial (for-profit) returns. Social impact bonds and the PFS model are both forms of impact investing. **Other Terms Used:** Social innovation financing, Social impact investing, Socially responsible investing, Social financing, Social enterprise
Intermediary	The entity most often responsible for overall project management/coordination, investor recruitment, and negotiation of contracts among payors, service providers, and investors in PFS projects. Intermediaries are typically responsible for entering into direct contracts with the government funder, liaising with potential investors to secure capital

Key Terms	Definition
	commitments to the transaction, and serving as the primary liaison among key players in the pay for success relationship. **Other Terms Used:** Transaction coordinator, Project coordinator, Government advisor, Placement agent
Intervention	A model or program that offers a discrete set of services to address a specific social issue or challenge, and ideally achieve desired results. **Other Terms Used:** Program model
Outcome-based payments	Payments from the payor to investors proportionate to the outcomes and/or impacts achieved through the intervention. **Other Terms Used:** Performance-based payments
Pay for success (PFS)	Pay for success is an innovative funding strategy that leverages funds from philanthropic and private investors to pay for services provided to a target population by a service provider with demonstrated success. An independent evaluator determines if the service intervention achieves agreed-upon outcomes or benchmarks, which generally include metrics associated with savings to government programs. If and only if the pre-specified outcomes or benchmarks are achieved, the payor (usually a government entity) makes a payment to the investors. **Other Terms Used:** N/A
Payor	The entity that is ultimately responsible for paying investors proportional to the agreed amount based on the level of measureable impact achieved. In the majority of cases, the pay for success payor is a federal, state or local government agency. **Other Terms Used:** Lead organization, Outcome payor, Government payor
Perverse incentives	Outcomes incentivized by the pay for success payment structure that lead to adverse or unintended results. **Other Terms Used:** N/A
Randomized controlled trial (RCT)	An evaluation methodology commonly used to test the effectiveness of social and medical interventions. In its most basic form, a RCT measures the effect of an intervention on two seemingly identical groups—a "treatment" group that receives the intervention and a "control" group that does not receive the intervention. If done correctly the only difference between the groups is the provision of the intervention; therefore, any differences between the two groups can be attributed to that intervention. **Other Terms Used:** Random assignment evaluation, Experimental study
Service provider	The entity that delivers a specific intervention financed by the pay for success transaction, in order to achieve predefined and agreed upon outcomes and/or impacts. **Other Terms Used:** Social service provider
Social impact	The net effect of an intervention/program on individuals and the community at large. **Other Terms Used:** Social value
Social impact bond (SIB)	A pay for success financing mechanism through which private investors provide capital for an evidence-based social program. The principal investment is only returned (and possible additional returns are only distributed) when predetermined performance goals are met. The term social impact bond is often used interchangeably with "pay for success;" however, SIBs are one of multiple mechanisms for PFS financing.

Key Terms	Definition
	Other Terms Used: Pay for success bond, Social benefit bond
Social Innovation Fund (SIF)	The Social Innovation Fund (SIF), a program of the Corporation for National and Community Service (CNCS), combines public and private resources to grow the impact of innovative, community-based solutions that have compelling evidence of improving the lives of people in low-income communities throughout the United States. The SIF invests in three priority areas: economic opportunity, healthy futures, and youth development. **Other Terms Used:** N/A
Validator	The independent entity responsible for reviewing and confirming that the evaluation activities were implemented correctly and that the outcomes and/or impacts of a pay for success intervention were measured according to a predetermined evaluation methodology. **Other Terms Used:** Independent validator

Specific to CNCS SIF Pay-for-Success Grants[9]

Key Terms	Definition
CNCS SIF Pay for Success Grant Program	A grant program funded by CNCS to advance and evaluate emerging models that align payment for social services with verified social outcomes. The PFS competition encourages the implementation of PFS projects in order to enhance the reach and impact of innovative community-based solutions in low-income communities, related to SIF's three primary focus areas of youth development, economic opportunity, and healthy futures.
Grantee	The term Grantee refers to a CNCS SIF PFS Competition grant recipient. There are two types of SIF PFS grantees—technical assistance (TA) providers and transaction structuring providers.
SIF operating model	The model upon which the SIF PFS competition is based, distinguished by the following six key characteristics: • Innovation and evidence: Requires that all proposed interventions be innovative, in addition to advancing the pay for success model which in itself is innovative, based on best practices. • Scale: Funds grantees to help implement and assess programs that get results, while simultaneously growing the impact and reach of effective solutions and service providers leading to deeper or broader impact in communities. • Intermediary grantees: Relies on intermediary grantees with strong skills and track records of success to do the critical work of competitively selecting, validating, and growing high-performing subrecipients. • Match: Requires that each federal dollar granted by SIF be matched 1:1 by non-federal dollars or services. • Knowledge sharing: Requires each grantee to commit to knowledge sharing and other initiatives that advance understanding and more effective models more generally in the social sector.
Subgrantee	For Transaction Structuring applicants, the term Subgrantee refers to the Transaction Coordinators, funded by Grantees, who directly support deal structuring.
Subrecipient	The term Subrecipient refers to any entity receiving services or resources from a Grantee or Subgrantee, such as technical assistance or deal structuring assistance, or grants of goods. Subrecipients will typically be state and local governments and nonprofit organizations.
Technical assistance grant applicants	Grant applicants proposing an approach to increase, strengthen and diversify the range of governments and nonprofit organizations that are prepared to engage in PFS transactions by identifying evidence-based preventive interventions; conducting feasibility studies and preparing for PFS implementation; and analyzing alternate social finance strategies.

[9] Corporation for National and Community Service. (2014). *Announcement of federal funding availability: FY 2014 Social Innovation Fund Pay for Success Grants Competition.* Retrieved from http://www.nationalservice.gov/documents/main-menu/2014/social-innovation-fund-pay-success-grants-competition-nofa

Key Terms	Definition
Transaction structuring grant applicants	Grant applicants proposing an approach to assist governments and nonprofit entities that have identified viable PFS projects to structure and close PFS transactions. In this approach, the grant would ultimately culminate in fully structured PFS transaction agreements and/or analyses of alternative financing structures if a PFS agreement is impossible or determined to be inappropriate. Grantees will provide subgrants to Transaction Coordinators who directly support deal structuring, and provide services to certify high-quality PFS transaction candidates and support knowledge sharing initiatives to benefit the sector and enable future PFS deals.

Appendix B: Annotated Bibliography of Key Pay for Success Documents

Key Source	Overview
Azemati, H., Belinsky, M., Gillette, R., Liebman, J., Sellman, A. & Wyse, A. (2013). Social impact bonds: lessons learned so far. *Community Development Investment Review*, 9(1). Retrieved from http://www.frbsf.org/community-development/files/social-impact-bonds-lessons-learned.pdf	Azemati et al. review lessons learned by the Harvard Kennedy School's Social Impact Bond Technical Assistance Lab following two years of assistance to several state and local governments developing PFS initiatives. The article poses key questions about the future of PFS programs related to model success and sustainability, risk mediation, and government coordination. ***Key Take-Away(s):*** ✓ Select lessons learned include: (1) several different PFS model variations have emerged; (2) potential for large impact is the most important criterion for deciding whether to establish a SIB; (3) most socially beneficial interventions are unable to yield budgetary savings that fully cover program costs; (4) building government capacity requires dedicated staff and expertise; and (5) new structures are necessary to enable government to commit future payments.
Butler, D., Bloom, D. & Rudd, T. (2013) Using social impact bonds to spur innovation, knowledge building and accountability. *Community Development Investment Review*, 9(1). Retrieved from http://www.frbsf.org/community-development/files/social-impact-bonds-spur-innovation-knowledge-building-accountability.pdf	This article—prepared by three employees of MDRC, the intermediary for the New York City Rikers Island Jail PFS project—highlights the benefits and limitations of existing PFS models and recommends a more expansive vision of PFS that promotes innovation. Recommendations for expanding the scope of PFS projects include: (1) establish a tiered system of PFS models where a top level contains the least risky programs with strong evidence of effectiveness and scalability, a middle level contains programs that have limited evidence and may warrant a mix of investors, and a lowest level contains the riskiest programs that most resemble traditional demonstration projects; (2) ensure that high-quality impact evaluation is a priority; and (3) structure PFS models to achieve socially desirable goals other than government budgetary savings (e.g., increasing high school graduation rates, better mental health outcomes for teens, etc.) ***Key Take-Away(s):*** ✓ There are too few proven interventions, and too many difficulties in scaling and replicating them, to minimize the role of innovation and knowledge-building in PFS models.

Key Source	Overview
Callanan, L. & Law, J. (2012). Will social impact bonds work in the United States? *McKinsey on Society*. Retrieved from http://payforsuccess.org/sites/default/files/will_social-impact-bonds_work_in_the_us.pdf	Callanan and Law provide an overview of social impact bonds (SIB), why they could be important in the U.S., and what parties need to be involved for them to work. The article presents an infographic illustrating the "SIB ecosystem" to scale preventive solutions. ***Key Take-Away(s):*** ✓ The SIB is a new tool for scaling solutions to social problems, driven by multistakeholder collaboration, alignment of incentives, and focus on measurable results. ✓ With only one example of a SIB to date, questions remain as to whether SIBs will work, where they could be useful, and how they should be structured.
Callanan, L., Law, J. & Mendonca, L. (2012). *From potential to action: Bringing social impact bonds to the US.* Retrieved from http://mckinseyonsociety.com/downloads/reports/Social-Innovation/McKinsey_Social_Impact_Bonds_Report.pdf	This report explores the benefits and limitations of social impact bonds (SIB) and their potential in the United States. Callanan et al. begin with an overview of the structure of SIBs, then assess their potential in two social policy areas (homelessness and criminal justice), describe the stakeholders involved, and present the results of a pro forma analysis of a hypothetical SIB arrangement. They find that the right conditions are in place to implement SIBs in the United States, provided key barriers are overcome. ***Key Take-Away(s):*** ✓ In order for SIBs to succeed, stakeholders must: implement a well-coordinated communications effort to inform others about the application of SIBs; recognize SIBs as a tool for scaling up social benefits (not the easiest way for direct service providers to fund expansion); and effectively manage SIB programs through cooperation and flexibility. ✓ Crucial to the development of the SIB field are: the creation of standards related to best practices in cost-benefit analysis; scoping new program areas/geographies, diagnostic tools to determine eligibility and capability of various players; and maintaining successful partnerships.
Centre for Social Impact Bonds. (2013). *Case studies- existing SIBs*. Retrieved November 11, 2014, from http://data.gov.uk/sib_knowledge_box/case-studies-existing-sibs	This web page links to case studies of 13 social impact bonds (SIB) operating in the U.S., U.K., Canada, and Australia. The targetted social outcomes of the these projects are reported to be reducing recidivism in the Peterborough and New York City projects, reducing homelessness in the London project, and improving educational attainment in the Utah project.

Key Source	Overview
Cohen, R. (2014). Social impact bonds: Phantom of the nonprofit sector. *Nonprofit Quarterly*. Retrieved from https://nonprofitquarterly.org/policysocial-context/24560-social-impact-bonds-phantom-of-the-nonprofit-sector.html	In this article, Cohen notes the inconsistency between widespread congressional, nonprofit, and academic support for social impact bonds (SIB), and a lack of "proof" of effectiveness of the SIB model due to the prematurity of existing pilot programs. As evidence of widespread support for SIBs, Cohen discusses the recent passing of the Workforce Innovation and Opportunity Act (WIOA) in July 2014, with $300 million committed to pay for success programming. The article additionally provides an overview of SIB programs and legislation by state. ***Key Take-Away(s):*** ✓ Several states have introduced SIB legislation, but have not yet been able to get it passed (e.g., CO, CT, RI). ✓ Few researchers have issued critical commentary of SIB and PFS models.
Corporation for National and Community Service. (2014). *Pay for success: A primer of social innovation*. Retrieved from http://www.nationalservice.gov/sites/default/files/documents/SIF%20-%20A%20Primer%20on%20Pay%20for%20Success_0.pdf	This CNCS primer provides an overview of pay for success (PFS) and where it is happening, discusses PFS grants through the Social Innovation Fund (SIF), and then highlights a series of current key resources on PFS strategies and implementation. These resources include articles by PFS thought leaders and practitioners, as well as news articles. ***Key Take-Away(s):*** ✓ The CNCS PFS Grant Program funded eight grantees in 2014 to advance PFS projects and transactions, and to ultimately enhance community-based solutions to pressing social problems in low-income communities.
Dermine, T. (2014). *Establishing social impact bonds in continental Europe.* Retrieved from http://www.hks.harvard.edu/content/download/70653/1255422/version/1/file/dermine_final.pdf	This article chronicles the year-long process of designing and preparing to launch social impact bond (SIB) pilots in Belgium related to juvenile recidivism and workforce empowerment. The process includes identifying and selecting: salient social issues to address, research-proven interventions, target populations, intervention design and evaluation metrics, the SIB instrument structure, the procurement process, and types of contractual agreements. Key findings and recommendations for public authorities, social entrepreneurs and social investors conclude the report. ***Key Take-Away(s):*** ✓ Dermine recommends use of an "Investor-Provider Partnership" SIB structure in Belgium, where service providers enter directly into a contractual agreement with the government, demonstrating prior commitment of a private investor. ✓ Practical tips for presenting the concept of SIBs to government, nonprofit, and private actors, respectively, include: (1) describe SIBs as "insurance on the success of social programs" to avoid ideological reactions from public stakeholders; (2) position SIBs as "seed capital for social innovation" to influence a broad shift in public funding; and (3) private funding of SIBs is not the same barrier in European welfare states as it is in the U.S. due to a broader range of potential investors.

Key Source	Overview
Disley, E., Rubin, J., Scraggs, E., Burrowes, N. & Culley, D.M. (2011). *Lessons learned from the planning and early implementation of the social impact bond at HMP Peterborough.* Retrieved from http://www.rand.org/content/dam/rand/pubs/technical_reports/2011/RAND_TR1166.pdf	This detailed report identifies early lessons learned from the development and implementation of the social impact bond (SIB) at Peterborough Prison in England. The authors conducted interviews with 22 key informants who were involved with the SIB program, related to: barriers and facilitators to contractual relationships, investments, risk tranfser, delivery agencies or intermediaries, commissioning, outcome measures, and payment models. The report concludes with a series of recommendations, lessons, and conclusions, and offers potential lessons learned for future SIBs. ***Key Take-Away(s):*** ✓ Potential lessons learned for the wider roll-out of SIBs include the need for: (1) intermediaries with technical skill in negotiating contracts, financial expertise, knowledge of relevant policy areas, and relationship-building skills; (2) standard contract terminology and definitions for SIBs; (3) prior analysis of investment markets to identify likely funders and their motivations/ interests; (4) mechanisms to facilitate cross-agency commitment to outcome payments; (5) building relationships with local organizations to secure buy-in for SIBs; and (6) fostering investor confidence through commissioned evaluations of program work.
Giantris, K. & Pinakiewicz, B. (2013). Pay for success - Understanding risk trade-offs. *Community Development Investment Review*, 9(1). Retrieved from http://www.frbsf.org/community-development/files/pay-for-success-understanding-risk-trade-offs.pdf	This article discusses various risks faced by three key parties that must collaborate in a successful pay for success (PFS) relationship—government, investors, and service providers. Four probable PFS financing structures are described, each with varying levels of risk by involved party; these include social impact bonds (SIB), SIBs with full or partial private guarantee, human capital performance (HUCAP) bonds, and a hybrid structure of HUCAP bonds and SIBs with private guarantee. ***Key Take-Away(s):*** ✓ SIBs with a full private enterprise guarantee represent the PFS financing structure with the lowest combined risk trade-off position for government, providers, and investors for a proof-of-concept pilot.
Gilbert, K. (2012). *The latest in socially conscious investing: Human capital performance bonds.* Retrieved from http://www.institutionalinvestor.com/Article/2958534/The-Latest-in-Socially-Conscious-Investing-Human-Capital-Performance-Bonds.html	Gilbert focuses on the application of a Human Capital Performance Bond (HuCap) to a proven-effective program in Minnesota, called *Twin Cities RISE!* The article additionally discusses the wider pay for success program landscape, including social impact bonds (SIB) in the U.K. and U.S. ***Key Take-Away(s):*** ✓ Institutional investors should track the increasing development and success of social investment products, including HuCaps and SIBs.

Key Source	Overview
INET Human Capital and Economic Opportunity Working Group & ReadyNation. (2013). *Applying "pay for success" social impact finance to early childhood education in Salt Lake City* [PowerPoint slides]. Retrieved from http://www.readynation.org/uploads//20140306_HCEORNUtahPFSOverview131205.pptx	This presentation discusses the *Utah Preschool Project*—the first U.S. "results-based financing" initiative for early childhood education. This pay for success model expands high quality pre-K schooling to reduce special-education assignment rates and associated costs. ***Key Take-Away(s):*** ✓ Initial research shows that quality pre-K education in Granite City Public School may reduce potential special-education assignment rates of at-risk children from around 30% to less than 3%.
Kohli, J., Besharov, D.J. & Costa, K. (2012a). *Fact sheet: Social impact bonds – A brief introduction to a new financing tool for social programs.* Retrieved from http://cdn.americanprogress.org/wp-content/uploads/issues/2012/04/pdf/sib_fact_sheet.pdf	This two page fact sheet defines social impact bonds (SIB) and the advantages they offer, outlines where they will be useful, and provides a brief overview of the Petersborough Prison SIB model. ***Key Take-Away(s):*** ✓ Kohli et al. anticipate that SIB opportunities that appear likely to save money, produce measurable outcomes in a short time span, and are proven-effective social interventions will be most likely to succeed.
Kohli, J., Besharov, D.J. & Costa, K. (2012b). *Social impact bonds 101- Defining an innovative new financing tool for social programs.* Retrieved from http://cdn.americanprogress.org/wp-content/uploads/issues/2012/03/pdf/sib101.pdf	This brief article defines social impact bonds (SIB) and discusses where they will be useful, their advantages, and challenging aspects for government actors. ***Key Take-Away(s):*** ✓ Government faces a variety of challenges related to SIBs, including: difficulty defining a measurable outcome and its worth in potential savings; ceding control to an external organization (intermediary); up front planning for an orderly termination of the SIB agreement if necessary; and an ideal SIB funding structure across multiple agencies and levels of government.

Key Source	Overview
Liebman, J. B. (2011). *Social impact bonds: A promising new financing model to accelerate social innovation and improve government performance.* Retrieved from http://cdn.americanprogress.org/wp-content/uploads/issues/2011/02/pdf/social_impact_bonds.pdf	Liebman discusses the social impact bond (SIB) model, and various barriers and facilitators to its success in promoting government financing of social service programs in the UK. The article identifies next steps to expand and test the SIB model in the U.S. ***Key Take-Away(s):*** ✓ The SIB model facilitates improved performance and lower costs, accelerated adoption of new solutions, and rapid analysis of what works. ✓ The SIB model will only work for interventions that have: sufficiently high net benefits, measurable outcomes, well-defined treatment populations, credible impact assessment approaches, and contingency plans if the model fails. ✓ To spread SIB model to the U.S., it is necessary to: identify and establish local level pilots, identify prime areas where bonds will spur innovation, assess the investor market, develop government/evaluative/private-sector capacity, and seek congressional authority to expand use of long-term performance contracts.
Liebman, J. B. (2013). *Building on recent advances in evidence-based policymaking.* Retrieved from http://www.brookings.edu/~/media/research/files/papers/2013/04/17%20liebman%20evidence%20based%20policy/thp_liebmanf2_413.pdf	In this report, Liebman identifies the need for innovative approaches to better use taxpayer money in addressing critical social problems, and offers strategies for evidence-based policymaking to mitigate this need. These strategies include: (1) subsidizing experimentation to develop new solutions; (2) increasing evidence of what works; (3) making greater use of evidence in budget and management decisions; (4) purposefully targetting improved outcomes for specific populations; and (5) spurring innovation through cross-sector collaboration. Liebman then recommends legislative and administrative actions to help disseminate these practices, and identifies two specific approaches that would apply these five strategies—a federal "ten year challenge" to solve ten problems in ten places in ten years, and pay for success projects in early childhood and other strategic areas. ***Key Take-Away(s):*** ✓ Liebman urges the federal government to establish a pay for success process that subsidizes learning at the state level to overcome underinvestment in childhood learning when individual jurisdictions cannot capture the full value of their discoveries.

Key Source	Overview
Liebman, J. & Sellman, A. (2013). *Social impact bonds: A guide for state and local governments*. Retrieved from http://payforsuccess.org/sites/default/files/social-impact-bonds-a-guide-for-state-and-local-governments1.pdf	This report provides an overview of the social impact bond (SIB) model and structure, identifies existing SIBs in the U.K. and U.S., and offers a "Step-by-Step SIB Development Process." Steps in the development process include: (1) determining whether SIBs are a good fit for your organization; (2) selecting a suitable policy; (3) navigating the development process; (4) putting all the pieces together; (5) implementing and monitoring; and (6) wrapping up. ***Key Take-Away(s):*** ✓ In determining whether to pursue a SIB, organizations should determine whether their proposed program falls within a priority policy area for the government, whether there is strong agency leadership, if there is potential for high net benefits, and whether the intervention is technically feasible (e.g., measurable outcomes, well-defined treatment population, etc.).
Mason, P., Lloyd, R., Andrews, M. & Henry, N. (2014). *Learning from the development and commissioning of the London Homelessness SIB*. Retrieved from http://data.gov.uk/sib_knowledge_box/sites/default/files/140818%20ICF%20Learning%20from%20the%20%20London%20Homelessness%20SIB%20Summary%20Report%20FINAL%20July%2014.pdf	This report focuses on lessons learned from the development, design, and commissioning of the London Homelessness Social Impact Bond (SIB). Mason et al. first overview the potential benefits and critiques of SIBs, then outline the identification, bidding, and selection processes of two funded program models. The report concludes with a series of key findings and lessons learned about commisioning SIBs and the SIB investment landscape. ***Key Take-Away(s):*** ✓ A single procurement process for the London Homelessness SIB resulted in two different SIB administration models—one administered by an intermediary organization, and the other through three providers (no intermediary). ✓ Lessons learned include: (1) the importance of detailed data analysis and wide-ranging stakeholder engagement to developing a "payment by results" (pay for success) contract; (2) a competitive request for proposal process helps build a credible pool of providers and helps build commissioner confidence in the viability of the PFS model; (3) in order to address investor concerns, commissioning structures could allow for the awarding of contracts "in principle" to preferred bidders followed by a defined period for negotiation among PFS entities; (4) investors prefer to see sharing of risk across key parties (including providers and commissioners); and (5) a longer or more flexible timescale would allow more time for due diligence and provider engagement.

Key Source	Overview
Merrill Lynch & Social Finance. (2014). *Pay-for-Success (PFS) financing*. Retrieved from http://socialfinanceus.org/sites/socialfinanceus.org/files/BAML%20SF_PFS%20Playbook.pdf	This resource provides an overview of the pay for success (PFS) financing model, requirements for a successful PFS project, key parties involved, and critical tasks to successful project execution. Main tasks, tips for success, and resources are identified for the key parties involved in a PFS project—intermediaries, grant makers, technical assistance providers, placement agents, government/payor(s), service providers, and evaluators, legal counsel, investors, and validators. ***Key Take-Away(s):*** ✓ PFS projects typically involve a number of critical players who perform important and overlapping roles.
New York State Government, Center for Employment Opportunities (CEO), & Social Finance. (2014). Investing in what works: "Pay for success" in New York state - increasing employment and public safety. Retrieved from https://www.budget.ny.gov/contract/ICPFS/PFSProjectSummary_0314.pdf	This article provides an overview of the first state-led pay for success (PFS) social impact bond (SIB) in the U.S.—the Work for Success initiative—to reduce recidivism in New York State (NYS). The authors discuss the NYS PFS model and intervention, program budget, process for randomizing and enrolling program individuals, outcomes metrics and measurements, evaluation design, and performance-based payments process. A variety of appendices additionally show roles and responsibilities, a project timeline, participant eligibility criteria, technical evaluation design, outcome pricing methodology, and hypothetical performance-based payments. ***Key Take-Away(s):*** ✓ NYS SIB program performance-based payments are based on three outcomes: recidivism (bed days in prison), employment, and engagement in transitional jobs.
Nonprofit Finance Fund & White House Office of Social Innovation and Civic Participation. (2012). Pay for Success: Investing in what works. Retrieved from http://payforsuccess.org/sites/default/files/pay_for_success_report_2012.pdf	This report presents a summary of conclusions from a 2011 convening of cross-sector stakeholders to assess the potential of pay for success (PFS) and opportunities to pursue U.S.-based projects. The report begins with background detail on PFS financing, then discusses lessons learned about support for PFS projects, opportunities for future progress, and helpful resources. ***Key Take-Away(s):*** ✓ Key themes from the 2011 convening included: the Obama Administration's commitment to PFS pilot funding; strong interest in PFS pilots in criminal justice, homelessness, and education; and desire for a PFS "Community of Practice" to support state/local governments.

Key Source	Overview
Kodali, S., Grossman, G., & Overholser, G. (2014a). The Massachusetts juvenile justice PFS initiative: Project brief. Retrieved from http://www.thirdsectorcap.org/wp-content/uploads/2014/06/TSCP_MAJJ-PFS-Project-Brief.pdf	This project brief details the mechanics and structure of the Massachusetts Juvenile Justice Pay for Success program in its first year of implementation. Highlighted within the brief are key program innovations and insights related to finance and repayment structure, evaluation design, and governance structure that can be replicated for future PFS projects. ***Key Take-Away(s):*** ✓ Key financing and repayment innovations include: 100% at-risk principals for all lenders; diverse funding base; recyclable grants; financial stake in project by service provider; threshold for initiation of government payouts; and a smooth payout schedule for each day incarceration is avoided. ✓ A successful PFS project rests on government participation and commitment (e.g., long term financial commitment, referrals of intervention participants from juvenile justice system, data sharing, etc.).
Kodali, S., Grossman, G., & Overholser, G. (2014b). *The Massachusetts juvenile justice PFS initiative: Lessons learned.* http://www.thirdsectorcap.org/wp-content/uploads/2014/06/TSCP_MAJJ-PFS-Lessons-Learned.pdf	This report delineates five major lessons drawn from the Massachusetts Juvenile Justice Pay for Success program in its first year of implementation. Major lessons include: (1) the intermediary must play an active project manager role as part of a collaborative, multiparty contract rather than the sole negotiator of a "privatized" contract with the state; (2) mechanisms should be put in place to accelerate the pace of negotiations (e.g., staff person authorized to make decisions, forced deadlines); (3) all parties must be committed to the pay for success model; (4) need for funding tool to remediate funding gap prior to program launch (e.g., upfront partial funding); and (5) early PFS projects should consciously set examples for future programs. ***Key Take-Away(s):*** ✓ The authors identify the following project parameters and structures as replicable: (a) use of philanthropic grants as first-loss capital, rather than to guarantee repayment of principal loans; (b) financial innovations including a success payment schedule, recyclable grants, and a default remedy agreement; (c) "open source" project contracting to guide future PFS programs; and (d) use of a randomized control trial evaluation approach.

Key Source	Overview
Palandijan, T. & Hughes, J. (2014). A strong field framework for SIBs. *Stanford Social Innovation Review Blog* (July 2). Retrieved from http://www.ssireview.org/blog/entry/a_strong_field_framework_for_sibs	This article assesses the strengths and weaknesses of the social impact bond (SIB) landscape and its stakeholders using a "stong field framework" involving five components—shared identity, standards of practice, knowledge base, leadership and grassroots support, and funding and supporting policy. Based upon these analyses, Palandijan and Hughes offer a series of recommendations to strengthen the SIB sector. ***Key Take-Away(s):*** ✓ The U.S. SIB sector still lacks vital components of a "strong field." ✓ Key factors to strengthening the SIB field include: supportive public policy (e.g., enabling legislation), shared identity and standards of practice, and sustainable leadership and support.
Roman, J.K., Walsh, K.A., Bieler, S. & Taxy, S. (2014). *Five steps to pay for success: Implementing pay for success projects in the juvenile and criminal justice systems.* Retrieved from http://www.urban.org/UploadedPDF/413148-Five-Steps-to-Pay-for-Success.pdf	This article begins with an overview of pay for success (PFS), early model development (e.g., SIBs), the federal and state legislative context, and PFS prevalence and early adopters. The article then explores a step-by-step process for implementing PFS strategies, including: (1) strategic planning; (2) valuing the PFS product, assessing risk, and setting performance targets; (3) identifying key players and developing a PFS transaction; (4) developing a logic model; (5) delivering services; and (6) evaluating the program. The article concludes with a summary of advantages and risks of PFS models, and next steps. ***Key Take-Away(s):*** ✓ PFS advantages include: risk transference to private investors, accountability for results, community-based infrastructure building, and flexibility of financial structure. ✓ PFS risks include: private investor preference to focus on low-risk, low-reward populations, to obtain the most cashable benefits; reallocation of existing Community Reinvestment Act funds to PFS, rather than increasing net investment in social services; and incentive for service providers to stop developing new programs and concentrate on existing programs with a strong evidence base. ✓ Next steps include: developing instruments that standardize the PFS pricing process; and solidifying the role of research in selecting PFS projects.

Key Source	Overview
Rudd, T., Nicoletti, E., Misner, K. & Bonsu, J. (2013). *Financing promising evidence-based programs: Early lessons learned from the New York City social impact bond*. Retrieved from http://www.mdrc.org/sites/default/files/Financing_Promising_Evidence-Based_Programs_ES.pdf	Rudd et al. provide an overview of the first operational social impact bond (SIB) in the U.S. and the project financed by it to reduce recidivism among adolescents ages 16 to 18 incarcerated in Rikers Island Jail. The report provides background on the SIB model and its application in New York City and outlines preliminary lessons for the negotiation, implementation, and structuring of future SIB deals. ***Key Take-Away(s):*** ✓ The SIB implementation process benefits from: strong partnerships, evidence-based and scalable interventions, and intervention pilot-testing at full scale. ✓ SIB arrangements will be more attractive to private investors if: the potential for sharp drop-offs in repayment is eliminated; early performance indicators are made available; transaction costs are decreased (e.g., financing of set-up, evaluation, intermediary costs); and interventions are backed by rigorous evidence.
Schaeffer, S. (2014). Assessing nonprofit risk in PFS deals: A framework to guide nonprofits in effectively assessing risk and opportunity in pay for success contracts. *Stanford Social innovation Review Blog* (July 31). Retrieved from http://www.ssireview.org/blog/entry/assessing_nonprofit_risk_in_pfs_deals	In this article, Schaeffer—an employee of the Center for Employment Opportunities (CEO), the service provider in the New York State Pay for Success (PFS) program—proposes a matrix consisting of 12 "deal components" to help nonprofits assess the risks of closing PFS deals and operationalizing projects. Schaeffer demonstrates the application of the matrix to the NYS PFS model in determining the levels of risk feasible for CEO to take on relative to different PFS "deal components," including capital source, investment stake, and number of government payors. ***Key Take-Away(s):*** ✓ Schaeffer's proposed matrix can be built upon to develop a standardized tool for nonprofits to assess the risks and rewards of PFS ventures.
Social Finance. (2014). *State and local activity Snapshot.* Retrieved from http://www.socialfinanceus.org/social-impact-financing/social-impact-bonds/history-sib-market/united-states	This Social Finance Web-article highlights federal, state, and local social impact bond initiatives across the U.S. ***Key Take-Away(s):*** ✓ Social impact bond pilot programs are currently in preliminary phases of development (requests for proposals released) or underway in CA, CO, CT, IL, MA, MI, NJ, NY, OH, SC, UT, and Washington, DC.

Key Source	Overview
Social Impact Investment Task Force (2014). *Impact investment: The invisible heart of markets*. Retrieved from http://www.socialimpactinvestment.org/reports/Impact%20Investment%20Report%20FINAL[3].pdf	This report presents a summary of key findings and recommendations by the Social Impact Investment Task Force related to the main barriers to the global spread of impact investment. The report offers a broad overview of the global social impact investment "ecosystem", as well as in-depth reviews of opportunities for entrepreneurialism, barriers to the flow of capital into impact investments, impact measurement trends, and impact investment in developing countries. The Task Force offers eight high-level recommendations, in addition to a series of subrecommendations to overcome identified barriers. ***Key Take-Away(s):*** ✓ High level recommendations encourage: (1) measurable impact goals and achievement tracking; (2) investor consideration of risk, return, and impact; (3) fiduciary responsibilities of trustees; (4) streamlined pay for success arrangements by government actors; (5) impact investment wholesalers; (6) social sector organization capacity building; (7) legal forms/provisions to secure social mission status; and (8) impact investment in international development.
Third Sector Capital Partners Inc. & Rockefeller Foundation. (2013). *Social innovation financing: Case study - Preparing for a pay for success opportunity*. Retrieved from http://www.thirdsectorcap.org/wp-content/uploads/2013/04/Third-Sector_Roca_Preparing-for-Pay-for-Success-in-MA1.pdf	This case study details the successful candidacy of a Massachusetts-based service provider (*Roca*, a nonprofit that helps high-risk individuals break the cycle of perpetual incarceration) and intermediary (*Third Sector*, a nonprofit financial advisory firm) for a state-funded pay for success and social impact bond (PFS/SIB) opportunity. Roca/Third Sector highlight eight criteria essential to their successful application and proposed program, including: commitment of government leadership; well-defined and measurable target populations; proven outcomes from administrative data; an intervention that is likely to work; proven service provider prepared to scale with quality; and cost effective programming that results in fiscal savings for government. ***Key Take-Away(s):*** ✓ Critical success factors included Roca's: existing dedication to performance-based management and outcomes, demonstrated experience in replicating their intervention model, commitment to understanding the PFS opportunity, use of PFS methodology to change the organization's revenue model, and commitment to the target population. ✓ The PFS program aims to prevent recidivism among 900 high-risk youth recently released from the juvenile justice system, over a 6-year period. For each program participant that avoids recidivism for 48 continuous months (foregone incarceration), the state of Massachusetts will provide $50,000 in PFS payments.

Key Source	Overview
U.S. National Advisory Board on Impact Investing. (2014). *Private capital public good: How smart federal policy can galvanize impact investing - and why it's urgent*. Retrieved from http://static.squarespace.com/static/539e71d9e4b0ccf778116f69/t/53aa1681e4b04a6c515fac31/1403655809489/Private_Capital_Public_Good.pdf	This report lays out the social impact investing landscape and offers a framework for federal policy to unlock its growth. Key strategies include: (1) removing regulatory barriers to unlock more private impact investment; (2) increasing the effectiveness of government programs; and (3) providing incentives for new private impact investment. The report additionally advocates for further support of innovative impact-oriented organizations and opportunities, and standardized metrics and improved data access. ***Key Take-Away(s):*** ✓ The federal government should revise rules that currently inhibit the flow of new capital toward social impact investments, and promote impact-oriented entrepreneurs and an efficient marketplace of data-driven investors.
Von Glahn, D. & Whistler, D. (2011). Pay for success programs: An introduction. *Policy & Practice,* June 2011. Retrieved from http://www.thirdsectorcap.org/wp-content/uploads/2012/07/Pay-for-Success-Programs-June-2011-PP.pdf	This brief article reviews the concept of PFS, then discusses their functionality, key players, their value to state and local government, and key success factors to functional PFS arrangements. ***Key Take-Away(s):*** ✓ Implementing PFS models require: (1) government engagement and planning; (2) a focus on program initiatives that meet specific parameters; (3) use of performance-based, multi-year contingency contracting; (4) robust evaluation process and procedures; and (5) making a "concrete" case for the program; and (6) commitment and perseverance.
Wallace, Nicole. (2014). With a few Pay-for-Success plans under way, the idea is gaining currency and criticism. *Chronicle of Philosophy* (July 13). Retrieved from http://payforsuccess.org/sites/default/files/philanthropy.com-with_a_few_payforsuccess_plans_under_way_the_idea_is_gaining_currency_and_criticism__news__the_chroni.pdf	This brief article discusses the enthusiasm and controversy over pay for success in the U.S. Following an overview of the PFS landscape, Wallace reports mixed feelings over the New York City PFS project program, then presents various barriers to and potential dangers of the proliferation of PFS and state efforts to overcome them. ***Key Take-Away(s):*** ✓ Potential hurdles to widespread dissemination of PFS include: lack of legislation facilitating multiyear, conditional contracts; time-consuming nature of the PFS negotiation process; and high costs of development and implementation. ✓ A feasibility study by the Maryland Department of Legislative Services concluded that costs for independent evaluation and return to investors for a successful PFS would exceed cost savings to the state, even if the program was highly successful.

Appendix C: Summary of Legislative Actions at the State Level

- In California, Assembly Bill 1837 was approved by Social Innovation Financing Program in September 2014.
- The Colorado legislature considered a bill to establish PFS contracts for early childhood education, but the bill was delayed in the Senate.
- Connecticut reintroduced a 2013 bill that includes language to establish a limited social impact bond focused on adult recidivism; as of April 2014, the bill has been tabled by the Senate but was given a favorable report overall.
- Hawaii may be on the precipice of PFS legislation after the state's Department of Budget and Finance presented a report about the feasibility of a social impact bond (SIB) related to early childhood education that recommended watching existing programs for feasibility.
- Maryland proposed House Bill 517 in January 2013 to require the State Board of Education to issue requests for proposals for SIBS; the bill was assigned to Ways and Means where it received an unfavorable report and was withdrawn.
- Massachusetts gave the Secretary of Administration and Finance the authority to enter into up to $50 million in PFS contracts backed by full faith and credit of the Commonwealth. This bill established a sinking fund and requires the Secretary to request appropriations in each year equal to the maximum performance payments that may ultimately be needed based on the services delivered in that year in order to ensure funds are available when performance payments are due.
- New Jersey introduced Assembly Bill 3289 in 2012 to establish a PFS pilot program, but the bill was not acted on by the Governor as of January 2014 and thus died.
- In New York, the Governor's 2014-2015 budget raised allocation for PFS.
- In Pennsylvania, PFS legislation was introduced in 2013 but has not yet been passed.
- Rhode Island introduced a bill to authorize a SIB that was stalled in the Senate over concern that state services would become privatized by large Wall Street firms.
- In 2014, Utah established H.B. 96—the Utah School Readiness Initiative—which commits to PFS programs targeting early childhood education, and gives the School Readiness Board in the Governor's Office of Management and Budget the authority to negotiate PFS contracts and ongoing appropriation of $3 million. The bill was signed on April 1, 2014.
- Members of the Washington State House of Representatives introduced H.B. 2337 on January 27, 2014, which proposed to establish a steering committee to pilot a PFS project in the state, with the intention that the project would be implemented by January 1, 2016. The bill passed through the first House Committee on Early Learning and Human Services, but was sent to Appropriations on February 3, 2014, where it remains.

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