# State of the Pay for Success Field II:

## Emerging Literature, Updates, and Tools

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Corporation for National & Community Service

Social Innovation Fund

The mission of the Corporation for National and Community Service is to improve lives, strengthen communities, and foster civic engagement through service and volunteering. Each year, CNCS provides opportunities for more than two million Americans of all ages and backgrounds to serve their communities and country through AmeriCorps, Senior Corps, the Social Innovation Fund, and the Volunteer Generation Fund.

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[1]

Pay for Success (PFS) is an innovative contracting model that ties funding for an intervention to the achievement of outcomes or impacts in the community. PFS offers a way to deliver better outcomes, enabling government or other payors (for example, school districts or hospitals) to pay only for outcomes achieved – that is, to pay only for what works. PFS contracts [2] are often used with PFS financing, which catalyzes philanthropic and private sector investments to bridge gaps in the timing of service provision and government payments for services. Since the first domestic project involving PFS financing[3] was launched in 2012, interest in and utilization of the PFS model has grown significantly. In the past year alone, dozens of articles and reports were published on the topic of PFS, two new PFS deals were signed, and numerous other projects are being explored.

The Corporation for National and Community Service (CNCS) has been a key contributor to the growth of PFS. In 2010, CNCS launched the Social Innovation Fund (SIF) program (now called "SIF Classic"), 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. Recent evaluation results of the SIF Classic program have validated the model's promise (CNCS, 2015a). In 2014, the SIF launched a new initiative to support the expansion of PFS. The initiative, known as the SIF PFS program, funded eight grantees in its inaugural year to provide technical assistance to state or local governments or nonprofit organizations to assess PFS feasibility and build capacity to develop projects involving PFS financing (i.e., Feasibility Assessment/Capacity Building Grantees), or to implement deal structuring activities for PFS initiatives (i.e., Transaction Structuring Grantees) in CNCS's three focus areas. 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.[4]

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

This document serves as an update to CNCS' April 2015 publication, *Social Innovation Fund: State of the Pay for Success Field,* and offers a snapshot of the 2015 PFS landscape including themes within recent literature, PFS-related tools and resources, and new PFS projects implemented since the last report. The report content is fully based on publicly available sources of information.

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1 This report was developed by Abt Associates under contract to CNCS as a component of the second year of the CNCS Process Evaluation of the SIF PFS program.

2 Please note that the term "contract" is used loosely in this document and in the Pay for Success contexts more generally. Contracts at the federal, state and local government levels are subject to applicable procurement laws and regulations.

3 The term "social impact bond" is sometimes used to refer to PFS financing.

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

## Purpose and Organization of Document

The purpose of this document is to describe recent developments in the PFS field. This includes:

- Updates on recent PFS literature that has emerged since the publication of the *State of the Pay for Success Field* report in April 2015;
- A brief summary of newly implemented PFS projects (since April 2015) and updates on projects profiled in the *State of the Pay for Success Field* report;
- An inventory of publicly available PFS tools that service providers, governments, and intermediaries can use as they strategize, implement, and evaluate PFS projects; and
- A summary of federal, state, and philanthropic support driving recent PFS project construction and implementation in the United States.

This report consists of five main sections and two appendices. Following this Section I overview, Section II reviews recent published literature on PFS and how it fits within the existing body of knowledge on PFS. Section III then provides updates on existing PFS projects in the United States (initially summarized in CNCS's 2015 *State of the Pay for Success Field* report), summaries of two new PFS projects that signed contracts in 2015, and a brief overview of additional PFS projects nearing deal completion. Section IV outlines the landscape of political and financial interest in PFS financing and project implementation. Section V then presents an inventory of publicly available PFS tools, such as feasibility assessment worksheets for service providers and government actors, and databases of unit costs for intermediary use in setting outcome repayment benchmarks. The report concludes with two appendices. *Appendix A* contains a detailed glossary of PFS-related terms and associated organizations referenced throughout this document; *Appendix B* includes a short review of newly published key documents in the PFS field that focus on PFS concepts, components, and projects, which is intended as a starting point for those interested in further reading on the topic.

# II. Themes from Recent Literature

As interest in PFS and the number of active projects continues to grow, there is a distinct shift in the focus of much of the recent PFS literature. Whereas PFS literature developed between 2010 and early 2014 largely focused on the concept and drivers of PFS, its potential to scale up proven interventions, and associated risks and financial incentives (Tan et al., 2015), the literature from late 2014 through 2015 focuses more on lessons learned from early applications of PFS projects. Many articles published in the last year concentrate on the minutiae of current and in-process deals—e.g., key players in existing deals, components of successful transactions, and drivers of preliminary successes and failures—and implications of existing activity for the future of the PFS field (see Section III for more detail about current PFS projects and others nearing implementation).

This section of the report highlights four key themes that characterize the focus and content of this emerging body of applied PFS literature: (1) focus on outcomes and targeted feasibility assessment; (2) evaluation of interventions within PFS projects; (3) endorsements and critiques of the PFS model; and (4) the future of PFS. Areas of consensus from the recent literature related to each of these themes continue to advance and provide nuance about the PFS landscape. These include:

- Healthcare and housing mobility are prime areas for PFS expansion.
- Determining appropriate outcomes for PFS projects that are both meaningful and measurable is a complex process.
- Effective PFS evaluation designs are important, but the degree of rigor (and associated cost) should take into account the requirements of outcome funders.
- Technical assistance to help interested parties design effective evaluations for PFS projects will help address a lack of evidence of successful evaluation practice within the field of social finance.
- Key benefits of applying the PFS model include increased cross-sector collaboration, encouraged innovation within the service delivery sector, increased service delivery capacity, and enhanced potential for long-term improvement of provider data.
- PFS arrangements present risks of prioritizing financial return over long-term improvement in social service delivery.
- Increased transparency and knowledge sharing in the field are important prerequisites for continued growth and expansion of PFS.
- Careful definition of "success" and impact seeking, not return seeking, will spur the growth of the PFS model.
- Proliferation of the PFS financing mechanism has inspired innovative models of impact investing.

The analysis presented in this section was informed by the identification and review of 30 PFS-related resources published and/or released between June 1, 2014 and December 10, 2015. Resources were identified using a series of standard search terms, including "pay for success," "social impact bond," and "social benefit bond," through Google, Google Scholar, and PFS content aggregators (e.g., Nonprofit Finance Fund's Pay for Success Learning Hub, Utah Policy Innovation Lab's Knowledge Portal). Search results were then narrowed to include only those reports, articles, and other resources (e.g., podcasts) with a primary focus on PFS and/or closely related social financing mechanisms. The search identified 20 reports, 4 articles from online periodicals or peer-reviewed journal articles, 1 fact sheet, 1 presentation, and 1 podcast. In addition, 3 news articles/press releases reporting results of current PFS projects are referenced to capture recent project updates. Among the identified reports, the majority (18) were produced by nonprofit research/policy organizations or public agencies interested in the growth of social financing and investment, while the remainder (2)

presented project-specific experiences of entities involved in current PFS projects. All content in this section is based on publicly available sources of information.

Summaries of identified resources as well as key take-away points can be found in Appendix B.

## Focus on Outcomes and Targeted Feasibility Assessment

The first broad category of PFS literature published between June 2014 and December 2015 focused on: (1) assessment and outcomes of existing PFS projects, and (2) PFS feasibility in specific social service areas.

### *Assessment and Outcomes of Existing PFS Projects*

Approximately one third (11) of recent PFS-related publications analyze trends among active PFS projects or present final and/or intermediate outcomes. Literature that scans the current PFS landscape frequently presents characteristics of existing PFS projects and case studies, and successes and challenges that emerged. For example, Gustafsson-Wright, Gardiner, and Putcha (2015) present detailed characteristics of each of 38 PFS projects currently active worldwide, including upfront capital commitment, presence or absence of a technical assistance provider, outcome evaluation method, and maximum return value. In addition, the past year witnessed the release of the first formal PFS outcomes measurement reports, related to the Peterborough Social Impact Bond (SIB)[5] and New York City (NYC) PFS project (Jolliffe & Hedderman, 2014; Vera Institute, 2015).

Key articles that fall within this sub-topic span the following PFS projects (or groups of projects) and settings. Additional details related to U.S.-based projects completed or near completion can be found in Section III:

- Peterborough SIB (Disley & Rubin, 2014; Jolliffe & Hedderman, 2014)
- New York (NY) State PFS project (Bradley, Dudding & Wenner, 2015)
- New York City (NYC) PFS project (Vera Institute, 2015; MDRC, 2015)
- Salt Lake City, Utah PFS project (Popper, 2015; UWSL, 2015)
- Summary/analysis of US-based PFS projects (Shiffman, 2015)
- Summary/analysis of 38 PFS projects worldwide (Gustafsson-Wright et al., 2015)
- Summary/analysis of 10 PFS projects in the US and abroad reflecting diverse policy areas and stages of implementation (Government Accountability Office (GAO), 2015)
- Summary/analysis of nine PFS projects implemented through seed funding from the UK Social Enterprise Investment Fund in 2013 (Tan et al., 2015)

[5] Note that the term "Pay for Success" is sometimes used interchangeably with "Social Impact Bonds" (SIB) in PFS literature. However, PFS refers to the procurement of social services or environmental interventions where payment is released only on the basis of outcomes, while SIBs are a financing mechanism. It is important to recognize that PFS projects are not limited to SIB financing models. One alternative form of PFS financing is the Development Impact Bond (DIB), where some or all outcomes payments are provided by an external funder, such as a development agency, in partnership with a developing country government (Center for Global Development & Social Finance, 2013). As the PFS field matures, it is likely that variants in existing models and completely new models of PFS financing will emerge.

*PFS Feasibility in Specific Social Service Areas*

To date, active PFS projects across the globe have primarily focused on four key areas of social service—education, employment, criminal justice, and social welfare (Gustafsson-Wright et al., 2015). Within each of these areas, different PFS projects have experimented with multiple service delivery approaches, varying based on the target population, local partnerships, service provider preferences, and funding sources. In late 2014 and 2015, a new subset of literature began to emerge, exploring the feasibility of PFS beyond these four main social service areas. The most commonly referenced emerging fields include healthcare and housing. One article additionally explored the potential for philanthropic investment in PFS feasibility studies and projects to improve early childhood outcomes from birth to five years of age (Pritzker, Bradach & Kaufmann, 2015).

***Healthcare.*** A number of recent articles explore the feasibility of applying PFS financing to scale healthcare interventions for underserved populations. For example, Dubno, Dugger, Gordon, Levin & Peterson (2014) explore the feasibility of implementing a PFS project to improve the health of Virginia youth through community-based pregnancy care partnerships. They conclude that a PFS project would be beneficial and cost-effective despite a number of challenges to PFS implementation in Virginia, including: insufficient acquisition and sharing of data on individual child outcomes; delays between the intervention investment and the financial return; the conflicting priorities of the multiple governments with jurisdiction; and resistance to paying PFS investors from public funds. Galloway (2015) suggests a number of additional areas of healthcare service provision where the PFS model could be applied, including childhood obesity, Hepatitis C transmission, and poor health from chronic homelessness. Others recommend that PFS be considered to scale service provision for the elderly and families more broadly (Wilson, Silva & Ricardson, 2015).

***Housing.*** There is ample evidence demonstrating the societal benefits and cost savings of linking vulnerable populations to lasting affordable housing, making housing interventions a prime target for a SIB (Miguel & Abughannam, 2014; Rinzler, Tegeler, Cunningham & Pollack, 2015). The MaRS Centre for Impact Investing and PFS advisory firm Social Finance developed a framework for determining the scenarios in which a SIB would be appropriate for Housing First interventions, an approach to ending homelessness that centers on providing individuals or families experiencing homelessness with housing as quickly as possible, and then providing services as needed (Miguel & Abughannam, 2014). Rinzler et al. (2015) identify both potential benefits and pitfalls of applying a SIB to housing mobility interventions. They caution that PFS may not be the most effective model for improving housing mobility due to the large transaction and evaluation costs, and the potential for reduced support for an intervention if the targets are not met. However, they simultaneously demonstrate the potential for PFS to help foster collaboration across sectors and levels of government that impact housing and health, and to improve the evidence base around the social and financial impacts of specific housing interventions, ultimately encouraging future investment and policy change (Rinzler et al., 2015). In tandem with this increased focus on housing in the PFS literature base, four of the nine PFS projects profiled in Section III provide housing-related interventions, and three of these four projects were implemented in 2015.

## Evaluation of Interventions within Pay for Success Projects

Rigorous and independent evaluation was consistently discussed in the literature as a necessary component of any PFS project. This topic is becoming more relevant as the earliest PFS projects, such as the Peterborough SIB and the NYC PFS project, are in the process of conducting intermediate and final outcomes assessments. Two key areas of focus within the broader discussion of PFS evaluation include defining appropriate outcomes for specific social interventions and effective evaluation design. Each of these sub-topics is described in greater detail below.

### *Defining Appropriate Outcomes*

Determining appropriate outcomes for PFS projects that are both meaningful and measurable is a complex process. Gustafsson-Wright et al. (2015) highlight the challenge of identifying long-term outcomes to predict whether PFS projects altered an individual's life course as intended. Those involved in a PFS project must have the tools to calculate the selected outcomes as well as the systems to accurately and consistently measure them throughout the course of the project and, ideally, beyond it. Outcomes must also be created with the duration of the PFS project in mind; project teams must carefully balance identifying outcomes that can both be tied to tangible cost savings and measured after the end of the intervention. PFS advisory firm Social Finance identifies a number of fundamental questions to consider when defining outcome metrics, and encourages close attention to variables such as the availability and applicability of surrogate outcomes as interim indicators of success, as well as the potential for perverse incentives (Social Finance, 2015). Similarly, the Organisation for Economic Co-operation and Development (2015) explains that outcomes defined by a social intervention should meet a number of standards, including being predefined, measurable, valid, repeatable, and independent.

**Key Questions to Define an Outcome Metric** (Social Finance, 2015):

- What does success look like for the project?
- What objective measures are available?
- Of these measures, which ones are linked to existing data sources that can practically be used?
- Would this be a meaningful assessment in terms of reflecting genuine positive improvements in people's lives?
- If this data does not already exist, could it be captured objectively and without requiring significant additional resources?

Recent discussion around the validity and measurement of outcome targets for the Utah Pre-K PFS project highlights both the complexity and critical importance of establishing appropriate outcomes that clearly demonstrate improved social outcomes for the target population. Following the United Way of Salt Lake's announcement of its initial successes in preventing the need for special education services in kindergarten among at-risk students, concerns have been raised regarding the validity of the outcome selected to measure students' "risk level" for needing special education services and the potential for skewed measurement of the intervention's success (Popper, 2015; UWSL, 2015). (See Section III for more detail on initial findings from the Utah Pre-K PFS project.) Safeguarding against potential criticisms of selected outcomes through careful metrics development at the outset of a PFS project is critical to the advancement and maturation of the field.

### *Evaluation Design*

Several articles were released on the topic of evaluation design specific to PFS interventions in 2015, an area left relatively unaddressed in past literature. Flynn, Young & Barnett (2015) and Wilson et al. (2015) note a general scarcity of evidence of successful evaluation practice within the field of social finance and impact investment, and state the importance of identifying quality evaluation approaches. While a large array of tools and approaches exist to evaluate social finance models and social impact investments, some of the most used tools are metrics and rating-based systems; these mechanisms only satisfy a first step in assessing outcomes and must be used with other evaluation methods for a complete analysis. In the cases of the Peterborough, NYC, and London PFS projects, external evaluators used either propensity score matching (PSM) or other quasi-experimental methodologies to assess outcomes (Flynn et al., 2015). Recent publications also offer initial recommendations for addressing this lack of evidence and helping interested parties design effective evaluations for PFS projects. Wilson et al. (2015) present a checklist of considerations to take into account when designing an evaluation of a social intervention, and suggest evaluations of publicly funded interventions should

be compulsory in order to build the evidence base. Flynn et al. (2015) reinforces the need for evaluation approaches based on theories of change to help gain further insight into causal mechanisms underlying the intervention and to test assumptions made in evaluation design.

**Checklist of Questions for Consideration in Designing Appropriate Evaluations** (Wilson et al., 2015):

- *What aspects to evaluate*: Clarify whether the whole intervention or aspects of it will be evaluated.
- *Who to evaluate*: Assess whether intervention recipients, control groups, or extended populations will be included.
- *When to evaluate*: Expected outcome should be timetabled in advance of the intervention.
- *How to evaluate:* Consider piloting and identifying suitable control groups for control trials; use longitudinal cohort data if long-term returns are expected; incorporate cost benefit analysis, and describe governance and implementation practice.

Alternatively, others explain that rigorous, experimental evaluations are not always necessary to measure impact and determine repayment in the context of a PFS project. While the most rigorous evaluation possible is generally recommended, experimental or quasi-experimental evaluations of PFS projects are not always necessary, depending upon the risk appetite of investors and the requirements of outcome funders (Gustafsson-Wright et al., 2015). PFS advisory firm Social Finance (2015) further indicates that effective PFS evaluation design depends upon a range of considerations, including cost (where more robust measurement is generally associated with higher cost) and the quality of existing evidence available; ultimately, effective evaluation design is dictated by the satisfaction of commissioners, providers, and investors that a measure will robustly record impact.

In 2015, QinetiQ and the University of Leicester released the first official outcomes evaluation report of a PFS project, reporting on the first cohort of offenders who received services through the Peterborough SIB. The report includes a detailed analysis of the evaluators' use of propensity score matching and a thorough description of analytic methods (Jolliffe & Hedderman, 2014). The results showed an 8.39% reduction in reoffending rates within the cohort, which was insufficient to trigger repayment for the first cohort (minimum 10% reduction required). Independent assessors concluded that the evaluation design was sufficiently robust to support a viable reconviction analysis (Jolliffe & Hedderman, 2014).

## Endorsements and Critiques of the PFS Model

As the PFS landscape continues to grow and more projects consider the feasibility of PFS financing, further attention is being paid to the value of the PFS model as a social financing mechanism. Several key benefits cited of applying the PFS model include: funding for prevention programs and potential cost savings; increased cross-sector collaboration between levels of government as well as the private, nonprofit, and public sectors; encouraged innovation within the service delivery sector; and increased potential for long-term improvement of service provider data and service delivery capacity (ACFS, 2015; Bridges Ventures, 2014; Disley & Rubin, 2014; GAO, 2015; Gustafsson-Wright et al., 2015; Rangan & Chase, 2015, Rinzler et al., 2015). These recently cited benefits echo those identified in earlier PFS literature. CNCS's *State of the Pay for Success Field* report (2014) highlighted the model's potential benefits to different stakeholders in a PFS project:

- Governments can test whether new or existing interventions are effective and scalable without drawing upon its own often-constrained budgets until outcomes are achieved;
- Service providers gain access to a steady stream of financing that frees up resources to focus on the organization's mission and building data capacity;
- Investors can create positive social impact and earn a return if outcomes are achieved; and

- People in need can benefit from additional funded services and be better served in the future as services are improved and funding is reallocated to effective models based on the evidence uncovered by PFS projects.

The recent development of PFS is not without controversy, and a number of issues have also emerged in recent literature related to the structure and implementation of the PFS model. A coalition of organizations focused on accountability and transparency of government activity, including In the Public Interest (ITPI) and the American Federation of State, County, and Municipal Employees, suggest there are five key pitfalls of PFS projects, including: (1) higher long-term costs to taxpayers relative to direct government funding of service providers to scale their interventions; (2) undue focus on financing mechanisms that fail to address the root causes of social problems rather than investment in policy change; (3) non-straightforward nature of isolating and measuring impact in the context of a PFS project; (4) compensation to investors for minimal risk taken since PFS service interventions often already have rigorous evidence base; and (5) risk-sharing rather than risk transfer from the government (ITPI et al., 2015).

Other authors echo these concerns about the limited applicability and potential pitfalls of the PFS model. Bradley et al. (2015) and Rangan & Chase (2015) suggest the PFS model may only be appropriate for a narrow cohort of service providers who can effectively deliver and measure their impacts and translate those impacts into monetary benefits. Others critique the model's focus on immediate profit over long-term progress, since private sector investors may place their desire for profit and fiscal return on investment above the interest of a target population, which ultimately may change the values and prioritization of social and health care projects (Rinzler at el., 2015; Tan et al., 2015). Further, Baldini (2015) expresses concerns about the potential for "creaming" the target population to ensure outcomes are met and returns on investment achieved.

These criticisms may or may not prove to be premature. As more PFS projects reach the outcome measurement phase, the field can expect a more nuanced set of endorsements and critiques that stem from PFS project-specific findings and experiences. RAND Europe offers one such set of preliminary assessments based on the second phase of the Peterborough SIB project. They highlight a variety of strengths of Peterborough's model. These included its flexibility, which allowed for course-correction, and its partnership building in the community through strategic linkages. They also highlighted the model's weaknesses, including the difficulties experienced in trying to evaluate the project due to lack of a defined intervention model or theory of change (Disley & Rubin, 2014). A final process evaluation report on the Peterborough SIB project offers an additional set of lessons learned to guide future PFS projects.[6] Despite the Peterborough service intervention's failure to reach the 10% reduction in reoffending rates needed to trigger first cohort repayment, service recipients expressed satisfaction with the support they received, felt the intervention helped prevent situations that commonly lead to re-offending, and emphasized that the intervention represents an improvement over prior post-release support (Disley, Giacomantonio, Kruithof and Sim, 2015). Reports of the benefits of PFS programming despite a project's failure to reach outcomes benchmarks are echoed in discussions of the NYC PFS project (see Section III).

## The Future of PFS

Uptake of PFS has expanded across the U.S. and abroad in the past year, and the PFS model itself continues to evolve. This proliferation of the PFS financing mechanism has inspired innovative models of impact investing. For example, in 2015 the city of Richmond, CA implemented a bond-financed project focused on revitalizing and reselling abandoned

[6] Findings from the final process evaluation report for the Peterborough SIB were integrated into this section of the report despite a publication date of December 17, 2015 (outside inclusion criteria) since this is the first, final outcomes report of any PFS project.

homes (RCF, 2015). While the project lacks a back-end payor[7], it contains many elements of the PFS model. The local foundation serving as project coordinator and service provider is also considering whether and how to measure the longer-term impacts of improved housing conditions such as reductions in crime, and hopes that their successful pilot will spawn replications in other cities where PFS financing through a back-end payor would be necessary (J. Genser, personal communication, Dec 16, 2015).

As PFS expands and variations in the model emerge, PFS thought leaders have begun turning their attention to sustainability, both of the PFS model itself and the service interventions they fund. Recent literature speaks to three main components of a strategy to facilitate the continued growth and advancement of the PFS model: (1) scaling and sustaining successful PFS projects, (2) increasing funding opportunities and exploring alternate funding sources, and (3) changing the conversation from a focus on return on investment to a focus on improved services and social impact.

### *Sustaining Successful PFS Projects*

Articles by Schaeffer, Shumway, and Brumme (2015) and Gustafsson-Wright et al. (2015) focus on the importance of sustaining social service interventions after a PFS project expires, assuming the intervention proves successful in meeting predetermined outcomes. Schaeffer et al. (2015) advocate for including an "achievement compact" in PFS contracts—a statement of intent from the government payor to integrate successful interventions and performance-based funding mechanisms into ongoing or new funding streams—to shift government contracting behavior toward a stronger focus on evidence- based interventions. Gustafsson-Wright et al. (2015) explain that PFS financing in itself can help promote an environment of sustained social impact through its multiyear contracting model, capacity to demonstrate the benefits of preventive services that may lead to longer government commitment, and potential in shifting public perception of outcomes, monitoring, and evaluation in relation to performance. As expressed by Shelton and the Beeck Center (2015), "to improve social outcomes and increase opportunity for all its citizens, government needs to do more of what works, and less of what does not" (p. 41).

### *Increased and Alternative Funding Sources*

In response to a 2015 article by Rangan & Chase, PFS subject matter experts George Overholser, Tracy Palandijan, and Jeff Shumway argue that direct philanthropic and/or private sector funding should not be the long-term focus of PFS financing. Instead, they envision scenarios where loans made to finance PFS projects are recycled for use in later PFS projects, and where service providers may use their own balance sheets to help finance PFS contracts. To date, there has been enormous variation in the structure of PFS financing, mechanics, and deal structuring roles, indicating a likelihood for continued flexibility as the model matures (Gustafsson-Wright et al., 2015). If the PFS model proves effective, over time the government may demand lower payment rates, which will de-incentivize private investment, and continue to change the PFS financing landscape (Rangan & Chase, 2015). There is consensus in the recent literature that increased transparency and knowledge sharing in the field are important to continue to grow and expand PFS financing and its scope of application. The Government Accountability Office (2015) recommends instituting a formal mechanism for federal agencies to share knowledge and information on PFS and to encourage further federal PFS involvement in the roles of outcome payor, funder of capacity building activities, and loan guarantor.

In the longer term, Shelton and the Beeck Center (2015) view PFS as a critical first step toward a larger shift in outcomes-focused government. They call for more substantial budgetary commitments and new funding sources from both the

[7] There is no need for a government-backed repayment schedule at this stage of the Richmond project due to the likelihood of sufficient profit from high local property costs. Measured returns/outcomes for resold housing are purely financial.

public and private sectors to move the needle toward lasting outcomes-focused service delivery expansion and innovation (Shelton & Beeck Center, 2015).

### *Focus on Service Improvement over Cost-Effectiveness*

The expansion of the PFS model into new social service areas is intricately tied the definition of "success" within a PFS transaction. Kohli, Golden, Coletti & Bo'sher (2015) caution government actors against valuing outcomes for PFS transactions solely in terms of cashable savings calculations. Instead, they propose a calculation that takes into account three distinct factors: (1) well-being benefits, (2) public's willingness to pay, and (3) cashable savings. A value calculation limited to cost savings likely undervalues the true benefit of social outcomes to government actors and narrows the circumstances to which PFS can be applied (Kohli et al., 2015). According to Rangan & Chase (2015), impact seeking, not return seeking, will spur the growth of the PFS model.

# III. 2015 Developments in Pay for Success Projects

This section provides updates on the eight active domestic projects involving PFS financing, followed by a brief overview of other PFS projects nearing implementation. Six of these projects were profiled in CNCS' *State of the Pay for Success Field* report, with two additional contracts executed in California and Massachusetts following that report's publication in April 2015.

## Updates for PFS Projects Initiated Prior to April 2015

### 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 Outcomes:** Reduction in rates of recidivism
**Contract Execution Date:** August 2012
**Investment Amount:** $9.6 million

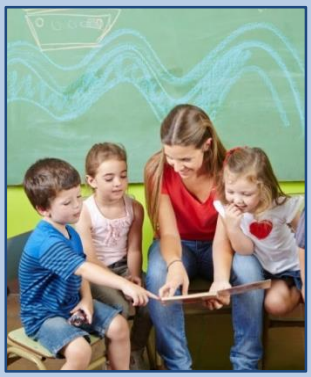
The Adolescent Behavioral Learning Experience (ABLE) project provided cognitive behavioral therapy as well as counseling, training, and educational services to approximately 3,400 young, primarily Black and Latino men (16-18 years old) incarcerated at Rikers Island Jail. The purpose of the training was 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). The program was discontinued when the intervention did not meet the predetermined goals. Initial findings from the evaluation of the New York City ABLE Project at Rikers Island Jail by the intermediary, MDRC, show that the intervention failed to demonstrate sufficient reductions in recidivism, thus failing to trigger the City of New York's repayment of Goldman Sachs' $7.2 million investment (down from the $9.6 million they would have invested if the program had continued for the full four years). Bloomberg Philanthropies, which provided a financial guarantee, repaid Goldman Sachs $6 million, resulting in a $1.2 million loss for the investor. Despite this, both investors and intermediaries designated the project an overall success because 87% of adolescents who entered the jail during the program period attended at least one ABLE session, translating into more than 4,000 young men who received additional rehabilitation services (MDRC, 2015; Vera, 2015). James Anderson from Bloomberg Philanthropies and Andrea Phillips from Goldman Sachs determined that the PFS financing mechanism was and will continue to be a success for the following reasons:

- **Shifts risk away from taxpayers.** Though the ABLE program was not successful, it did not cost New York taxpayers any money and benefited the Rikers community by connecting prison staff with service providers who worked together to change the recidivism climate in the prison (Burton, 2015).
- **Improved data.** PFS projects require that rigorous and scientific data be collected in order to show that outcomes are met. They allow governments, investors, and nonprofit service providers to understand what does and does not work in advancing social service provision and improving client outcomes.
- **New and innovative approaches.** Private investment allows governments to secure financing for promising social service approaches to be tested and evaluated that may not have otherwise been financially feasible.

While the effort was not a success as defined by the attainment of outcome targets, many involved with the ABLE project praised program logistics and implementation efforts, and validated the perceived value of PFS as a financing mechanism (Anderson & Phillips, 2015; Burton, 2015).

## 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 (UT)
**Target Outcomes**: Avoidance of special education or remedial education services
**Contract Execution Date:** June 2013
**Investment Amount:** $6.8 million



The Utah Pre-K 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. 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 six. Each year that a student does not use a special education or remedial service generates a PFS payment. In October 2015, United Way (UW) of Salt Lake announced the early success of the Utah Pre-K Project. Initial findings show that of the 110 three- and four-year-olds who were targeted by the intervention and attended the high-quality preschool funded by the PFS project, only one child needed special education services upon reaching kindergarten. UW of Salt Lake estimates that this reduction in need for special education saved the state $281,550, which will trigger an initial payment to investors of $267,473 (95% of the total savings). As outlined in CNCS's 2015 *State of the Pay for Success Field* report, investors will receive subsequent payments for each year these students continue to avoid special education through the sixth grade (UWSL, 2015).

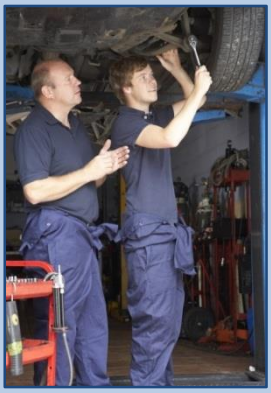
In response to UW of Salt Lake's announcement, concerns have been raised regarding the validity of the outcomes reported. Critics attribute the measured success to a faulty definition of who constitutes a "likely" candidate for special education. They argue that there is little evidence of the correlation between a low score on an aptitude test and whether a specific child in the Utah Pre-K program would have needed special education in the absence of preschool, and furthermore attribute a portion of the 110 students' qualifying scores to low English proficiency (Popper, 2015). As the project continues, these criticisms are likely to be explored and addressed further.

## 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

This project 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. The 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. Though initial results of the Chicago PFS Initiative are not yet available, there are reports that the project started slowly due to stalled recruitment (Sanchez, 2015). The preschool expansion program opened mid-school year, so children were already engaged in other daycare options. Additionally, fewer children enrolled in preschool overall due to a change in the preschool application process in Chicago (Sanchez, 2015). The PFS financing ended up paying for more full-day preschool spots than expected, rather than partial day spots, which may improve the overall outcome of the project, as research shows that children who attend full-day preschool at child-parent centers experience better academic outcomes than children in half-day programs (Reynolds et al., 2014). If there is a measured reduction in the number of students who would have needed special education in future school years according to pre-determined outcome benchmarks, the City of Chicago will make its first payment on Goldman Sachs' loan in 2016.

## 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

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

As of September 2015, Roca, Inc. had enrolled 384 young men at risk for recidivism into their programming across three service delivery sites. They reported having met or exceeded all internally set goals for 2015, and will continue to receive referrals and enroll individuals into their intervention through 2018 (Waters and Golden, 2015). December 2015 marks the completion of Phase 1 (2013 – 2015) of the two-phase Massachusetts PFS project.

No additional information on this project was available at the time of publication.

## 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; (c) transitional employment
**Contract Execution Date:** December 2013
**Investment Amount:** $13.5 million

The New York Increasing Employment and Improving Public Safety PFS project aims to improve economic and personal outcomes for men recently released from prison who are at high risk for re-offending. 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.

Similar to the Massachusetts project, December 2015 marks the completion of Phase 1 (2013 – 2015) of the two phase New York State PFS project. Phase 1 of the project was funded by the US Department of Labor, and Phase 2 will be funded by the New York State Department of Labor.

As of September 2015, the Center for Employment Opportunities (CEO) had enrolled 928 individuals into programming, nearing their goal of enrolling 1,000 participants during Phase 1. Preparation for a randomized controlled trial evaluation is expected to be completed by the end of Phase 1 (Waters and Golden, 2015).

## 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

FrontLine Services, the service provider for this PFS project, will link homeless caregivers to housing though an established network of housing service providers, and will deliver "Critical Time Intervention" (CTI), an evidence-based

homelessness transition therapy program. FrontLine Services will provide the 12-15 month treatment program to 135 families over a three-year period. For each day that the number out-of-home foster care days is reduced for children in the treatment group relative 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.

Project implementation began in early 2015, suggesting that the program is currently administering the CTI component of services (Pristow and Anderson, 2015).

No additional information on this project was available at the time of publication.

## Newly Implemented PFS Projects

### Project Welcome Home

**Lead Organization:** The County of Santa Clara
**Intermediary:** Third Sector Capital Partners
***Service Provider:*** Abode Services
**Focus Area:** Homelessness
**Service Location:** Santa Clara County (CA)
**Target Outcomes:** 80% of participants will maintain 12 months of continuous stable housing
**Contract Execution Date:** June 2015
**Investment Amount:** $6.9 million

#### Introduction

Santa Clara County estimates it has over 2,200 individuals who can be classified as chronically homeless. These are adults (or families with at least one adult member) with a disabling condition, such as substance abuse or mental illness, who have experienced continuous homelessness for one year or more and/or who have experienced four or more episodes of homelessness within the past three years. Chronically homeless individuals are more likely to utilize expensive medical and behavioral health resources; those with more stable housing are more likely to experience improved health outcomes. To address the issue of chronic homelessness, the County of Santa Clara launched Project Welcome Home on August 14, 2015 to provide housing and other support services to 150-200 chronically homeless individuals over six years (County of Santa Clara, 2015).

#### Service Intervention

Abode Services will work with the County of Santa Clara's Office of Supportive Housing and Behavioral Health Services Department to provide chronically homeless individuals access to community-based clinical services and permanent supportive housing. The organization will use Assertive Community Treatment, an evidence-based approach to supportive services, and the "Housing First" approach. The ultimate goal of this service intervention is to help end homelessness, increase income for individuals experiencing homelessness, and provide these individuals with increased access to physical and behavioral health services.

#### Project Partnership and Structure

With the County of Santa Clara, California as the lead public entity, the key partners in this project include:

- ***Intermediary:*** Third Sector Capital Partners
- ***Service Providers:*** Abode Services
- ***Funders/investors:*** The Sobrato Family Foundation, The California Endowment, The Health Trust, The Reinvestment Fund, Corporation for Supportive Housing, The James Irvine Foundation, and Google.org
- ***Evaluator:*** University of California, San Francisco

#### Funding Strategy

A group of eight funders is providing $6.9 million for this project (Third Sector Capital, 2015):

- **The Reinvestment Fund** will provide $500,000 in senior loan funding at 5% interest.
- **Corporation for Supportive Housing** will provide $500,000 in senior loan funding at 5% interest.
- **The Sobrato Family Foundation** will provide $1,500,000 in subordinate loan[8] funding at 2% interest.
- **The California Endowment** will provide $1,000,000 in subordinate loan funding at 2% interest.
- **The Health Trust** will provide $1,000,000 in subordinate loan funding at 0% interest.
- **The James Irvine Foundation** will provide nearly $300,000 in subordinate loan funding at 0% interest.
- **Google.org** will provide $500,000 in recoverable grants.
- **Abode Services** will defer $500,000 of service fees over six years to be repaid only if successful outcomes are achieved.
- **Laura and John Arnold Foundation** will provide over $1,000,000 in support for evaluation-related project costs.

### Evaluation

The University of California, San Francisco will conduct a randomized controlled trial to determine whether the combination of services implemented by the service provider produces measurable changes in health and government-funded social service utilization for adults experiencing chronic homelessness in Santa Clara County. UCSF will evaluate the number of months for which participants maintain stable housing over the six-year project.

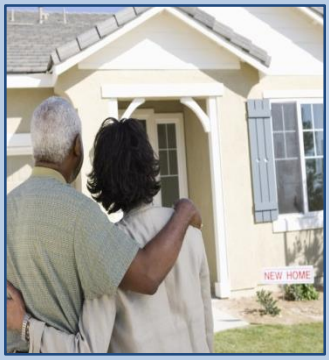
### Target Outcomes and Repayment Structure

The County of Santa Clara will make success payments throughout the project when a chronically homeless individual stays in continuous, stable housing for more than 12 months. If 80% of the target population achieves 12 months of stable housing, the $6.9 million investment will be repaid. Any additional successes will be paid to a maximum of $8 million; any success payments beyond the invested $6.9 million will be divided between Adobe as a performance incentive (75%) and senior and subordinate funders (25%). If successful, the payments will be made as follows:

| Success Payment per Participant | Participant Milestone |
|---|---|
| $1,242 | 3 months of continuous tenancy |
| $1,863 | 6 months of continuous tenancy |
| $2,484 | 9 months of continuous tenancy |
| $6,831 | 12 months of continuous tenancy |
| *$12,420* | *Cumulative payment through 12 months of continuous tenancy* |
| $1,035 | Each month after the first year of stable tenancy |

[8] The subordinate lenders will assume any financial burden before The Reinvestment Fund or the Corporation for Supportive Housing.

## Chronic Individual Homelessness Pay for Success




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

**Intermediary:** United Way of Massachusetts Bay and Merrimack Valley

**Service Provider:** Massachusetts Housing and Shelter Alliance

**Focus Area:** Homelessness

**Service Location:** Massachusetts

**Target Outcomes**: Reduction in chronic homelessness and reductions in utilization of emergency resources

**Contract Execution Date:** December 2014

**Investment Amount:** $3.5 million

### Introduction

The Commonwealth of Massachusetts is implementing a "Housing First" service model to reduce both chronic homelessness and state expenses for Medicaid, shelter, and incarceration. This program expands on the Massachusetts Housing and Shelter Alliance's Home & Healthy for Good permanent supportive housing approach. The integrated housing and health care services have resulted in significantly lowered public emergency costs for the Commonwealth since 2006 (Commonwealth of Massachusetts, 2014).

### Service Intervention

The alliance will provide 500 units of stable and supportive housing for up to 800 individuals experiencing chronic homelessness in the Commonwealth of Massachusetts over six years. The "Housing First" model provides leased, community integrated, independent apartments or shared-living arrangements for eligible participants. Individuals living in these units have access to medical and mental health care, substance use treatment, case management, vocational training, and life skills training. The service providers engaged in the PFS project will be eligible to receive Medicaid reimbursement for the services they provide (Commonwealth of Massachusetts, 2014).

### Project Partnership and Structure

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

- ***Intermediary:*** United Way of Massachusetts Bay and Merrimack Valley
- ***Service Providers:*** Massachusetts Housing and Shelter Alliance
- ***Funders/investors:*** Corporation for Supportive Housing, Santander Bank, United Way of Massachusetts Bay and Merrimack Valley
- ***Evaluator:*** Root Cause

### Funding Strategy

The funders for this project include the Corporation for Supportive Housing, a national housing nonprofit based in New York, providing $500,000; Santander Bank, investing $1.25 million; and United Way of Massachusetts Bay and Merrimack Valley, investing $1.75 million. In addition to these private and philanthropic investments, this program will also leverage public resources, including Massachusetts Rental Voucher Program subsidies from the Department of Housing and Community Development, which will be used to maintain many of the housing units beyond the PFS initiative.

### Evaluation

Root Cause, an organization that brings together nonprofits, philanthropies, governments, and businesses to improve the performance of those working on social issues, will help the Massachusetts Housing and Shelter Alliance establish benchmarks and collaborate with partners to verify their progress.

### Target Outcomes and Repayment Structure

The Commonwealth will pay up to $6 million if the project is successful in housing individuals continuously for a year.

- If 80% or less of the individuals remain in housing for a year, the investors will suffer a loss.
- If 85%-99% of the individuals remain in housing for a year, the investors receive a 3.33% return.
- If 90% of the individuals remain in housing for a year, the investors will receive the maximum 5.33% return.

Massachusetts has a $50 million Social Innovation Financing Trust Fund designed specifically for PFS projects that will be used to fund investors' payments should this project prove successful (United Way, 2015).

## Other PFS Projects Nearing Implementation

Despite the relatively small number of executed PFS contracts in the U.S., a number of new PFS projects are nearing implementation. The growth of these new and emerging PFS projects is driven by federal and philanthropic efforts to spur the development of PFS projects and financing.

The SIF PFS program awarded one Transaction Structuring grant to the Nonprofit Finance Fund (NFF) in 2014. NFF stipulated within their request for proposals for subgrantees that applicant teams be on track to sign PFS contracts within 12 months. As of November 2015, NFF awarded transaction structuring grants to nine existing PFS projects nearing implementation (NFF, 2015a):

At the time data collection for this report was completed (December 2015), one of these projects was close to signing a final contract. The *Housing to Health Initiative* aims to provide supportive housing to 250 chronically homeless individuals in Denver with the goals of improving quality of life and reducing frequent, high-cost utilization of criminal justice and emergency health services. Enterprise Community Partners, Inc. and the Corporation for Supportive Housing are coordinating the PFS deal.[9] Other awarded projects are listed below:

- A Tuscaloosa, AL based project aims to expand individual job placement and support services for unemployed veterans who have been diagnosed with one or more mental health illnesses at Veterans Administration medical centers across the country.
- Santa Clara County (CA) is working to launch a project serving at least 250 individuals who are frequent users of the County's emergency and inpatient psychiatric services.
- The *Illinois Dually-Involved Youth Project* will deliver comprehensive services throughout Illinois to adolescent youth involved in both the criminal justice and child welfare systems.
- The *Massachusetts Adult Basic Education Initiative* is designed to serve nearly 2,500 adult learners from Greater Boston, where large concentrations of immigrants and long waitlists for English language instruction are significant barriers to employment. The program will combine vocational training, contextualized English for Speakers of Other Languages instruction, and job search assistance.
- The *Nurse-Family Partnership* project aims to expand the reach of its pre- and post-natal home visiting program in Michigan.
- The *Intensive Community Asset Program* is designed to provide youth involved with the juvenile justice systems in 10 counties of upstate New York with an alternative to placement that helps create pathways to success in home, school, and community.
- A Greenville, SC based project aims to deliver community paramedical services to vulnerable populations in a multi-county, rural area to improve participants' self-management of chronic conditions and reduce unnecessary emergency room visits and hospitalizations.
- Salt Lake County (UT) intends to launch three simultaneous projects in the areas of maternal and child health, homelessness, and criminal justice.

In addition, seven projects receiving funding and technical assistance through the California PFS Initiative—funded by NFF and the James Irvine Foundation—are expected to close by 2016. These projects span Alameda, Los Angeles, Orange, San Diego, San Francisco, and Santa Clara counties and are currently focused on feasibility assessments, cost/benefit

[9] Two contracts for this project were approved by the Denver City Council on January 25, 2016.

analyses, and return on investment analyses for PFS projects (NFF, 2015b). *Project Welcome Home* in Santa Clara County is the first active project involving PFS financing to stem from the California PFS Initiative (County of Santa Clara, 2015).

# IV. Budgetary and Legislative Proposals

## Federal Support

There have been significant increases in federal support for PFS over the past three years. The fiscal year (FY) 2012 President's Budget called for $100 million of funding for discretionary spending programs that focus on recidivism, workforce training, and homelessness; and the 2013 President's budget called for $109 million for PFS programming. However, neither of these proposals was approved by Congress (Shah & Costa, 2013). The President's FY 2014 budget request for PFS increased considerably to approximately $500 million. Modeled on the U.K.'s Outcomes Finance Fund, which helps to fund a portion of the expenses for PFS projects beyond what local governments are able to finance, in FY 2014 and subsequent years, the President's budget proposed a $300 million Pay for Success Incentive Fund to partially fund cities' and states' outcome payments and provide partial guarantees to philanthropic organizations that engage in PFS deals (Shah & Costa, 2013). 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, $50 million was budgeted in FY 2016 specifically for the Social Innovation Fund, up to 20 percent of which can be used for PFS projects. The FY 2016 budget also proposed $15 million to fund a PFS initiative for early identification of and intervention for learning and developmental delays as part of the President's *Preschool for All* proposal (New Profit, 2015).

In FY 2015, Congress continued to deliberate on several key articles of PFS legislation in both the House and Senate. In March 2015, Representatives Young [R-IN] and Delaney [D-MD] re-introduced the Social Impact Partnership Act (H.R. 1336) to provide federal appropriations to fund states or local governments to engage in public-private social impact partnership projects. The companion bill to the Social Impact Partnership Act in the Senate (S.1089) was re-introduced by Senators Hatch [R-UT] and Bennet [D-CO] in April 2015.[10] In addition, legislation to authorize a multifamily energy and water conservation PFS demonstration in affordable housing—Private Investment in Housing Act (H.R.2997)—was introduced in July 2015, and later included in Sec. 81001 of the FAST Act which became law in December 2015 (Public Law: 114-94). Further, both the House and Senate approved the inclusion of PFS initiatives as an allowable use of state and local funds in various titles of the Every Child Achieves (S.1177) and Student Access (H.R.5) Acts (Public Law 114-95: the Every Student Succeeds Act, New Profit, 2015).

Beyond federal legislation, PFS activity continues to expand through several existing federal grant programs administered by the Department of Labor, CNCS, and the Department of Justice (CNCS, 2015b). In October 2015, the Department of Housing and Urban Development and the Department of Justice further released a notice of funding award to support an $8.6 million PFS permanent supportive housing initiative for individuals continuously cycling between the criminal justice system and homeless services (HUD, 2015). In addition, the Government Accountability Office (GAO) released a report in 2015, recommending that the director of the Office of Management and Budget (OMB) establish a formal means for federal agencies to collaborate on PFS. The report was developed in response to a congressional request for more information about PFS and its implementation to date,

[10] H.R. 1336 was first introduced in FY2014 as the "Social Impact Bond Act" and S. 1089 was first introduced in FY2014 as the "Pay-For-Performance Act."

and the appropriate role for the federal government within PFS projects. GAO identified potential roles for the federal government in PFS including: (1) outcomes payor; (2) funder of capacity building activities; and (3) loan guarantor (GAO, 2015).

## State Legislation

In FY2015, three states—Colorado, Idaho, and Texas—passed PFS-enabling legislation:

- ***Colorado**:* HB 15-1317 was signed into law in May 2015, establishing the Colorado Pay for Success Contracts Program. The bill allows the Colorado Office of State Planning and Budgeting to enter into Pay for Success contracts with one or more lead contractors (organization or local government) for program-eligible interventions. The bill further establishes a state Pay for Success fund containing the government's cost savings to be used to pay the lead contractor if performance targets are met.
- ***Texas:*** In June 2015, HB 3014 was signed into law, creating a Success Contract Payments Trust Fund in Texas. The trust fund establishes a reserve from which the comptroller, as trustee, may make success contract payments due in accordance with contract terms without an appropriation.
- ***Idaho**:* The Pay for Success Contracting Program (HB 170) was signed into law in April 2015, allowing the state Department of Education to enter into PFS contracts.

These three states joined four other states that passed legislation in 2014 (Utah, Massachusetts, Oklahoma, and California). Among these states, California and Oklahoma have released subsequent state-level requests for proposals in 2015.

In addition, New Hampshire, New Jersey, Pennsylvania, and Washington introduced legislation related to PFS in 2015.[11] New Jersey's companion bills (A-2771/S-452) to pilot a five-year social innovation loan program within the New Jersey Economic Development Authority passed the Assembly and Senate and were sent to the Governor for consideration in June 2015.

## Philanthropic Support

In addition to Federal support, philanthropic entities play a significant role in driving the PFS field forward—funding feasibility studies and pilot projects, supporting technical assistance efforts in the field, and providing up-front investments and/or financial guarantees for PFS deals. To date, 12 foundations have invested in currently active US-based PFS deals, including: Bloomberg Philanthropies (NYC PFS project); Cleveland Foundation (Cuyahoga PFS project); George Gund Foundation (Cuyahoga PFS project); James Irvine Foundation (Santa Clara PFS project); JB and MK Pritzker Family Foundation (Utah, Chicago PFS projects); Kresge Foundation (MA Juvenile Justice PFS project); Laura and John Arnold Foundation (NY State, Santa Clara PFS projects); Robin Hood Foundation (NY State PFS project); Rockefeller Foundation (NY State PFS project); Sisters of Charity Foundation of Cleveland (Cuyahoga PFS project); and the Sobrato Family Foundation (Santa Clara PFS project).

[11] New Hampshire SB 69 would establish a commission to study Social Impact Bond funding for early childhood education for at-risk students; Washington HB 1501 would authorize the office of financial management to procure and enter into a multiyear PFS contract related to juvenile reentry; Pennsylvania HB 1147 would allow the state to enter into PFS contracts.

Key foundation-driven initiatives and brief descriptions are listed in the table below.

| Initiative & Funder | Initiative Overview |
|---|---|
| **California Pay for Success Initiative**<br>*James Irvine Foundation & Nonprofit Finance Fund* | A $5 million, 3-year effort that provides flexible funding and expert support to help nonprofit and government leaders structure Pay for Success agreements in California (NFF, 2015b). |
| **Strong Families Fund**<br>*Kresge Foundation & Robert Wood Johnson Foundation (RWJF)* | Funded by a number of banks and philanthropic partners led by The Kresge Foundation and RWJF, this $70 million-plus pilot pay-for-performance project finances social services coordination and quality, affordable housing for low-income families (The Kresge Foundation, 2015). |
| **Resilience Pay for Success Initiative**<br>*Rockefeller Foundation & Social Finance* | Provides guidance and support to *100 Resilient Cities*[12] member cities in the U.S. exploring Pay for Success opportunities (100RC, 2015). |
| **Pay for Success Grant Awards**<br>*Laura and John Arnold Foundation (LJAF)* | Awards grants on an ongoing basis to key influencers in the PFS field, including $8.4 million to the Urban Institute to fund their PFS initiative, and a $7.4 million grant to the Harvard Kennedy School in support of their Government Performance Lab, among others (LJAF, 2015a; LJAF, 2015b). |

[12] 100 Resilient Cities is a Rockefeller Foundation initiative launched in 2013 to help cities around the world become more resilient to the physical, social, and economic challenges that are a growing part of the 21st century.

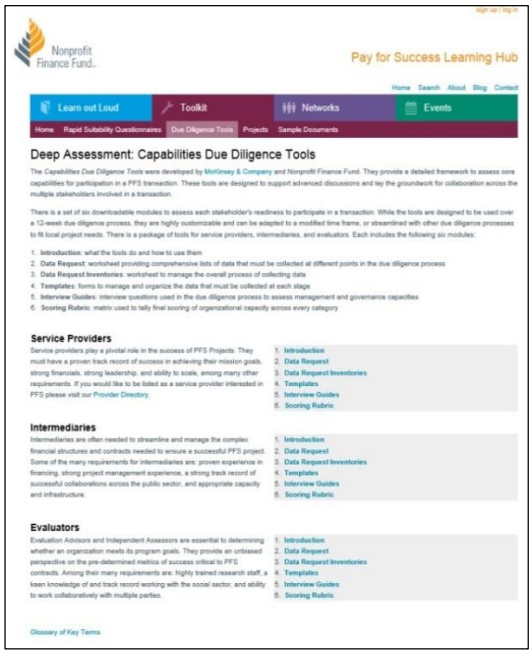
# V. An Inventory of Pay for Success Tools

In order for the PFS landscape to continue to grow and expand, standard templates and tools are needed that interested parties can leverage to assess and structure their own deals. At this time, the pool of available tools remains somewhat limited. The tools listed below were identified using a series of standard search terms, including "pay for success," "social impact bond," "social benefit bond," "feasibility assessment tool," and "SIB assessment tool" through Google, Google Scholar, and PFS content aggregators (e.g., Nonprofit Finance Fund's Pay for Success Learning Hub, Utah Policy Innovation Lab's Knowledge Portal). Of the 11 identified tools described below, 6 were from international organizations or governments, 3 were produced by the Nonprofit Finance Fund, and the remaining 2 were from U.S. based organizations engaged in the PFS field. These tools are meant to be used by a variety of audiences, including governments, service providers, and evaluators; the audience for each is specified below.

This report takes a first step in facilitating and encouraging further development and sharing of tools by compiling existing, publicly available tools in a single location. It will be important to continue to identify and share newly developed tools that emerge as the PFS field grows. These will include resources, templates and models currently under development by the eight SIF PFS program grantees funded in 2015.

For each tool, this section lists the developer, a summary of the tool format and purpose, and which actor(s) involved in a PFS project could benefit from its use.

## Deep Assessment Capabilities Due Diligence Tools




**Produced by:** Nonprofit Finance Fund and McKinsey & Company

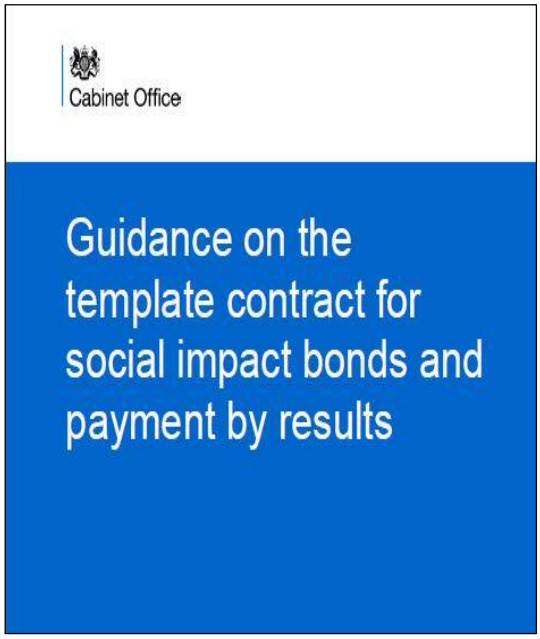
**Summary:** These web-based tools provide a detailed framework to assess core capabilities for participation in a PFS transaction. They are designed to support advanced discussions and lay the groundwork for collaboration across the multiple stakeholders involved in a PFS transaction. Different tools are available for service providers, intermediaries, and evaluators. Each tool includes six modules:

1. *Introduction*: what the tools do and how to use them
2. *Data Request*: worksheet providing comprehensive lists of data that must be collected at different points in the due diligence process
3. *Data Request Inventories*: worksheet to manage the overall process of collecting data
4. *Templates*: forms to manage and organize the data that must be collected at each stage
5. *Interview Guides*: interview questions used in the due diligence process to assess management and governance capacities
6. *Scoring Rubric*: matrix used to tally final scoring of organizational capacity across every category

**Beneficial for**: Service providers, Intermediaries, Evaluators

**Link**: http://www.payforsuccess.org/provider-toolkit/deep-assessment-capabilities-due-diligence-tools

## Guidance on the Template Contract for Social Impact Bonds and Payment by Results



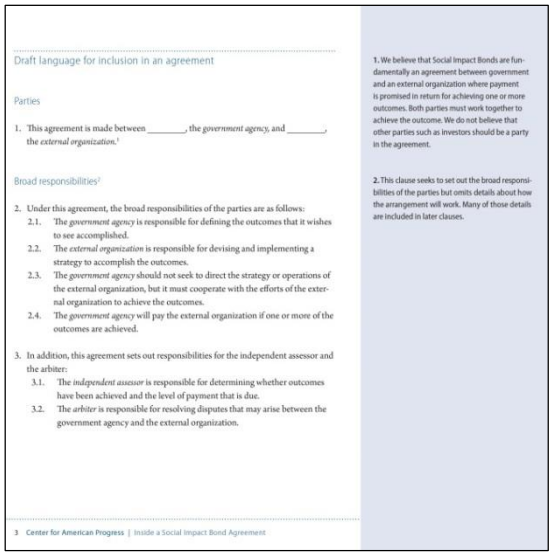

**Produced by:** The United Kingdom Cabinet Office

**Summary:** This template contract provides a basic starting point for those initiating a Pay for Success or Pay for Performance project. The document includes details on what a Social Impact Bond is, the performance and payment risk spectrum, the parties involved, and examples of possible contract structures.

**Beneficial for**: Intermediaries, Governments

**Link:** https://www.gov.uk/government/publications/guidance-on-the-template-contract-for-social-impact-bonds

## Language for Inclusion in Social Impact Bond Agreements



Draft language for inclusion in an agreement

Parties

1. This agreement is made between _____, the *government agency*, and _____, the *external organization*.[1]

Broad responsibilities[2]

2. Under this agreement, the broad responsibilities of the parties are as follows:
   2.1. The *government agency* is responsible for defining the outcomes that it wishes to see accomplished.
   2.2. The *external organization* is responsible for devising and implementing a strategy to accomplish the outcomes.
   2.3. The *government agency* should not seek to direct the strategy or operations of the external organization, but it must cooperate with the efforts of the external organization to achieve the outcomes.
   2.4. The *government agency* will pay the external organization if one or more of the outcomes are achieved.

3. In addition, this agreement sets out responsibilities for the independent assessor and the arbiter:
   3.1. The *independent assessor* is responsible for determining whether outcomes have been achieved and the level of payment that is due.
   3.2. The *arbiter* is responsible for resolving disputes that may arise between the government agency and the external organization.

1. We believe that Social Impact Bonds are fundamentally an agreement between government and an external organization where payment is promised in return for achieving one or more outcomes. Both parties must work together to achieve the outcome. We do not believe that other parties such as investors should be a party in the agreement.

2. This clause seeks to set out the broad responsibilities of the parties but omits details about how the arrangement will work. Many of those details are included in later clauses.

3 Center for American Progress | Inside a Social Impact Bond Agreement

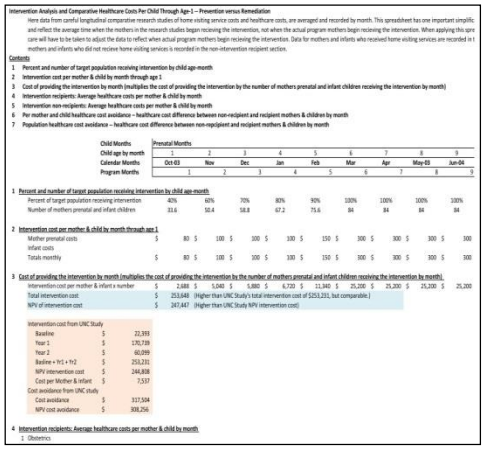
**Produced By:** Center for American Progress

**Summary**: This document offers draft language that could be included in a SIB contractual agreement. It is meant to help readers understand some of the complexities of SIB arrangements and ways to address them through contract development. The developers note that the draft language is not intended to be legal advice and is not offered as a model contract for SIBs.

**Beneficial for:** Intermediaries, Governments, Project coordinators

**Link:** https://www.americanprogress.org/issues/general/report/2012/05/07/11619/inside-a-social-impact-bond-agreement/

## Prenatal Home Visiting Feasibility Assessment



**Intervention Analysis and Comparative Healthcare Costs Per Child Through Age 1 – Prevention versus Remediation**

Here data from careful longitudinal comparative research studies of home visiting service costs and healthcare costs, are averaged and recorded by month. This spreadsheet has one important simplific and reflect the average time when the mothers in the research studies began receiving the intervention, not when the actual program mothers begin receiving the intervention. When applying this spre care will have to be taken to adjust the data to reflect when actual program mothers begin receiving the intervention. Data for mothers and infants who received home visiting services are recorded in t mothers and infants who did not recieve home visiting services is recorded in the non-intervention recipient section.

Contents

1 Percent and number of target population receiving intervention by child age-month
2 Intervention cost per mother & child by month through age 1
3 Cost of providing the intervention by month (multiplies the cost of providing the intervention by the number of mothers prenatal and infant children receiving the intervention by month)
4 Intervention recipients: Average healthcare costs per mother & child by month
5 Intervention non-recipients: Average healthcare costs per mother & child by month
6 Per mother and child healthcare cost avoidance – healthcare cost difference between non-recipient and recipient mothers & children by month
7 Population healthcare cost avoidance – healthcare cost difference between non-recipient and recipient mothers & children by month

| Child Months | Prenatal Months | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Child age by month | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Calendar Months | Oct-03 | Nov | Dec | Jan | Feb | Mar | Apr | May-03 | Jun-04 |
| Program Months | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |

1 Percent and number of target population receiving intervention by child age-month

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Percent of target population receiving intervention | 42% | 62% | 70% | 80% | 90% | 100% | 100% | 100% | 100% |
| Number of mothers prenatal and infant children | 33.6 | 50.4 | 58.8 | 67.2 | 75.6 | 84 | 84 | 84 | 84 |

2 Intervention cost per mother & child by month through age 1

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Mother prenatal costs | $ 80 | $ 100 | $ 100 | $ 100 | $ 150 | $ 300 | $ 300 | $ 300 | $ 300 | $ 300 |
| Infant costs | | | | | | | | | | |
| Totals monthly | $ 80 | $ 100 | $ 100 | $ 100 | $ 150 | $ 300 | $ 300 | $ 300 | $ 300 | $ 300 |

3 Cost of providing the intervention by month (multiplies the cost of providing the intervention by the number of mothers prenatal and infant children receiving the intervention by month)

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Intervention cost per mother & infant x number | $ 2,688 | $ 5,040 | $ 5,880 | $ 6,720 | $ 11,340 | $ 25,200 | $ 25,200 | $ 25,200 | $ 25,200 | $ 25,200 |

| | | |
|---|---|---|
| Total intervention cost | $ 253,648 | (Higher than UNC Study's total intervention cost of $253,231, but comparable.) |
| NPV of intervention cost | $ 247,447 | (Higher than UNC Study NPV intervention cost) |

| | | |
|---|---|---|
| Intervention cost from UNC Study | | |
| Baseline | $ | 22,393 |
| Year 1 | $ | 170,739 |
| Year 2 | $ | 60,099 |
| Baseline + Yr1 + Yr2 | $ | 253,231 |
| NPV intervention cost | $ | 244,838 |
| Cost per Mother & Infant | $ | 7,537 |
| Cost avoidance from UNC study | | |
| Cost avoidance | $ | 317,504 |
| NPV cost avoidance | $ | 308,256 |

4 Intervention recipients: Average healthcare costs per mother & child by month
1 Obstetrics

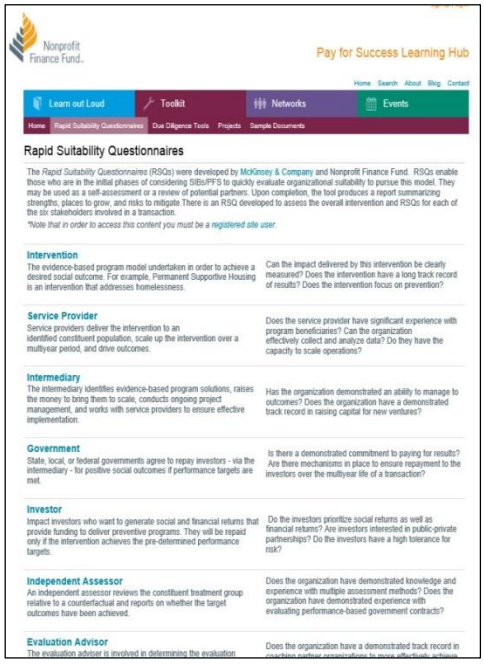
**Produced By:** ReadyNation

**Summary:** This Excel tool facilitates assessment of feasibility to engage in a PFS project. Pre-populated with data used to assess the feasibility of the Partners in Pregnancy program in Virginia, the spreadsheet includes entry fields for a variety of data related to project assumptions, cash flow analysis, and intervention analysis (including percent and number of target population receiving an intervention, cost of providing the intervention, etc.). The tool then automatically populates a series of key feasibility assessment results.

**Beneficial for:** Intermediaries, Evaluators, Governments

**Link**: http://readynation.s3.amazonaws.com/wp-content/uploads/ReadyNation-Pay-for-Success-Report-112114.pdf

## Rapid Suitability Questionnaires (RSQ)



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Rapid Suitability Questionnaires

The *Rapid Suitability Questionnaires* (RSQs) were developed by McKinsey & Company and Nonprofit Finance Fund. RSQs enable those who are in the initial phases of considering SIBs/PFS to quickly evaluate organizational suitability to pursue this model. They may be used as a self-assessment or a review of potential partners. Upon completion, the tool produces a report summarizing strengths, places to grow, and risks to mitigate There is an RSQ developed to assess the overall intervention and RSQs for each of the six stakeholders involved in a transaction.

**Note that in order to access this content you must be a registered site user.*

**Intervention**
The evidence-based program model undertaken in order to achieve a desired social outcome. For example, Permanent Supportive Housing is an intervention that addresses homelessness.
Can the impact delivered by this intervention be clearly measured? Does the intervention have a long track record of results? Does the intervention focus on prevention?

**Service Provider**
Service providers deliver the intervention to an identified constituent population, scale up the intervention over a multiyear period, and drive outcomes.
Does the service provider have significant experience with program beneficiaries? Can the organization effectively collect and analyze data? Do they have the capacity to scale operations?

**Intermediary**
The intermediary identifies evidence-based program solutions, raises the money to bring them to scale, conducts ongoing project management, and works with service providers to ensure effective implementation.
Has the organization demonstrated an ability to manage to outcomes? Does the organization have a demonstrated track record in raising capital for new ventures?

**Government**
State, local, or federal governments agree to repay investors - via the intermediary - for positive social outcomes if performance targets are met.
Is there a demonstrated commitment to paying for results? Are there mechanisms in place to ensure repayment to the investors over the multiyear life of a transaction?

**Investor**
Impact investors who want to generate social and financial returns that provide funding to deliver preventive programs. They will be repaid only if the intervention achieves the pre-determined performance targets.
Do the investors prioritize social returns as well as financial returns? Are investors interested in public-private partnerships? Do the investors have a high tolerance for risk?

**Independent Assessor**
An independent assessor reviews the constituent treatment group relative to a counterfactual and reports on whether the target outcomes have been achieved.
Does the organization have demonstrated knowledge and experience with multiple assessment methods? Does the organization have demonstrated experience with evaluating performance-based government contracts?

**Evaluation Advisor**
The evaluation adviser is involved in determining the evaluation
Does the organization have a demonstrated track record in

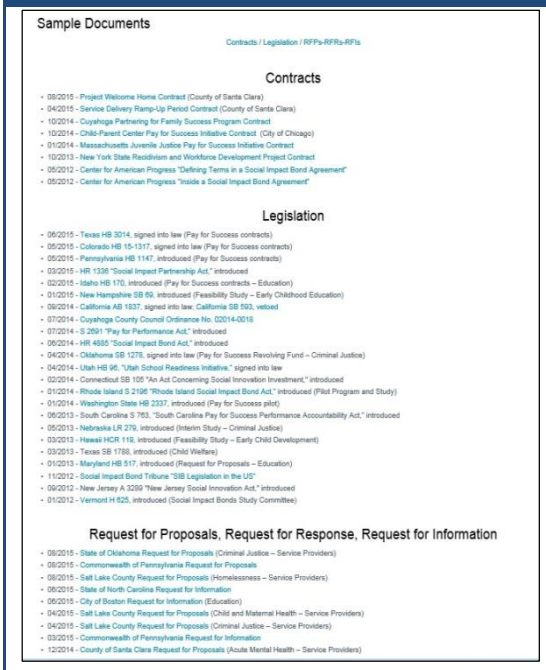
**Produced by:** Nonprofit Finance Fund and McKinsey & Company

**Summary:** These questionnaires enable those in the initial phases of considering PFS to quickly evaluate organizational suitability to pursue this model. The tool can be used by organizations to self-assess capacity or to assess suitability of potential partners. RSQs are available to assess the overall intervention as well as the six primary stakeholders involved in a PFS transaction—service provider, intermediary, government, investor, independent assessor, and evaluation advisor. Upon completion, each RSQ produces a report summarizing strengths, areas for growth, and areas of risk.

**Beneficial for**: Governments, Service providers, Intermediaries

**Link:** http://www.payforsuccess.org/provider-toolkit/rapid-suitability-questionnaires

## Sample PFS Contracts, Legislation and Requests for Proposal



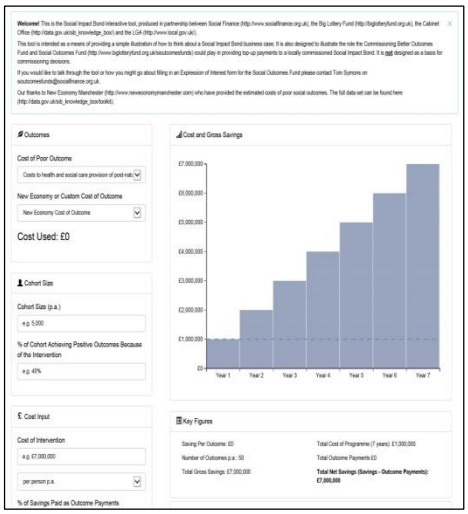

**Produced By:** Nonprofit Finance Fund

**Summary:** As part of the Pay for Success Learning Hub, the Nonprofit Finance Fund compiles sample contracts, legislation, and requests for proposals/response/information developed and disseminated for existing PFS projects in the U.S. This compendium of sample documents is intended to serve as a starting point to help guide those entering the PFS field who are looking for existing templates to emulate.

**Beneficial for:** Governments, Policymakers, Service providers, Intermediaries

**Link:** http://www.payforsuccess.org/provider-toolkit/contract-issues

## Social Impact Bond Calculator



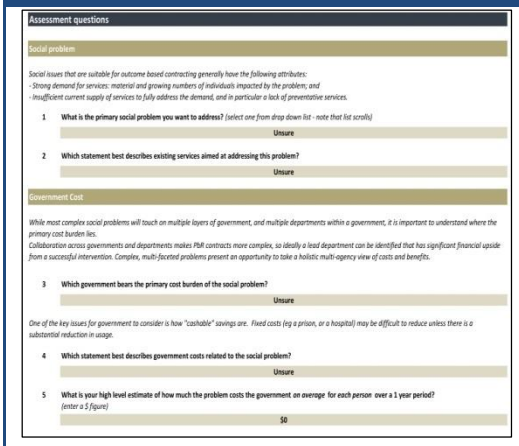

**Produced by:** Social Finance, the Big Lottery Fund, the Cabinet Office, and the Local Government Association

**Summary:** This web-based tool allows individuals to calculate the cost and gross savings of a SIB across a seven-year period, based on project specific inputs related to the outcome targeted, cohort size, and cost inputs. Once the necessary data are entered, it additionally produces values for savings per outcome, the number of outcomes, total gross savings, total cost of the program, total outcome payments, and total net savings. The tool was initially designed to educate new audiences about the application of SIBs, rather than for PFS projects to use in designing a project.

**Beneficial for**: Intermediaries, Investors, Governments

**Link:** http://www.sibtool.co.uk/

## Social Impact Bond Self-Assessment Tool


Assessment questions

Social problem

*Social issues that are suitable for outcome based contracting generally have the following attributes:*
*- Strong demand for services: material and growing numbers of individuals impacted by the problem; and*
*- Insufficient current supply of services to fully address the demand, and in particular a lack of preventative services.*

1 **What is the primary social problem you want to address?** *(select one from drop down list - note that list scrolls)*
Unsure

2 **Which statement best describes existing services aimed at addressing this problem?**
Unsure

Government Cost

*While most complex social problems will touch on multiple layers of government, and multiple departments within a government, it is important to understand where the primary cost burden lies.*
*Collaboration across governments and departments makes PbR contracts more complex, so ideally a lead department can be identified that has significant financial upside from a successful intervention. Complex, multi-faceted problems present an opportunity to take a holistic multi-agency view of costs and benefits.*

3 **Which government bears the primary cost burden of the social problem?**
Unsure

*One of the key issues for government to consider is how "cashable" savings are. Fixed costs (eg a prison, or a hospital) may be difficult to reduce unless there is a substantial reduction in usage.*

4 **Which statement best describes government costs related to the social problem?**
Unsure

5 **What is your high level estimate of how much the problem costs the government *on average* for *each person* over a 1 year period?**
*(enter a $ figure)*
$0

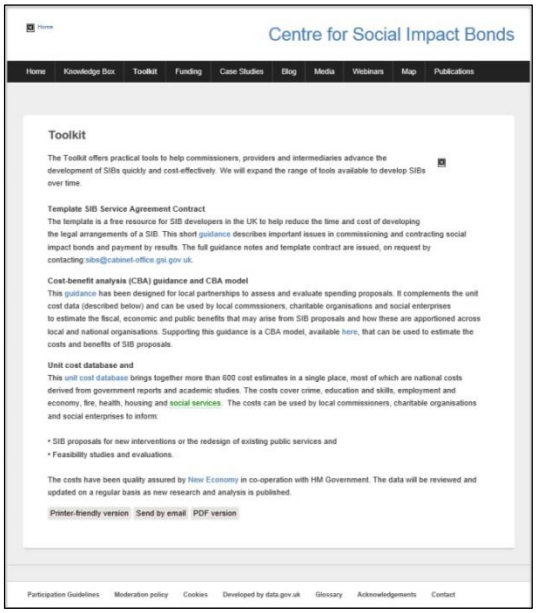
**Produced By:** Government of South Australia

**Summary**: The purpose of this Excel-based tool is to assess challenges and opportunities for SIB development related to a specific project and target population. An "Input" sheet presents a series of questions about the social issue an organization wants to address, the current cost to the government, the target population, the potential outcome metric, and the intervention program. An "Output" sheet provides a calculated score and high-level assessment of viability based on the inputs.

**Beneficial for:** Service providers, Intermediaries, Governments

**Link:** http://yoursay.sa.gov.au/pages/social-impact-bonds-self-assessment-tool/

## Social Impact Bond Toolkit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Toolkit

The Toolkit offers practical tools to help commissioners, providers and intermediaries advance the development of SIBs quickly and cost-effectively. We will expand the range of tools available to develop SIBs over time.

**Template SIB Service Agreement Contract**
The template is a free resource for SIB developers in the UK to help reduce the time and cost of developing the legal arrangements of a SIB. This short guidance describes important issues in commissioning and contracting social impact bonds and payment by results. The full guidance notes and template contract are issued, on request by contacting: sibs@cabinet-office.gsi.gov.uk.

**Cost-benefit analysis (CBA) guidance and CBA model**
This guidance has been designed for local partnerships to assess and evaluate spending proposals. It complements the unit cost data (described below) and can be used by local commssioners, charitable organisations and social enterprises to estimate the fiscal, economic and public benefits that may arise from SIB proposals and how these are apportioned across local and national organisations. Supporting this guidance is a CBA model, available here, that can be used to estimate the costs and benefits of SIB proposals.

**Unit cost database and**
This unit cost database brings together more than 600 cost estimates in a single place, most of which are national costs derived from government reports and academic studies. The costs cover crime, education and skills, employment and economy, fire, health, housing and social services. The costs can be used by local commissioners, charitable organisations and social enterprises to inform:

- SIB proposals for new interventions or the redesign of existing public services and
- Feasibility studies and evaluations.

The costs have been quality assured by New Economy in co-operation with HM Government. The data will be reviewed and updated on a regular basis as new research and analysis is published.

Printer-friendly version | Send by email | PDF version

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**Produced by:** Center for Social Impact Bonds, Cabinet Office

**Summary:** This Toolkit offers practical tools to help practitioners develop SIBs in a quick and cost-effective manner. The toolkit includes a SIB Service Agreement Contract Template, cost-benefit analysis guidance and a supporting model, and a unit cost database. Each of these tools provides guidance for a wide range of key players involved in the development and implementation of a SIB.

**Beneficial for**: Intermediaries, Service providers, Governments

**Link:** https://data.gov.uk/sib_knowledge_box/toolkit

## Social Impact Outcomes Matrix

**Produced by:** Big Society Capital

**Summary:** This web-based Outcomes Matrix, developed in the United Kingdom, helps organizations plan and measure their social impact and select relevant outcomes and measures for nine outcome areas and fifteen beneficiary groups. The nine outcome areas are:

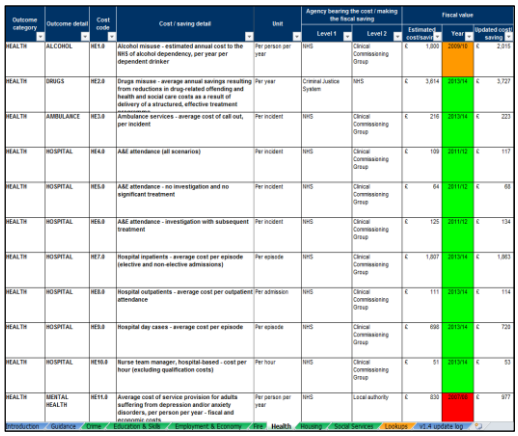
- Employment, Training and Education
- Physical Health
- Citizenship and Community
- Housing and Local Facilities
- Mental Health and Well-Being
- Arts, Heritage, Sports and Faith
- Income and Financial Inclusion
- Family, Friends and Relationships
- Conservation of the Natural Environment

Beneficiary groups include homeless people, those with mental health needs, learning disabilities, addiction issues, offenders, and more. Outcomes and measures can be exported into a file that will allow editing and customization to meet the requirements of an individual organization. The Outcomes Matrix aims to develop a common language regarding social investment and impact assessment in the social sector.

**Beneficial for**: Service Providers, Intermediaries

**Link**: http://www.bigsocietycapital.com/impact-matrix

## Unit Cost Database



| Outcome category | Outcome detail | Cost code | Cost / saving detail | Unit | Agency bearing the cost / making the fiscal saving | | Fiscal value | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Level 1 | Level 2 | Estimated cost/saving | Year | Updated cost/ saving |
| HEALTH | ALCOHOL | HE1.0 | Alcohol misuse - estimated annual cost to the NHS of alcohol dependency, per year per dependent drinker | Per person per year | NHS | Clinical Commissioning Group | £ 1,803 | 2009/10 | £ 2,318 |
| HEALTH | DRUGS | HE2.0 | Drugs misuse - average annual savings resulting from reductions in drug-related offending and health and social care costs as a result of delivery of a structured, effective treatment | Per year | Criminal Justice System | NHS | £ 3,614 | 2013/14 | £ 3,727 |
| HEALTH | AMBULANCE | HE3.0 | Ambulance services - average cost of call out, per incident | Per incident | NHS | Clinical Commissioning Group | £ 216 | 2013/14 | £ 223 |
| HEALTH | HOSPITAL | HE4.0 | A&E attendance (all scenarios) | Per incident | NHS | Clinical Commissioning Group | £ 109 | 2011/12 | £ 117 |
| HEALTH | HOSPITAL | HE5.0 | A&E attendance - no investigation and no significant treatment | Per incident | NHS | Clinical Commissioning Group | £ 64 | 2011/12 | £ 68 |
| HEALTH | HOSPITAL | HE6.0 | A&E attendance - investigation with subsequent treatment | Per incident | NHS | Clinical Commissioning Group | £ 125 | 2011/12 | £ 134 |
| HEALTH | HOSPITAL | HE7.0 | Hospital inpatients - average cost per episode (elective and non-elective admissions) | Per episode | NHS | Clinical Commissioning Group | £ 1,807 | 2013/14 | £ 1,863 |
| HEALTH | HOSPITAL | HE8.0 | Hospital outpatients - average cost per outpatient attendance | Per admission | NHS | Clinical Commissioning Group | £ 111 | 2013/14 | £ 114 |
| HEALTH | HOSPITAL | HE9.0 | Hospital day cases - average cost per episode | Per episode | NHS | Clinical Commissioning Group | £ 698 | 2013/14 | £ 728 |
| HEALTH | HOSPITAL | HE10.0 | Nurse team manager, hospital-based - cost per hour (excluding qualification costs) | Per hour | NHS | Clinical Commissioning Group | £ 51 | 2013/14 | £ 53 |
| HEALTH | MENTAL HEALTH | HE11.0 | Average cost of service provision for adults suffering from depression and/or anxiety disorders, per person per year - fiscal and economic costs | Per person per year | NHS | Local authority | £ 835 | 2009/10 | £ 977 |

Introduction | Guidance | Crime | Education & Skills | Employment & Economy | Fire | Health | Housing | Social Services | Lookups | V0.4 update log

**Produced By:** New Economy (policy and research firm located in Manchester, UK), funded by UK Government

**Summary**: This Excel-based unit cost database includes more than 600 unit cost estimates that can be used to calculate the costs of delivering specific services and the potential savings that can be achieved as a result. The database contains unit costs related to: crime; education and skills; employment and economy; fire; health; housing; and social services. Detailed explanations are provided regarding the sources and calculations of the estimates.

**Beneficial for:** Governments, Service providers, Intermediaries, Evaluators

**Link:** http://neweconomymanchester.com/our-work/research-evaluation-cost-benefit-analysis/cost-benefit-analysis/unit-cost-database

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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.<br><br>As the nation's largest grantmaker for service and volunteering, CNCS plays a critical role in strengthening America's nonprofit sector and addressing the nation's challenges through service.<br>**Other Terms Used:** N/A |
| **Counterfactual** | The condition that would result in the absence of a given action or intervention. For example, in 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.<br>**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.<br>**Other Terms Used:** Independent evaluator, Researcher |
| **Evidenced-based practices** | Practices, services, or activities that have been shown to be effective based on data and/or research.<br>**Other Terms Used:** Promising practices |
| **Funder** | The entity or entities that provide up-front capital to fund PFS intervention operations, with the dual objectives of receiving financial and social returns. Funders may include foundations, nonprofits, investment banks, individual investors, and private banks.<br>**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).<br>**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.<br>**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.<br>**Other Terms Used:** Transaction coordinator, Project coordinator, Government advisor, Placement agent |
| **Intervention** | A model or program that offers a discrete set of products and/or services to address a specific social issue or challenge, and ideally achieve desired results.<br>**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.<br>**Other Terms Used:** Performance-based payments, Success payments |
| **Pay for Success (PFS)** | Pay for Success is the procurement of social services or environmental interventions whereby payment is released only on the basis of the outcomes, not on activity or compliance. That is, rather than paying for services regardless of their effects, payment is made only if the interventions achieve positive results. A PFS project may or may not involve PFS financing (see below).<br>**Other Terms Used: N/A** |
| **PFS Contract** | Contracts that release payment only when an intervention achieves positive outcomes at pre-set target levels. Please note that the term "contract" is used loosely in this document and in the Pay for Success contexts more generally. Contracts at the federal, state and local government levels are subject to applicable procurement laws and regulations.<br>**Other Terms Used**: PFS agreement |
| **PFS Financing** | Capital that covers the upfront costs of service provision and at times other associated costs for the PFS project.<br>**Other Terms Used:** Social Impact Bonds |
| **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 government agency.<br>**Other Terms Used:** Payer, Lead organization, Outcome payor, Back-end payor, Government payor |
| **Perverse incentives** | Outcomes incentivized by the Pay for Success payment structure that lead to adverse or unintended results.<br>**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, an RCT measures the effect of an intervention on two groups randomly selected from a population—a "treatment" group that receives the intervention and a "control" group that does not receive the intervention. If randomization is conducted 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.<br>**Other Terms Used:** Random control trial, Random assignment evaluation, Experimental study |

| Key Terms | Definition |
|---|---|
| **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.<br>**Other Terms Used:** Social service provider |
| **Social impact** | The net effect of an intervention/program on individuals and the community at large.<br>**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.<br>**Other Terms Used:** Pay for success bond, Social benefit bond, Pay for Success financing |
| **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.<br>In 2014, the SIF launched a new initiative to support the expansion of Pay for Success. The initiative, known as the SIF PFS program, funded eight grantees in its inaugural year to provide technical assistance to state or local governments or nonprofit organizations to assess PFS feasibility and build capacity to develop PFS projects involving PFS financing or to implement deal structuring activities for PFS initiatives.<br>**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.<br>**Other Terms Used:** Independent validator |

# Appendix B: Annotated Bibliography of Key Sources

| Key Source | Overview |
|---|---|
| Australian Centre for Financial Studies (2015). ACFS roundtable: The future of social impact bonds. *Financial Regulation Discussion Paper Series, 3.* Retrieved from http://www.australiancentre.com.au/sites/default/files/NewsDocs/FRDP2015-3%20Social%20Impact%20Bonds%20%5Bfinal%5D_0.pdf | This paper summarizes a meeting of 19 participants, including investment managers and advisers, debt capital market bankers, credit analysts, legal professionals, and representatives of not-for-profit organizations. Participants discussed the costs and benefits of SIBS and provided recommendations to governments and policy makers to further increase uptake of SIBs in Australia.<br><br>***Key Take-Away(s):***<br>✓ The market for social impact bonds (SIB) is nascent on both a domestic and international scale. Some of the reasons for this lack of scale include the investment industry's focus on short-term performance and its reluctance to devote time and resources to understanding what is still viewed as a niche asset class. Governments and/or large institutional investors may need to participate as cornerstone investors in order to lend credibility to new issues.<br>✓ Social impact bonds are premised on the idea that financial returns and social returns can be achieved hand-in-hand. When an intervention financed by a social impact bond is successful, shared value is created and benefits accrue to both the public sector and private investors. |
| Baldini, N.S. (2015). Pay for success: Financing research-informed practice. *Cascade, Fall 2015* (89). Retrieved from https://www.philadelphiafed.org/community-development/publications/cascade/89/01_pay-for-success | This article offers an overview of the Pay for Success (PFS) model, perceived benefits and pitfalls of its application, and a brief description of PFS activity in the US. Baldini views PFS financing as having the potential to drive research-informed practice by governments and generate cost savings, but identifies a variety of potential challenges.<br><br>***Key Take-Away(s):***<br>✓ Key challenges of the PFS model include: (1) high transaction costs and capacity needs due to the need for extensive coordination among PFS implementation partners; and (2) potential for "creaming" of the target population to ensure outcomes are met.<br>✓ PFS financing requires innovation on the part of a federal/state/county payor (e.g., openness to new legal and financial approaches) and may necessitate a culture shift and broad systemic change. |
| Bradley, M., Dudding, B. & Wenner, Z. (2015). *Thriving in an outcomes-based market.* Washington, DC: The Aspen Institute. Retrieved from | The Aspen Institute's Report provides a brief background and framing of the SIB mechanism, and includes a detailed case study of the Center for Employment Opportunity's PFS project, including components of success and challenges to implementation. The report discusses the role of scalability and replication in the lead up to a SIB transaction. |

| Key Source | Overview |
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| http://www.aspeninstitute.org/sites/default/files/content/docs/pubs/ThrivingOutcomesBasedMkt.pdf | ***Key Take-Away(s):***<br>✓ PFS aims to create a transactional landscape that empowers organizations as they aggregate, analyze, and improve their social outcomes.<br>✓ Only 1% of service providers currently have the capacity to enter a PFS transaction.<br>✓ For the Center for Employment Opportunity, keys to success included: a legacy of data collection, capacity building and growth capital, a randomized controlled trial, and performance management. |
| Bridges Ventures LLP (2014). *Choosing social impact bonds: A practitioner's guide.* Retrieved from *http://bridgesventures.com/wp-content/uploads/2014/10/ChoosingSocialImpactBonds_APractitionersGuide.pdf* | This report provides three detailed sections on SIBs. The first section discusses unlocking better outcomes from the government or donor perspective, the delivery partner perspective, and the investor perspective, and concludes with potential for wider system change. The second section provides the design features needed to deliver the intended benefits of SIBs, the activities used for each design feature, and the persons or organizations typically responsible for each action. The final section includes recommendations and observations for governments and donors, service providers and investors.<br><br>***Key Take-Away(s):***<br>✓ SIBs enable creativity to develop new interventions, find better ways of delivering existing ones, and scale up what works.<br>✓ Recommendations for governments and donors included ensure payment metrics directly relate to intended outcomes; clearly define target beneficiaries; identify the full cost to society of the issue being addressed; establish a way of accounting for the counterfactual; and ensure all parties will agree on whether outcomes have or have not been delivered, against which payment will be made.<br>✓ Recommendations for service providers included embedding accurate and timely data collection and reporting systems; ensuring governance structure is empowered to respond decisively and creatively; driving appropriate referrals by engaging and incentivizing 'gatekeepers' to the target group; tapping new sources of capital to avoid cannibalization of existing funding; and fully costing the required intervention and investment.<br>✓ Recommendations for investors included matching investors financial risk-adjusted return expectations to outcome expectations; considering tiered capital structures; seeking top-up payments to create a financial upside opportunity that is linked to impact upside; and ensuring investors can engage and influence. |

| Key Source | Overview |
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| Disley, E., & Rubin, J. (2014). Phase 2 report from the payment by results Social Impact Bond pilot at HMP Peterborough. *Ministry of Justice Analytical Series.* London: Rand Europe. Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/325738/peterborough-phase-2-pilot-report.pdf | Disley and Rubin outline qualitative findings/lessons learned from the second phase of the HMP Peterborough SIB, collected through qualitative interviews with project stakeholders, in line with the project's five evaluation research questions. The report offers overviews of the HMP Peterborough intervention and contractual models, and outlines perceived benefits and pitfalls of each, concluding with lessons learned for future PFS projects of a similar nature.<br><br>***Key Take-Away(s):***<br>✓ Preliminary results of the pilot highlight the following potential strengths of the HMP Peterborough SIB model: (1) model flexibility where no theory of change was articulated for the intervention and contracts did not specify the intervention model to allow for course-correction; (2) partnership building in the community by building strategic links with a range of agencies, and ensuring sufficient length of the pilot to incentivize relationship-building in the community; (3) appointment of a local Project Director independent of any agency who led partnership building and monitoring/oversight activities; and (4) development of a customized case management database.<br>✓ Preliminary results of the pilot highlight the following potential weaknesses of the HMP Peterborough SIB model: (1) a flexible model approach makes the process of evaluating the intervention's effectiveness more difficult; and (2) failure to consider up-front how risk assessment data would be shared across partners.<br>✓ Perceived benefits spanned beyond members of the HMP Peterborough cohorts, resulting in expanded trainings for staff, better engagement of inmates regarding post-release care, improved understanding of inmate needs, and prompting of critical assessment of existing services and processes. |
| Dubno, J.A., Dugger, R.H., Gordon, D.L., Levin, D. & Peterson, P.A. (2014). *Early health "pay for success" social impact finance: Scaling up prenatal health care in Virginia.* Washington, DC: ReadyNation. Retrieved from http://readynation.s3.amazonaws.com/wp-content/uploads/ReadyNation-Pay-for-Success-Report-112114.pdf | This report makes the case for using PFS to expand nurse visiting programs through Virginia's Medicaid program to reduce premature and low birth weight (LBW) births, ultimately reducing healthcare costs and ensuring a future productive workforce to support economic growth. The authors cite successful outcomes of a pilot program in Virginia and the effectiveness of other nurse visiting programming as evidence that a PFS-funded intervention would be effective and worthwhile.<br><br>***Key Take-Away(s):***<br>✓ Barriers to implementing a PFS program for prenatal health care include: (1) limited comparison data on effectiveness of early health interventions in Virginia; (2) limited funding to acquire/analyze intervention data; (3) absence of a legislative framework for |

| Key Source | Overview |
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| | state involvement in PFS; and (4) disincentives for healthcare providers to participate in PFS, such as "churning" of Medicaid patients and downward adjustments in Medicaid service payments when a service or patient group is determined to cost less.<br>✓ Recommendations to address these barriers include: (1) convene a workgroup of PFS advocates to identify challenges and solutions; (2) identify laws/regulations that may prevent effective financing of PFS in Virginia and enact enabling legislation if necessary; (3) issue RFPs to obtain applications for viable PFS arrangements; and (4) obtain funding to carry out feasibility assessments of promising RFP respondents. |
| Federal Reserve Bank of St. Louis (2015, Sept 11). Engaging CDFIs in pay for success. *8 From the Eighth.* Podcast retrieved from https://www.stlouisfed.org/community-development/multimedia/8-from-the-eighth/engaging-cdfis-in-pay-for-success | This podcast offers two perspectives on the value of involving Community Development Finance Institutions (CDFIs) in PFS deals. Andy Rachlin, managing director of lending and investment at The Reinvestment Fund, and Joe Schmidt, director of strategic initiatives at the Illinois Facilities Fund (IFF), offer lessons learned based on their involvement with structuring the Chicago and Cuyahoga County PFS deals, respectively.<br>***Key Take-Away(s):***<br>✓ Large CDFIs are uniquely positioned to serve in intermediary/project coordinator roles within PFS deal-structuring activities due to their ability to bridge and translate between the policy and investment worlds, and their extensive networks and relationships within their communities.<br>✓ Critical lessons learned from structuring existing deals include: (1) identifying a payor committed to PFS long term; and (2) creating innovative processes to translate the concept of PFS into loan agreements (e.g., through "conditions precedent to funding" in Cuyahoga deal).<br>✓ The PFS field is likely to continue to grow and expand over the next 10 years as the market matures and documents and processes become standardized. |
| Flynn, J., Young, J. & Barnett, C. (2015). *Impact investments: A literature review.* Brighton, United Kingdom: Centre for Development Impact Institute for Development Studies. Retrieved from http://opendocs.ids.ac.uk/opendocs/bitstream/handle/123456789/6820/Impact_investments_a_literature_review.pdf?sequence=1 | This article reviews the body of literature on evaluating impact investments. The authors identify a series of evaluation approaches and tools cited commonly throughout the literature, and offer a thorough review of evaluation methodologies for SIBs—a common focus area for newer literature.<br>***Key Take-Away(s):***<br>✓ While there is a large array of tools and approaches available to evaluate social impact investments, there is a predominant focus on metrics and rating-based systems that are not evaluative per se, but rather offer a complement to other methods. |

| Key Source | Overview |
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| | ✓ Articles discussing the evaluations of three existing SIBs were included in the literature review—HMP Peterborough SIB, New York City Riker's Island SIB, London Homelessness SIB. Propensity score matching (PSM) was used in the Peterborough and New York City SIBs and a baseline methodology was used for the London SIB.<br>✓ Overall, there is a scarcity of literature on successful evaluation practice in impact investing. |
| Fogel, A., Shumway, J. & Udpa, A. (2015). *Roadmap for pay for success in Philadelphia*. Boston, Massachusetts: Social Finance. Retrieved from http://www.phila.gov/mayor/pdfs/20150616_PFS%20Roadmap%20and%20Feasibility%20Study%20Findings_vFINAL.pdf | This report presents the findings of Social Finance's four-month feasibility study of implementing a PFS project in the City of Philadelphia related to either recidivism or system-involved youth in out-of-county residential facilities. The study found transitional employment for returning citizens as the most PFS-ready opportunity to reduce recidivism to the Philadelphia Prison System, and low readiness for implementation of an intervention for system-involved youth.<br>***Key Take-Away(s):***<br>✓ Social Finance recommends that the City of Philadelphia pursue a PFS project related to workforce reentry through transitional jobs.<br>✓ Recommendations to the city in pursuing the PFS project include: (1) coordinate closely with the state to ensure alignment with any state-level processes and timelines; (2) continue to engage stakeholders external to the city to obtain buy in; and (3) consider sequencing multiple PFS projects over time. |
| Galloway, I. (2014). Using pay-for-success to increase investment in the nonmedical determinants of health. *Health Affairs*, *33*(11), 1897-1904. Retrieved from http://content.healthaffairs.org/content/33/11/1897.full.pdf+html | This article in *Health Affairs* describes existing pay-for-success health projects and related outcomes and provides suggestions for areas of future PFS projects, including childhood obesity, Hepatitis C transmission, and poor health from chronic homelessness. Galloway argues that a new market that values health, rather than health care, can buy better health through PFS.<br>***Key Take-Away(s):***<br>✓ Galloway recognizes a number of key challenges with the PFS model: public budget silos, government procurement and appropriations risk, and unreliable, unavailable, or inaccessible data. These three factors provide opportunities for policy reform in support of this model. |
| Government Accountability Office (GAO). (2015). *Pay for success: Collaboration among federal agencies would be helpful as governments explore new financing mechanisms.* (GAO Publication No. 15-646). | This report was developed in response to a congressional request for more information about PFS and its implementation to date, and the appropriate role for the federal government within PFS projects. The report examines: (1) how select PFS projects have been structured and what potential benefits they can provide; (2) how select PFS contracts have been structured to address potential project risks; and (3) the potential roles for the federal government's involvement in PFS projects. |

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| Washington, D.C.: U.S. Government Printing Office. Retrieved from http://www.gao.gov/assets/680/672363.pdf | A review of relevant literature and PFS project documents, and stakeholder interviews informed the report content.<br>***Key Take-Away(s):***<br>✓ GAO recommends that the Director of the Office of Management and Budget establish a formal means for federal agencies to collaborate on PFS. The key purpose of this collaboration would be to identify and broadly disseminate information on leading practices and lessons learned.<br>✓ Potential roles for the federal government to play in PFS projects include: (1) outcomes payor; (2) capacity building activities; and (3) loan guarantor. |
| Gustafsson-Wright, E., Gardiner, S. & Putcha, V. (2015). *The potential and limitations of impact bonds: Lessons from the first five years of experience worldwide.* Washington, DC: Global Economy and Development at Brookings. Retrieved from http://www.brookings.edu/~/media/Research/Files/Reports/2015/07/social-impact-bonds-potential-limitations/Impact-Bondsweb.pdf?la=en | This comprehensive report provides an overview of SIBs and key actors involved with their development, an inventory of 38 active SIBs worldwide, and a review of key policies and legislation that have facilitated the field's advancement. In addition, the report offers analyses of stakeholder motivations and key facilitators/challenges to SIB transactions, and an examination of 10 common claims made about impact bonds. Research for this report consisted of over 70 interviews with U.S.-based and international experts, and online surveys of 30 individuals involved with currently active SIBs.<br>***Key Take-Away(s):***<br>✓ Select conclusions from the report include: (1) SIBs have the potential to help improve social service delivery even though current deals have been complex and time- and expertise-intensive; (2) there has been enormous variation in SIB deal structure, mechanics, and roles, indicating a likelihood for continued flexibility as the model matures; (3) key factors to realizing a SIB transaction include measurable outcomes, evidence of intervention impact, government support, and dedication and collaboration of stakeholders; (4) rigorous evaluations (experimental) are not always necessary to measure impact and determine repayment; and (5) existing SIB deals are not achieving substantial scale in absolute terms.<br>✓ Increased transparency and knowledge sharing are key to advancing the SIB model, including the development of communities of practice and easily accessible online content. |
| In the Public Interest (ITPI), AFSCME, Minnesota Council of Nonprofits, Keystone Research Center, Oregon Center for Public Policy, Economic Opportunity | This report proposes a variety of pitfalls of PFS projects and financing mechanisms. The authors provide an overview of the PFS model, list five key issues raised by PFS projects, and offer a list of key questions to consider prior to making the decision to enter into a PFS project.<br>***Key Take-Away(s):*** |

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| Institute, Center for Effective Government, & the ReFund America Project at the Roosevelt Institute. (2015). *A guide to evaluating pay for success programs and social impact bonds.* Retrieved from http://www.inthepublicinterest.org/wp-content/uploads/ITPI-Pay-for-Success-Guide-Dec-2015.pdf | ✓ Five key issues with PFS raised by the authors include: (1) higher costs to taxpayers long-term relative to direct government funding of service providers to scale their interventions; (2) undue focus on financing mechanisms that fail to address the root causes of social problems rather than investment in policy change; (3) non-straightforward nature of isolating and measuring impact in the context of a PFS project; (4) compensation to investors for minimal risk taken since PFS service interventions often already have a rigorous evidence base; and (5) risk-sharing rather than risk transfer from the government.<br>✓ Key questions to ask when considering PFS relate to examining options, intervention selection, contract development, contract terms, measurement and evaluation, costs to the government and public, service delivery, ensuring transparency and accountability, and government capacity and expertise. |
| Jolliffe, D. & Hedderman, C. (2014). *Peterborough Social Impact Bond: Final report on cohort 1 analysis*. Leicester, United Kingdom: QinetiQ. Retrieved from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/341684/peterborough-social-impact-bond-report.pdf | This report offers a detailed analysis of the evaluation methodology for the first cohort of the HMP Peterborough SIB, including a validation of the Propensity Score Matching (PSM) methodology, and an assessment of reconviction data to determine whether payment is due to investors. Independent assessors concluded that the model was sufficiently robust to support a reconviction analysis. Further analysis showed an 8.39% reduction in reoffending rates within the cohort, which is insufficient to trigger repayment for the first cohort (minimum 10% reduction required).<br>***Key Take-Away(s):***<br>✓ The process of gathering and agreeing upon the sample of data to be evaluated and obtaining missing data for the first cohort took 11 months.<br>✓ While the reduced reoffending rate was not sufficient to trigger outcome payments for the first cohort, repayment could still be triggered at a future date if a 7.5% reduction across all cohorts is measured. |
| Kohli, J., Golden, M., Coletti, J. & Bo'sher, L. (2015). *From cashable savings to public value: Pricing program outcomes in pay for success.* Center for American Progress. Retrieved from https://www.americanprogress.org/issues/economy/report/2015/09/01/120300/from-cashable-savings-to-public-value/ | This brief report cautions governments in valuing outcomes for PFS transactions solely through cashable savings calculations, and instead propose a calculation that takes into account three distinct factors: (1) well-being benefits, (2) public's willingness to pay, and (3) cashable savings. A value calculation limited to cost savings undervalues the true benefit of social outcomes to government actors and narrows the circumstances to which PFS can be applied.<br>***Key Take-Away(s):***<br>✓ Of the three factors that comprise Kohli et al.'s value calculation, no single element is essential to a PFS initiative's viability (e.g., programs with little cash savings but high |

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| | public support and well-being benefits may generate enough value to support a PFS contract).<br>✓ Key benefits of PFS for governments include: creating accountability for outcomes; paying only for success and sharing risk of failure; integrating funding streams to achieve results; incentivizing private investors to help achieve societal outcomes; and delaying payment for preventive programs.<br>✓ Government valuation of outcomes needs to shift in order to enable PFS to realize its full potential. |
| MDRC. (2015). *MDRC statement on the Vera Institute's study of the Adolescent Behavioral Learning Experience (ABLE) program at Rikers Island.* Retrieved from http://www.mdrc.org/news/announcement/mdrc-statement-vera-institute-s-study-adolescent-behavioral-learning-experience | This statement by MDRC, intermediary for the New York City ABLE PFS project, offers a response to the evaluation findings released by Vera Institute indicating the PFS project was not successful in meeting its predefined success threshold. Despite outcomes targets not being met, MDRC explains that the PFS project was valuable in testing the implementation of the SIB financing arrangement, illuminating key lessons about challenges associated with scaling and replicating evidence based programs, and in potentially leaving a positive lasting legacy at Rikers Island.<br>***Key Take-Away(s):***<br>✓ The SIB financing mechanism worked properly in the case of the ABLE project; since the program did not meet the impact requirements, New York City is not paying for a program that did not produce results.<br>✓ The implementation of the ABLE intervention faced a number of challenges, including reaching adolescents who did not attend the Rikers school and the indeterminate lengths of stay for many of the young people.<br>✓ The ABLE project was able to generate significant buy-in from Rikers management, non-uniformed staff and uniformed staff, and school personnel, ultimately helping to drive a culture of sound decision-making and nonviolence inside Rikers. |
| Miguel, A. & Abughannam, S. (2014). *Housing first social impact bond feasibility study.* Toronto, Canada: MaRS Centre for Impact Investing and Social Finance. Retrieved from http://www.marsdd.com/wp-content/uploads/2014/10/Housing-First-Social-Impact-Bond-Feasibility-Study-2014.pdf | This paper determines whether a SIB would be a suitable tool for funding a housing intervention in the United Kingdom, providing scenarios and keys to the consideration of this model.<br>***Key Take-Away(s):***<br>✓ The key features of a SIB model include: a defined target population; a strong intervention model; the ability to scale with service providers with a track record of success; quantifiable outcomes and an effective measurement framework; and quantifiable economic benefit. |

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| | ✓ There are five primary inputs of a SIB model: intervention scope, intervention costs, public sector value, payment mechanism, and investment structure. |

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| Popper, N. (2015). *Success metrics questioned in school program funded by Goldman.* New York Times DealBook. Retrieved from http://www.nytimes.com/2015/11/04/business/dealbook/did-goldman-make-the-grade.html?_r=3 | This article calls into question the initial success reported by the Utah Preschool PFS project, and contends that the project had a flawed evaluation design and faulty definition of who constitutes a "likely" candidate for special education (target population). Field researchers argue little evidence of correlation between a low score on an aptitude test and whether a specific child in the Utah Preschool program would have needed special education in the absence of preschool, and the authors furthermore attribute a portion of the measured success to low English proficiency among incoming students. The article cites a need for more rigorous measurement of impact in PFS projects.<br><br>***Key Take-Away(s):***<br>✓ Nine early-education experts who reviewed the Utah Pre-K program for The New York Times reported a number of irregularities in how the program's success was measured, that they found to have led to an overstatement of the effect that the investment had achieved in helping young children avoid special education.<br>✓ It is difficult to properly structure public-private partnerships like SIBs, which depend on easily verifiable and commonly agreed-upon methods of measuring success for goals that can be hard to define, such as student success.<br>✓ Criticism of the Utah program points to issues that could hinder the wider adoption of the concept of SIBs. |
| Pritzker, J.B., Bradach, J.L. & Kaufmann, K. (2015). *Achieving kindergarten readiness for all our children: A funder's guide to early childhood development from birth to five.* Chicago, IL: Pritzker Children's Initiative & The Bridgespan Group. Retrieved from http://www.bridgespan.org/getattachment/feb8d3d3-042c-4a7b-a828-3b5bda8283a9/early-childhood-funder-guide-2015.aspx. | This report presents a series of tangible investment opportunities for philanthropists to pursue to improve early childhood outcomes from birth to five years of age, or "kindergarten readiness." Following an overview of lessons learned from current research, priority outcomes for young children, and barriers to outcomes improvement, the authors identify five overarching areas for philanthropic investment: (1) continuous quality improvement; (2) standardized and universal health and developmental screenings; (3) training and compensation for educators; (4) expansion of evidence-based programming; and (5) research and development.<br><br>***Key Take-Away(s):***<br>✓ The potential of PFS in improving early childhood outcomes lies in demonstrating what works to increase kindergarten readiness, and potentially changing the way government invests in these programs (SIBs are not a substitute for public funding).<br>✓ Philanthropic investment can support PFS by: directly investing in PFS contracts with the goal of establishing proof points to attract private capital and expand pressure for additional public funding; and funding technical assistance efforts for government entities and service providers. |

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| Rangan, V.K. & Chase, L.A. (2015). *Up for debate: The payoff of pay-for-success.* Stanford Social Innovation Review. Retrieved from http://ssir.org/up_for_debate/article/the_payoff_of_pay_for_success | Rangan and Chase provide a review of existing PFS contracts and posit that PFS will only work for certain service providers who can secure philanthropic funding. They argue that the PFS model will shift as projects are or are not successful, but there are larger benefits, including improving data collection and collaboration, that will outlast the surge in PFS projects. George Overholser, Tracy Palandijan, and Jeff Shumway provided responses and argue that philanthropic funding is not going to be the future of PFS, but instead loans will be recycled, partial PFS arrangements will increase the power of loans to redirect government allocations, and some providers may use their own balance sheets to finance PFS contracts. This paper provides a debate on the future of Pay for Success as a model.<br><br>***Key Take-Away(s):***<br>✓ The PFS model is only appropriate for a narrow cohort of nonprofits who can effectively deliver and measure their social impact and who can translate that impact into financial benefits or cost savings.<br>✓ Impact seeking, not return seeking, will spur the growth of PFS.<br>✓ As the PFS model is proven effective, the government may demand lower payment rates, which will de-incentivize private investment. |
| Rinzler, D., Tegeler, P., Cunningham, M. & Pollack, C. (2015). *Leveraging the power of place: Using pay for success to support housing mobility* [Working Paper]. San Francisco, CA: Federal Reserve Bank of San Francisco. Retrieved from http://www.frbsf.org/community-development/files/wp2015-04.pdf | Rinzler et al. discusses the role of PFS financing in housing interventions, providing costs and benefits of this model as well as providing a hypothetical PFS scenario for housing mobility. This case study argues that PFS would be a valuable tool to support and sustain an innovative housing intervention.<br><br>***Key Take-Away(s):***<br>✓ There are potential downsides to the PFS model, including the potential for reduced support for an intervention if positive results are not immediately found.<br>✓ PFS can facilitate collaboration across sectors and levels of government, can support or expand programs in the short-term while generating lessons for policy and practice, and can build the case for future investment and changes in government policy. |
| Roman, J.K. (2015). *Solving the wrong pockets problem: How pay for success promotes investment in evidence-based best practices.* Washington, DC: Urban Institute. Retrieved from http://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000427-Solving-the-Wrong-Pockets-Problem.pdf | Roman defines the "wrong pockets" problem as a situation where a governmental entity that bears the costs of implementing a PFS project (payor) does not receive all of the benefits involved (e.g., because outcomes of the PFS project produce benefits for a different governmental entity). He makes suggestions related to: the role of the government, within a single agency and across multiple units of government; prevention efforts; regional governance; nonfederal spending of federal investments; and PFS programs that benefit citizens rather than the government. In each |

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| | case, the report presents a PFS solution, including drug courts and the establishment of a central authority for PFS projects.<br><br>***Key Take-Away(s):***<br>✓ There are six types of program underfunding that can be attributed to the wrong pockets problem: intra-agency, interagency, time, regional governance, intergovernment, and noncashable savings.<br>✓ There are three primary reasons why governments do not receive compensation for the projects they implement: many benefits occur farther in the future; there are real benefits per capita but they are relatively small; and returns are very hard to measure. |
| Schaeffer, S., Shumway, J. & Brumme, C.R. (2015). After pay for success: Doubling down on what works. *Stanford Social Innovation Review*. Retrieved from http://ssir.org/articles/entry/after_pay_for_success_doubling_down_on_what_works | This article focuses on the sustainability of social service interventions after a PFS deal expires, assuming the intervention proves successful in meeting predetermined outcomes. The authors advocate for including an "achievement compact"—a statement of intent from government to integrate successful interventions and performance-based funding mechanisms into ongoing or new funding streams—in PFS contracts to ultimately shift government contracting behavior toward a stronger focus on measuring impact.<br><br>***Key Take-Away(s):***<br>✓ The authors proposes the following policy recommendations, among others:<br>– *Federal:* OMB should require government applicants to PFS solicitations to include sustainability plans and investigate ways to provide preferred federal contracting status to "proven" PFS interventions;<br>– *State level:* States should create commissions to monitor active PFS projects in their jurisdictions charged with sharing data and lessons learned from projects and advocating for sustainable funding for successful projects;<br>– *Philanthropy*: Philanthropic stakeholders should indicate to government stakeholders the importance of the achievement compact to their investment in PFS deals and fund technical assistance to help governments design performance-based contracts. |
| Shelton, J. & Beeck Center for Social Impact and Innovation. (2015). *Smarter government for social impact: A new mindset for better outcomes.* Retrieved from http://www.driveimpact.org/report/ | This report cites a need for the U.S. government to embrace an outcomes-focused mindset, and offers guidance for policymakers and public sector leaders on how they can begin to work toward this systemic transformation. The authors outline the following four steps to reach this goal and corresponding action steps to achieve them: (1) creating an outcomes mindset; (2) rallying support for change; (3) developing necessary supporting infrastructures, and (4) building an outcomes marketplace.<br><br>***Key Take-Away(s):*** |

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| | ✓ Within the present government mindset, spending and contracts are linked to the performance of activities without necessarily linking them to achieving set outcomes, incentivizing compliance, and disincentivizing innovation.<br>✓ While the authors view PFS as a critical first step toward outcomes-focused government, they call for more substantial budgetary commitments from the public and private sectors to move the needle toward "smarter government." |
| Shiffman, H. (2015). *An update on pay-for-success contracting and social impact bonds: Lessons learned from executives who are making it work* [PowerPoint slides]. Open Minds Strategy and Innovation Institute. Retrieved from https://www.openminds.com/email/strategy/061615SIIsocialimpact.pdf | This presentation offers an overview of PFS contracting and the SIF PFS program, and presents lessons learned from on-the-ground experts from Denver and the New York City ABLE project. The presentation concludes with summaries of seven active PFS projects.<br>***Key Take-Away(s):***<br>✓ Interest and involvement of federal and state actors in PFS continues to grow.<br>✓ The NYC ABLE PFS project continues to adapt in order to meet predefined outcomes targets and overcome challenges (e.g., since the adolescent jail population in 2014 was too low to meet contractual requirements, the program expanded to a new age group and additional facilitation staff were hired to expand program). |
| Social Finance. (2015). *Technical guide: Designing effective outcome metrics and measurement systems.* Retrieved from http://www.socialfinance.org.uk/wp-content/uploads/2015/02/Tech_Guide_2_Designing_Effective.pdf | This guide provides detailed steps and considerations for determining appropriate outcome measures for PFS projects. Social Finance identifies five key processes for the establishment of outcome metrics: identifying the outcome to represent the social value; establishing a baseline; valuing the outcome; creating a way to measure and attribute the impact of the intervention; and evaluating the intervention.<br>***Key Take-Away(s):***<br>✓ Outcome identification will have multiple stages and may not be a linear process.<br>✓ There are fundamental concepts that should be considered when determining the outcomes, including time scales, surrogate outcomes, binary vs. frequency, and perverse incentives.<br>✓ Outcome metrics must be rigorously evaluated, objectively determined, and consistently evaluated. |
| Tan, S., Fraser, A., Giacomantonio, C., Kruithof, K, Sim, M., … Mays, N. (2015). *An evaluation of social impact bonds in health and social care: Interim report.* London, United Kingdom: Policy Innovation Research Unit. Retrieved from http://www.piru.ac.uk/assets/files/Trailbla | This report offers initial evaluation findings related to nine projects that received seed funding through the UK Government's Social Enterprise Investment Fund in 2013, collectively referred to as the SIB "Trailblazers." The report first presents a literature review on SIBs (2010-2014), then provides in-depth descriptions of the nine Trailblazer models and their implementation status, and concludes with a summary of thematic findings based on a series of 36 semi-structured interviews with the SIB project stakeholders. |

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| zer%20SIBs%20interim%20report%20March%202015,%20for%20publication%20on%20PIRU%20siteapril%20amendedpdf11may.pdf | ***Key Take-Away(s):***<br>✓ Recurring themes in existing literature on SIBs include the roles of: competing values, measurement, risk, financial incentives, and innovation and/or scaling-up proven interventions as drivers of SIB development.<br>✓ A review of the nine Trailblazer programs suggests that there is no standard/typical health and social care SIB contractual model.<br>✓ Based on the two operational Trailblazer SIBs (Manchester, Thames Reach) and operational Essex model, two aspects of successful SIB implementation include: (1) clarifying data requirements and increasing data tracking capacity prior to project launch; and (2) establishing collaborative working relationships among all SIB stakeholders to ensure ongoing communications. |
| United Way of Salt Lake. (2015). *Social impact bond for early childhood education shows success.* Retrieved from http://www.uw.org/news-events/news-releases/2015-news-releases/10-07-2015-20sib-20news-20release-20final-2.pdf | This press release by the United Way of Salt Lake, intermediary for the Utah Pre-K PFS Project, publicizes the initial measured success of the project. Of 595 low-income three- and four-year-olds who attended high-quality preschool financed by the PFS project in the 2013-14 school year, 110 of the four-year-olds were identified as likely to use special education in grade school. Results showed that of those 110 students identified as at risk, only one used special education services in kindergarten.<br><br>***Key Take-Away(s):***<br>✓ The project's achievement of successful results triggered the first investor payment for any PFS project in the U.S. to investors Goldman Sachs and J.B. Pritzker, equal to 95% of savings calculated for the first year cohort. |
| Vera Institute. (2015). *Impact evaluation of the Adolescent Behavioral Learning Experience (ABLE) program at Rikers Island*. Retrieved from http://www.vera.org/sites/default/files/resources/downloads/adolescent-behavioral-learning-experience-evaluation-rikers-island-summary-2.pdf | This report by the independent evaluator for the New York City ABLE PFS project, Vera Institute, provides an overview of the PFS service intervention and the evaluator role, a description of the research design, and a summary of findings. Vera's evaluation determined that the program did not meet the pre-defined threshold of success of a 10 percent reduction in recidivism bed days (RBD).<br><br>***Key Take-Away(s):***<br>✓ Vera implemented a quasi-experimental approach that compared RBDs for eligible 16- to 18-year-olds to a historical group who passed through the jail before the program was established using a statistical technique called propensity score matching.<br>✓ The measured change in recidivism among the study group was not statistically significant when compared to the matched historical comparison group: the study group was found to display similar trends in rates of recidivism over time, indicating that any shifts were the result of factors other than the ABLE program. |

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| Wilson, K. E., Silva, F., & Ricardson, D. (2015). *Social impact investment: Building the evidence base*. Organisation for Economic Co-operation and Development. Retrieved from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2562082 | This extensive report provides a background on SIBs, including their history, framework, and key components. It discusses topic areas that social impact investing may be useful for, and discusses how to evaluate the impact of social service provision. The report makes recommendations about data collection at the local and federal level to improve evaluation and resulting indicators. The report concludes with policy actions and implications, including developing common definitions, building data infrastructure, and primary impact measurement.<br><br>***Key Take-Away(s):***<br>✓ There are four main phases of the impact measurement process: (1) agreeing upon impact goals and the strategy to achieve them; (2) building the evidence base to include collecting, storing, and validating data; (3) assess the quality, level and efficacy of the impact based on the analysis of data gathered; and (4) review the impact and measurement process to provide input to future improvements in impact investment.<br>✓ SIBs should be considered for health and care needs of the elderly; unemployment, inactivity; school drop-outs; housing affordability and quality; policing, safety, and crime; and family care and the employment of women. |

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