

**Commonwealth of Pennsylvania**  
**Contracts and Procurement**  
**Pay for Success Contracting: Request for Information**  
**May 8 2015**

**Upstream USA**  
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## Overview

Upstream USA (Upstream) is pleased to respond to the Commonwealth's call for promising Pay For Success (PFS) initiatives in the Health and Human Services high-priority issue area. We believe that the services offered by Upstream are a strong potential fit for the PFS model and offer a promising way to reduce statewide unintended pregnancies significantly.

Half of all pregnancies in the US are unintended<sup>1</sup>, and a significant proportion occur with women who are using a contraceptive method, but one that is not working effectively for them. The contraceptive pill is the method of choice in the US, and unless women take the pill with exacting regularity, it is not a very effective method. There are new methods of reversible contraception – IUDs and implants (LARCs) – that are much more effective than the pill, in part because they do not rely on user compliance. Most health centers do not offer the full range of contraceptive methods, so women are not given the option of choosing these more effective methods. If health centers changed policy and practice so that women could get all methods of contraception easily, including the most effective ones, unintended pregnancy could be significantly reduced. And because unintended pregnancy affects low-income women at five times the rates of high-income women<sup>2</sup>, the proposed intervention is focused primarily in health centers that disproportionately serve a low-income clientele.

The Upstream proposition is:

- *Focused:* Upstream focuses on removing barriers in health centers that serve low-income women, so that women get same day access to a full range of contraceptive methods, particularly IUDs and implants. LARCs are twenty times more effective than the most popular forms of contraception at reducing unplanned pregnancy<sup>3</sup>.
- *Intuitive:* Many women of reproductive age are not regularly screened for pregnancy intention, which is a missed opportunity to make sure that women get the contraceptive care they need, when they need it. Upstream's solution is to change health center policy and screening by incorporating the One Key Question™<sup>4</sup> into every visit – “Would you like to become pregnant in the next year?” – to ensure that women who do not desire to become pregnant are given patient-centered contraceptive counseling whenever they are in the health care system. Upstream also enables the center to offer LARCs on a same-day basis.
- *Evidence-Based:* Rigorous research, cited below, suggests that when women are offered the full range of contraceptive methods for free, and are counseled about which methods are most effective, overwhelmingly they choose LARC as their method of choice, and this leads to a significantly reduced number of unplanned pregnancies.

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<sup>1</sup> <http://www.guttmacher.org/pubs/journals/ajph.2013.301416.pdf>

<sup>2</sup> <http://www.guttmacher.org/pubs/journals/ajph.2013.301416.pdf>

<sup>3</sup> <http://www.acog.org/Womens-Health/IUDs-and-Birth-Control-Implants>

<sup>4</sup> <http://www.onekeyquestion.org/>

- *Measureable and Evaluable.* Medicaid and other administrative databases are able to measure births accurately and inexpensively. The large targeted effect size, large number of women served, and multiple site nature of an Upstream intervention lend themselves well to rigorous evaluation of impact on birth rates, birth spacing and other important social outcomes.
- *Cost Effective to Taxpayers:* Using RCT data and Upstream’s own cost history as a guide, we estimate a cost per reduced number of Medicaid births of less than \$1,800. This compares very favorably to estimated state Medicaid costs of \$5,700 per birth, which is only one of many state cost areas driven by unplanned pregnancies.
- *Poised to Scale:* Although Upstream is a young organization, it is rapidly developing a track record for scaling its intervention with high fidelity. Within 3 years, Upstream could reach 200 of the health centers in Pennsylvania that see the highest numbers of low income women of childbearing age. And within 3 years, assuming a typical health center sees an estimated 1,000 women of reproductive age per year, and estimating a reduction in unplanned pregnancies of 7.5 fewer per 100 person years, the Commonwealth would experience 45,000 fewer unplanned pregnancies. ( $200 * 1,000 * 7.5\% * 3 = 45,000$ )

In consultation with Third Sector Capital Partners, Inc., we initially envision a PFS initiative where (a) \$12 million of private financing would be raised upfront from philanthropists and banks; (b) Upstream would provide technical training to 200 Philadelphia health centers, reaching 200,000 Medicaid-eligible women of childbearing age; (c) As a result, the number of unplanned pregnancies would be reduced by 45,000, (d) Of these, approximately 50% would have become births; of those approximately 50% would not merely be delays in the timing of a birth; and among those, approximately 50% would have been covered by Medicaid. Multiplying through, the 45,000 fewer unplanned pregnancies would result in approximately 5,625 fewer unplanned births that would have been covered by Medicaid at a State cost of \$5,700 per birth. Pennsylvania would therefore experience about \$32 million in Medicaid savings alone ( $\$5,700 * 5,625 = \$32$  million), a portion of which would be paid out to the project in the form of PFS success fees, and (e) The success fees would be used to replenish the private upfront capital and to sustain the Upstream program in future years. These assumptions depend upon the number of addressable health centers, and on their size distribution, the details of which we have not yet determined.



## **Pennsylvania's Unplanned Pregnancies Cost More than \$700 Million per Year**

In 2010, there were 59,300 unplanned births in Pennsylvania, 31,800 of which were publicly funded at an average cost of \$22,596 and a total Medicaid cost of more than \$700 million.<sup>5</sup> According to the Guttmacher Institute, the potential gross public savings for preventing these unintended pregnancies was \$538 million, \$183 million of which exist at the state level. Stated on a per-birth basis, the potential savings are approximately \$16,900 and \$5,700 at the total and state levels, respectively.<sup>6</sup> These potential savings exclude other potential savings such as those related to TANF, foster care and other state systems that may ultimately be affected by the number of unplanned pregnancies.

Because 82% of Pennsylvania's Medicaid patients are served by managed care organizations ("MCOs")<sup>7</sup>, most of which are under a capitated rate system,<sup>8</sup> the savings generated by an Upstream intervention would *initially* produce economic benefits only at the MCO level. Over time, however, as capitated rates are renegotiated by the state, and as other non-medical savings accrue in areas such as foster care and TANF, the state would ultimately experience cost savings driven by a lowering of unplanned pregnancies. We are imagining an approach where the Commonwealth partners with MCOs to ensure that savings are shared in a way that provides an appropriate incentive to reduce pregnancy-related expenses.

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<sup>5</sup> <http://www.guttmacher.org/pubs/public-costs-of-UP-2010.pdf>

<sup>6</sup> <http://www.guttmacher.org/pubs/public-costs-of-UP-2010.pdf>

<sup>7</sup> Medicaid Medicare enrollment: <http://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Data-and-Systems/Downloads/2011-Medicaid-MC-Enrollment-Report.pdf> pp4

<sup>8</sup> Reimbursement arrangement by MCO in PA <http://www.medicaid.gov/Medicaid-CHIP-Program-Information/By-Topics/Data-and-Systems/Downloads/2011-Medicaid-MC-Enrollment-Report.pdf> pp 56

## **LARCs are Far More Effective at Preventing Pregnancy than Other Forms of Contraception**

CDC data shows that “real world” failure rates of the pill, ring and patch are significant whereas LARCs virtually never fail.

### Failure Rates of Contraceptive Methods<sup>9</sup>

- Spermicides: 28%
- Natural Family Planning or Fertility Awareness: 24%
- Male Condom: 18%
- Diaphragm: 12%
- Oral Contraceptive Pills: 9%
- Contraceptive Rings: 9%
- Contraceptive Patch: 9%
- Copper IUD: 1%
- Levonorgestrel IUD: 0%
- Etonogestrel Subdermal Implant: 0%

## **LARC Adoption Rates are Low Among Women Served by FQHCs and Other Health Centers Serving Low-Income Communities**

A recent study by George Washington University found that only one third of large federally qualified health centers (FQHCs) offer women IUDs or implants methods of contraception.<sup>10</sup> If health centers do offer IUDs or implants, they often require that their patients make multiple visits in order to get their method. This is now considered outdated protocol. In the United States, only 6.2 percent of women of reproductive age use the IUD or implant.<sup>11</sup> According to the CDC, the use of LARCs by sexually active women is currently estimated as 7% among women ages 15-44, 11% among women ages 25-34, and 4.5% among sexually active teenagers.<sup>12</sup> Use of these methods is much higher in Western Europe, which helps to contribute to lower rates of teen and unplanned pregnancy.<sup>13</sup>

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<sup>9</sup> <http://www.cdc.gov/reproductivehealth/unintendedpregnancy/contraception.htm>

<sup>10</sup> [http://www.contraceptionjournal.org/article/S0010-7824\(13\)00639-2/abstract?rss=yes](http://www.contraceptionjournal.org/article/S0010-7824(13)00639-2/abstract?rss=yes)

<sup>11</sup> [http://www.guttmacher.org/pubs/fb\\_contr\\_use.html](http://www.guttmacher.org/pubs/fb_contr_use.html)

<sup>12</sup> <http://www.cdc.gov/vitalsigns/larc/>

<sup>13</sup> <http://www.un.org/esa/population/publications/contraceptive2011/contraceptive2011.htm>

## **The Barriers to LARC Adoption Among Low-Income Women are Not Just Financial**

Beyond financial barriers, there are many other barriers to that prohibit women from getting access to the most effective methods of contraception when they visit health centers. These include:

- Clinicians who are not trained to insert IUDs and implants
- Poor counseling of women about the relative effectiveness of various methods
- Poorly designed patient education materials, often not written in the patients' native language
- Health centers that do not stock all methods of contraception
- Inflexible scheduling of appointments that don't accommodate patient needs

## **Rigorous Studies Suggest Large Decreases in Unplanned Pregnancy Can be Achieved by Reducing Barriers to LARC Adoption**

We now have strong evidence that when women have access to a full range of contraceptive methods, are counseled about which methods are most effective, and can get any method on the same day they ask for it, many choose IUDs and implants over other methods. In a large study of 9,000 women in St. Louis who were counseled about the relative effectiveness of the full range of contraceptive methods, 75 percent chose an IUD or implant, resulting in a dramatic 75-80 percent decrease in rates of unplanned pregnancy, teen pregnancy, and abortion. No other intervention of this size has had this kind of impact on health outcomes. But the study's authors write that all the elements of their intervention were essential to achieving these health outcomes including same day access to all methods, excellent counseling, and no cost or cost-sharing.<sup>14</sup>

A separate cluster randomized trial in 40 family planning sites recently documented that a half-day clinician-based training in LARCs grew patient selection of a LARC by 65% and, in turn, found reduced incidence of pregnancy per person year for the intervention group (7.9%) compared to the control group (15.4%), a reduction of 7.5 percentage points.<sup>15</sup>

Additional interventions aimed at women (including in the post partum and post-abortion settings) have shown that educational interventions using personal contacts, social media, and other techniques can increase the uptake and consistent use of LARCs, which in turn reduces subsequent rates of pregnancy.<sup>16</sup>

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<sup>14</sup><http://www.nejm.org/doi/full/10.1056/NEJMoa1400506#t=abstract>

<sup>15</sup> Harper CC, Rocca C, Darney PD, et al. Long-acting reversible contraceptive training intervention: results from a cluster randomized trial on pregnancy outcomes. *Obstetrics & Gynecology*. 2014; 123 Suppl 1:106S-7S.

<sup>16</sup> Kofinas JD, Varrey A, Sapra KJ, et al. Adjunctive social media for more effective contraceptive counseling: a randomized controlled trial. *Obstetrics & Gynecology*. 2014; 123(4): 763-70.

## **The Upstream Intervention is Poised to Increase LARC Adoption in Pennsylvania**

Upstream delivers a customized, on-site, training and technical assistance experience that is designed to ensure that health centers can offer the full range of contraceptive methods, same day, to all their female patients of reproductive age. It begins with an intensive baseline assessment to better understand the particular needs of the individual health center. In that baseline assessment we identify all the barriers to achieving this goal. These often include issues of provider training, billing and coding issues, scheduling, and stocking the methods.

We schedule an in-person site visit before we bring our team to the health center to review the upcoming training, gather data, and sort out logistics. At this visit we meet with the site leadership, key members of the executive team, but also with the providers and front line staff. In those conversations we further identify the barriers to same day access to the most effective methods.

The on-site experience is two five-hour days, plus an additional two hours for training on inserting Nexplanon, the implant. The curriculum includes modules for providers, for the entire staff, and exclusively for the front line staff. The provider module includes work with the VirtaMed pelvic simulator, a powerful training tool for teaching IUD insertion. Through role playing and facilitated workshops we teach shared decision-making counseling. Our expert coders and billers identify missed revenue opportunities to ensure that the health center is maximizing revenues. And after the on-site training, we follow up both for data collection purposes, and to ensure that the work is continuing, including sending providers back for additional mentoring and proctoring.

Upstream has demonstrated an ability to conduct trainings at scale, and to generate meaningful impact.

- We conducted three trainings in Texas, Arizona, and Massachusetts, and have 6 more trainings scheduled for 2015. By the end of 2015 we expect to have trained health centers that will see 30,000 women of reproductive age annually. We are gathering data about the impact on provider attitudes and knowledge, contraceptive method mix, and patient satisfaction
- Early data from our first training already shows that, year over year, LARC use increased from a baseline of 6% to 26% of all women served in the Texas clinic.

We are confident that Upstream is well poised to ramp up its training capacity to the levels contemplated by the statewide Pennsylvania PFS project we describe in this RFI response.

## Initial Estimates Suggest that the Upstream Intervention May be Highly Cost Effective to Pennsylvania Taxpayers

As stated above, the Guttmacher Institute estimates that \$16,900 and \$5,700 can be saved, at the total and state levels, respectively, for each reduction in the number of unplanned births among publicly-funded mothers.<sup>17</sup> These estimates exclude any additional savings that may be associated with TANF, foster care and other state systems.

In comparison, we estimate that the Upstream intervention could bring about reductions in publicly-funded pregnancies at costs as low as \$1,000 per foregone pregnancy.

The following assumptions draw upon our experiences in Texas, Arizona, and in Massachusetts:

- The one-time cost of delivering the Upstream intervention to a health center that serves 1,000 Medicaid-eligible women of childbearing age per year is approximately \$50,000.
- As mentioned above, a cluster randomized trial in 40 family planning sites recently documented that a half-day clinician-based training in LARCs increased patient selection of a LARC by 65% and, in turn, found reduced incidence of *pregnancy* per 100 person years for the control group, compared to the intervention group from 15.4 to 7.9.<sup>18</sup>
- We are not able to predict whether the precise populations served in Pennsylvania would match those served in the above mentioned cluster randomized trial. Nor is Upstream's intervention identical to the half-day clinician-based training that was tested. (In fact, Upstream offers a significantly more intensive intervention in scope and duration). However, if among a population of 1,000 served, Upstream were to achieve a similar impact of shifting the pregnancy per person year rate from 15.4% to 7.9%, this would, after just three years, correspond to 225 pregnancies fewer than would otherwise be the case ( $[15.4\% - 7.9\%] * 1,000 * 3 = 225$ ).
- Dividing the number of reduced pregnancies into the \$50,000 one-time cost, we arrive at a \$222 cost per reduced number of pregnancies over a three-year period. Given that Upstream acts to "permanently transform" behaviors at the health centers, it is likely that reduction in pregnancy rates would persist for far more than three years, and that the \$222 estimate overstates Upstream's cost per reduced number of unplanned pregnancies.

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<sup>17</sup> <http://www.guttmacher.org/pubs/public-costs-of-UP-2010.pdf>

<sup>18</sup> Harper CC, Rocca C, Darney PD, et al. Long-acting reversible contraceptive training intervention: results from a cluster randomized trial on pregnancy outcomes. *Obstetrics & Gynecology*. 2014; 123 Suppl 1:106S-7S.

- When comparing the \$222 cost for reducing the number of pregnancies to the Guttmacher Institute's \$5,700 estimated state-level Medicaid cost per birth, several additional factors would need to be taken into account:
  - Only roughly half of pregnancies result in births
  - Many near-term reductions in pregnancies will not result in a lifetime reductions in the number of births
  - Many of the women served in a health center are not covered by Medicaid
  - Depending upon reimbursement policy, the expense of LARC devices may need to be covered as an additional cost to the project
  
- Conservatively “over-estimating” the effects of these factors, we nevertheless arrive at a \$1,778 cost per reduced number of Medicaid-covered births that is far lower than the \$5,700 of estimated state Medicaid cost per birth. (2x for births-to-pregnancy ratio, 2x for near-term-to-long-term reduction ratio, 2x for percent covered by Medicaid ratio = a total factor of 8x, which, applied to the \$222 cost results in an adjusted cost of \$1,776)
  
- In order to reach deeply into the Medicaid population, it may be necessary to deliver services to health centers that are smaller than the 1,000-woman example described above, which would potentially result in a higher cost per reduced number of pregnancies due to the somewhat fixed cost per Upstream intervention. We feel, however, that there is significant room, given the \$1,776-vs.-\$5,700 benefit to cost ratio estimated for a large clinic setting.

In preparation for implementing a PFS project, Upstream has had conversations with Third Sector, an expert intermediary skilled at managing projects with diverse groups of stakeholders, economic modeling, fundraising, and data analysis. Should the Commonwealth select Health and Human Services as an issue area for a PFS project, Upstream would look forward to the opportunity to work with Third Sector.

Smarter giving. Greater good.



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Maari C. Porter  
Executive Director

Traci Anderson  
Governor's Budget Office  
Commonwealth of Pennsylvania  
Harrisburg, PA 17101-2210

May 8th, 2015

Dear Ms Anderson,

**RE: PAY FOR SUCCESS REQUEST FOR INFORMATION (#0B 2015-1)**

Thank you for the opportunity to respond to Governor Wolf's Request for Information (RFI) on proposed Pay for Success contracts for the Commonwealth of Pennsylvania.

Philanthropy Network Greater Philadelphia ("Philanthropy Network") is supportive of the Governor's proposal to explore Pay for Success projects in Pennsylvania and encourages the Governor's Budget Office to engage regional and local philanthropy in the development of this effort.

As the Governor's Budget Office will be aware private philanthropic investments, grants and partnerships have been a key component of all Pay for Success deals that have been executed across the country. As the eastern Pennsylvanian regional network for philanthropy, we are interested in the Pay for Success model and have convened our members to explore the model and the intersections with government. We welcome a conversation between Philanthropy Network members and the Governor's Budget Office as the Commonwealth's plans progress.

By way of background Philanthropy Network is the Greater Philadelphia region's membership association for organizations and individuals active in philanthropy. Our 155+ members represent a broad spectrum of funder types, interests and approaches that reflect the increasing diversity of philanthropy and together invested over \$250M in the region in 2013 alone. Our mission is to inform and inspire philanthropy that sparks solutions and heightens the quality of life in the Greater Philadelphia region.

Philanthropy Network and its members work together and in partnership with the public and private sectors to solve complex social problems with a particular focus on *Sparkling Solutions* to address five persistent poverty related social problems – reading by fourth grade; promoting youth safety and youth development; increasing access to health care; preventing and ending homelessness; and reducing hunger and fostering healthy eating. All of these focus areas align with, and are mutually supportive of, the five high priority areas laid out in the Governor's Pay for Success proposal.

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[philanthropynetwork.org](http://philanthropynetwork.org)

Philanthropy plays a vital role in advancing the prosperity of our region and can provide, in the right conditions, funding and partnerships that supports risk, experimentation and innovation. Philanthropy can also foster partnerships to bring stakeholders and diverse actors together to unite around shared goals, as well as advocating and influencing policy, non-profits, government and the general public. Together, these are all important ingredients in fostering and facilitating multi-sector, multi-partner collaborations that generate demonstrable social and financial benefits.

We look forward to working with you,

Yours sincerely,



Maari Porter  
Executive Director



## Executive Summary

The Corporation for Supportive Housing (CSH) and Inglis Foundation, Philadelphia, PA (Inglis) appreciate the opportunity to respond to the Commonwealth’s Request for Information regarding Pay For Success Initiatives. Inglis and CSH have been collaborating to create a PSF funded model for people with very severe physical disabilities transitioning from institutional to community-based care. CSH has also collaborated on several PSF initiatives targeting another of the Commonwealth’s high-priority populations: homeless individuals who are “super users” of human services. Inglis and CSH recommend that the Commonwealth considers the following as it prepares a formal Request for PSF Proposals:

- Focus on populations and interventions that have a strong track record of success in improving lives and generating public systems savings or cost offsets.
- Select target populations and interventions that have an ability to scale across the Commonwealth, and have the greatest potential return on investment.
- Align the RFP to support existing, ongoing efforts that Commonwealth has as high priorities in order to leverage and complement efforts.
- Design the RFP to use PFS as lever for changing public systems, not just financial instrument.

CSH and Inglis have identified long-term care and community supports and chronic homelessness (and more specifically super-utilizers) as two key areas of opportunity on which we recommend the Commonwealth focus its energy. In response to the Commonwealth’s request for feedback, please see the following:

- **Promising Policy/Service areas:**
  - Long Term Care: pp 1-9
    - Proposed Intervention Inglis LIFE (Living Independently For Everyone): pp 6-7
    - PSF Return on Investment: pp 7-9
  - Chronic Homelessness, pp 10-14
- **Considerations when Structuring Pay for Success Contracts**
  - Contract Considerations: pp 15-16
  - Service Provider Considerations: p 15
- **Outcomes to be Prioritized**
  - Metrics and Payment Triggers: pp 16-17
  - Inglis LIFE metrics: p 9
- **Lessons from Other States:**
  - Long-Term Care: pp 3-4; pp 17-18
  - Chronic Homelessness: pp 17-18
- **Other considerations:**
  - Discussed throughout the RFI

## Introduction

For more than 20 years, CSH has served as a national non-profit intermediary and Community Development Financial Institution (CDFI). Our mission is to advance solutions that use housing as a platform to deliver services, improve the lives of the most vulnerable people, and build healthy communities. We have more than 100 staff in 20 locations nationally, with unparalleled expertise in the issue of integrating housing and healthcare, supportive housing models, financing streams, and service delivery best practices, and deep experience in client targeting. CSH serves as a catalyst, bringing together people, skills and resources, and as a thought leader, designing new programs and policies, creating demonstration models, and educating the public, private, and nonprofit sectors to collaboratively tackle and invest in innovative solutions to some of our society's most intractable issues. CSH is a leader in the emerging field of Pay for Success financing that supports impactful, cost effective social innovations.

Based on our experiences in numerous States and communities with Pay for Success, CSH has organized our response to the Commonwealth's RFI around several core components:

- Evidence of success of interventions ( and target populations)
- Feasibility and opportunity for implementation
- Pay for Success Contract considerations
- CSH's qualifications and experience

CSH has identified long-term care and community supports and chronic homelessness (and more specifically super-utilizers) as two key areas of opportunity on which we recommend the Commonwealth focus its energy. Outlined below is an analysis of the evidence and the opportunity for implementation of each in the Commonwealth of Pennsylvania.

## Long-term Care and Community Supports: The Evidence

Supportive housing, a combination of affordable community-based housing with flexible and voluntary supportive services, is a solution for states seeking to transition persons with disabilities from institutional to community-based settings. Besides providing the least restrictive setting and offering community integration, multiple studies demonstrate significant costs savings when analyzing average per person costs of delivering services in the community versus delivering services to the same target population in an institutional setting.

- In its annual profile of long-term services and supports in 2012, the AARP showed that nationally persons with physical disabilities could receive services in the community for \$10,957 versus \$29,533 in a nursing facility. Persons with intellectual disabilities could be served in the community for \$42,896 while institutional costs for the same group averaged \$123,053 per person.<sup>1</sup>

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<sup>1</sup> Houser, A., Fox-Grage, W., & Ujvari, K. (2012). Across the states: Profiles of long-term services and supports. Retrieved from [http://www.aarp.org/content/dam/aarp/research/public\\_policy\\_institute/ltc/2012/across-the-states-2012-executive-summary-AARP-ppi-ltc.pdf](http://www.aarp.org/content/dam/aarp/research/public_policy_institute/ltc/2012/across-the-states-2012-executive-summary-AARP-ppi-ltc.pdf)

- A study published in the *Journal of Health and Social Policy* in 2005 found average savings of \$43,947 per participant in public expenditure when comparing the cost of providing services using Medicaid Home and Community-Based waivers (HCBS) versus institutional care.<sup>2</sup>
- The most recent data published by the National Council on Disability reports the average annual expenditures for state institutions was \$188,318, compared to an average of \$42,486 for Medicaid-funded home and community based services<sup>3</sup>.
- A 2012 analysis by H. Stephen Kaye shows that even a gradual shift away from spending on institutional settings like nursing homes to services delivered in the community can significantly reduce costs at the state level. A shift of just 2% per year can reduce spending by about 15% over ten years.<sup>4</sup>
- Meaningful primary care for these populations is non-existent or ineffective and disability-competent health care providers are difficult to find or access. (Kroll, 2006)
- Despite representing 17 percent of the working age U.S. population, adults with disabilities accounted for 39.2 percent of total emergency room visits. Those with a severely limiting disability visited an urgent care department more often than their peers and were more likely to visit the department more than four times per year. (Rasch, 2014)
- Their independence is negatively affected by an array of very predictable and preventable medical complications such as urinary tract infections, severe skin breakdown, respiratory illness, psychiatric decompensation, and diabetes or metabolic complications (De Jong 2002; Lezzoni 2003).
- As a result, disabled people account for 22% of the under age 65 dually eligible population, and 57% of total Medicaid/Medicare expenditures. (Breslin, Davidson and Dreyfus, 2011).
- These health care related costs are multiplied by an attendant care system that is inconsistent in quality and dependability.
- In its background paper on rebalancing to community-based care, the National Health Policy Forum described how this shift is desired both by states as the payers of services as well as consumers who “want to live in their own homes, participate in their own communities, and have greater control over their daily decisions.”<sup>5</sup>
- A national research study conducted on consumer perspective revealed that many in recovery want to live interdependently, with strong circles of support made up of their spouse/partner and children,

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<sup>2</sup> Kitchener, M., Ng, T., Miller, N., & Harrington, C. (2005). Institutional and community-based long-term care: A comparative estimate of public costs. Manuscript for *Journal of Health and Social Policy*. Retrieved from [http://laborcenter.berkeley.edu/homecare/pdf/kitchener\\_02.pdf](http://laborcenter.berkeley.edu/homecare/pdf/kitchener_02.pdf)

<sup>3</sup> National Council on Disability. (2009). The costs of deinstitutionalization: Comparing the costs of institution versus community-based services. Retrieved from <http://www.ncd.gov/publications/2012/DIToolkit/Costs/inDetail/>

<sup>4</sup> Kaye, H. S. (2012). Gradual rebalancing of Medicaid long-term services and supports saves money and serves more people, statistical model shows. *Health Affairs*, 31, 6 :1195-1203

<sup>5</sup> Shirk, C. (2006). Rebalancing long-term care: The role of the Medicaid HCBS Waiver Program. Retrieved from [http://www.nhpf.org/library/background-papers/BP\\_HCBS.Waivers\\_03-03-06.pdf](http://www.nhpf.org/library/background-papers/BP_HCBS.Waivers_03-03-06.pdf)

other family members, peer supporters and friends, and they want to live within safe, decent, affordable housing integrated into communities while earning livable wages in meaningful jobs.<sup>6</sup>

The average cost of delivering services in the community for the elderly, disabled and for people with intellectual disabilities is about one-third of the average cost of institutional service delivery<sup>7</sup>. Even when including the cost of rental assistance or other housing related costs for supportive housing, significant costs savings are observed when compared to institutional settings. Table 2 illustrates this cost savings in a range of states by comparing the costs of keeping people with disabilities in institutions versus providing them with supportive housing in the community. Although each scenario differs slightly based on the target population as well as variances in service intensity and setting, it is clear that providing people with housing and supports in the community is far less expensive than keeping them in institutions.

Table 2: Costs of Institutionalization vs. Costs of Community-Based Approach

State	Annual Cost of Institutionalization (per capita)	Annual Cost of Housing and Services in the Community (per capita)	Cost Details
Illinois	\$51,528 <sup>8</sup>	\$23,608 <sup>9,10</sup>	Average cost to house a nursing home resident covered by Medicaid versus supportive housing costs (including Medicaid costs, rental assistance, and non-Medicaid funded services)
Minnesota	\$89,990 <sup>11</sup>	\$42,832 <sup>12</sup>	Annual cost for residential care through Minnesota State Operated Community Services versus supportive housing costs (including Medicaid costs, rental assistance, and non-Medicaid funded services)

<sup>6</sup> Onken, S. & Dumont, J. (2002). Mental health recovery: What helps and what hinders? Retrieved from <http://www.nasmhpd.org/docs/publications/archiveDocs/2002/MHSIPReport.pdf>

<sup>7</sup> Houser, A., Fox-Grage, W., & Ujvari, K. (2012). Across the states: Profiles of long-term services and supports. Retrieved from [http://www.aarp.org/content/dam/aarp/research/public\\_policy\\_institute/lrc/2012/across-the-states-2012-executive-summary-AARP-ppi-lrc.pdf](http://www.aarp.org/content/dam/aarp/research/public_policy_institute/lrc/2012/across-the-states-2012-executive-summary-AARP-ppi-lrc.pdf)

<sup>8</sup> Nursing Home Safety Task Force. (2010). Final report to Governor Pat Quinn. Retrieved from <http://www2.illinois.gov/nursinghomesafety/documents/nhstf%20final%20report.pdf>

<sup>9</sup> Illinois Supportive Housing Providers Association. (2010). A plan to move individuals with mental illness out of nursing homes and into the community-based option of supportive housing. Retrieved from <http://www2.illinois.gov/nursinghomesafety/documents/supportive%20housing%20providers%20association%20comments%20.pdf>

<sup>10</sup> Heartland Alliance, Health and Disability Advocates and Corporation for Supportive Housing. (2011). Implementation of the Affordable Care Act and Medicaid reform in Illinois to incorporate permanent supportive housing. Retrieved from [http://hdadvocates.org/\\_files/HDAFiles/Access%20to%20Healthcare%20Materials/Final\\_Medicaid\\_Report\\_with\\_Logos\\_8-25-11.pdf](http://hdadvocates.org/_files/HDAFiles/Access%20to%20Healthcare%20Materials/Final_Medicaid_Report_with_Logos_8-25-11.pdf)

<sup>11</sup> Minnesota Department of Human Services. (2013). Target populations to be served by a Pay for Performance Pilot Program. Internal document.

<sup>12</sup> Minnesota Department of Human Services. (2014). Community Alternatives for Disabled Individuals Waiver. Retrieved from <https://edocs.dhs.state.mn.us/lfserver/Public/DHS-5712-ENG>

State	Annual Cost of Institutionalization ( <i>per capita</i> )	Annual Cost of Housing and Services in the Community ( <i>per capita</i> )	Cost Details
New Jersey	\$215,952 <sup>13</sup>	\$37,230 <sup>14</sup>	Annual average cost of care in a state psychiatric hospital versus annual cost of supportive housing.
New York	\$136,310 <sup>15</sup>	\$58,885 <sup>16</sup>	State-operated psychiatric facilities versus supportive housing costs.
Pennsylvania	<b>\$147,240</b>	<b>\$114,792</b>	<b>2007-2009 Medicaid claims analysis of persons living in Special Rehab Facilities (Inglis House, Good Shepherd, and Margaret Maul) and persons living in the community with Independence and OBRA waiver support.</b>

Community-based care promotes recovery and improves quality of life.

In addition to being cost-effective and consistent with consumer preference, research also demonstrates that community-based services can improve care for persons with disabilities.

A HCFA evaluation of existing PACE programs in 2011 found:

- **PACE prevents and/or significantly reduces preventable hospitalizations.** PACE enrollees had fewer hospital admissions and shorter hospital stays, thus successfully preventing avoidable conditions that could require or lengthen hospitalization.
- **PACE reduces the need for costly, long-term nursing home care** and the risk of admission to nursing homes for 30 days or longer was 14.9% within 3 years.
- **PACE produces Medicare savings** in the year following enrollment. The study estimates Medicare capitation rates are 42-46% lower than estimates of fee-for-service expenditures, while Medicaid capitation rates are higher than estimated fee-for-service costs.
  - A longitudinal study conducted in Ontario, Canada followed individuals who received community-based services after their discharge from a psychiatric hospital and demonstrated significant improvements in living situation, social skills and recreation. Eighty-six percent of the participants

<sup>13</sup> State of New Jersey Department of the Treasury. (2013). Department of Human Services overview. Retrieved from <http://www.nj.gov/treasury/omb/publications/12budget/pdf/54.pdf>

<sup>14</sup> Rosenau, J. (2012). Trenton health care program gives a home to former inmates and patients with mental illnesses. Retrieved from [http://www.nj.com/mercer/index.ssf/2012/07/trenton\\_health\\_care\\_program\\_gi.html](http://www.nj.com/mercer/index.ssf/2012/07/trenton_health_care_program_gi.html)

<sup>15</sup> New York City Department of Health and Mental Hygiene. (2013). New York/New York III supportive housing evaluation interim utilization and cost analysis. Retrieved from <http://shnny.org/images/uploads/NY-NY-III-Interim-Report.pdf>

<sup>16</sup> New York City Department of Health and Mental Hygiene. (2013). New York/New York III supportive housing evaluation interim utilization and cost analysis. Retrieved from <http://shnny.org/images/uploads/NY-NY-III-Interim-Report.pdf>

reported that they had more independence and more privacy and overall quality of life than living in a hospital.<sup>17</sup>

- 31% of individuals with disabilities rank their health as fair or poor, compared to 7% of people without a disability.<sup>1</sup>
- The independence of Individuals with disabilities is compromised by preventable medical conditions such as urinary tract infections, severe skin breakdown and diabetes/metabolic complications. (DeJong 2002; Lezzoni 2003).
- Finally, longitudinal studies show that members of this community suffer higher rates of isolation, substance abuse, depression and anxiety disorders driven by chronic strain, isolation and lack of social support. (Gayman, Brown and Qui, 2012)
- Misperceptions and stereotypes can make it difficult for women with disabilities to obtain reproductive medical care and services. (National Council on Disabilities, *Current State of Health Care of People with Disabilities*, September 2009)
  - Brunt and colleagues studied the quality of life of persons with severe mental illness across housing settings and reported that respondents in supportive community settings rated their quality of life significantly better in four life domains including work, leisure activities, living satisfaction and social relations than did persons living in institutional settings.<sup>18</sup>

Research also shows housing and recovery to be closely linked, demonstrating an association between community-based housing and enhanced effectiveness of treatment and rehabilitation services as well as maintenance of treatment gains.<sup>19</sup> Individuals who reported positive neighbor and landlord relations were also more likely to report higher perceptions of their own recovery from mental illness.<sup>20</sup>

## **Long-term Care and Community Supports: Feasibility and Concrete Opportunity**

Individuals transitioning from the institutional care settings to the community present great promise employing a Pay for Success model. A confluence of factors - including States' focus on re-balancing efforts to shift more of its funding to community-based interventions, strong evidence about the cost-effectiveness of providing services in the community, and States' efforts to meet the goals of the Supreme Court's Olmstead decision – combine to make this a prime population for consideration. Additionally, The Center for Medicare and Medicaid Services (CMS) is exploring the potential for realizing federal savings for this population (as well as super-utilizers) – creating additional opportunity for expanding the impact of this model. Attached to this RFI response is a paper outlining the evidence-base and cost-effectiveness of providing community-based supportive housing for institutionalized care populations.

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## **Inglis Community LIFE – A High Return, Low Risk Pay For Success Pilot Project**

<sup>17</sup> Gerber, G.J. et al (1994). Quality of life of people with psychiatric disabilities 1 and 3 years after discharge from hospital. *Quality of Life Research*. 3:379-383

<sup>18</sup> Brunt, D., Hansson L. (2004). The quality of life of persons with severe mental illness across housing settings. *Nordic Journal of Psychiatry*. 58:293-298.

<sup>19</sup> Moxham, L., Pegg, S. (2000). Permanent and stable housing for individuals living with a mental illness in the community: a paradigm shift in attitude for mental health nurses. *Aust N Z J Ment Health Nurs*. 9(2):82-8.

<sup>20</sup> Kloos, B. & Shah, S. (2009). A social ecological approach to investigating relationships between housing and adaptive functioning for persons with serious mental illness. *American Journal of Community Psychology*. 44(3-4):316-26

In Pennsylvania specifically, CSH is partnering with Inglis in Philadelphia to explore the potential for employing Pay for Success to catalyze the transition of individuals with significant disabilities and complex health care needs into affordable housing with the supports they need to live in the community. The LIFE Project addresses two of the five high priority areas identified in the Commonwealth's RFI:



- Health and human services, including supportive housing;
- Long term living and home-and community-based services

### The Inglis Community LIFE Innovation

**Inglis' mission is to enable persons with significant disabilities to function with maximum independence and self-sufficiency in their homes and communities at a long term sustainable cost.** Inglis is collaborating with the Centers for Medicare and Medicaid Services (CMS), the Department of Human Services (DHS) and the Office of Long Term Living (OLTL) to implement and operate a five-year demonstration for a capitated at-risk health plan - Inglis Community LIFE - to care for persons with significant physical disabilities. Inglis LIFE adapts the successful Program of All-Inclusive Care for the Elderly (PACE – known as Life in Pennsylvania) to enable people with significant physical disabilities to live in a community setting versus a nursing home or other form of institutionalization. This will be accomplished through a Person Centered Care Plan supported by an Interdisciplinary Team (IDT) to enable each member to achieve his or her goals and live life to the fullest. Inglis LIFE will incorporate comprehensive behavioral health services as the need for behavioral/mental health services in this population is significant and underserved. Key elements of Inglis LIFE include:

- **Integrated health and wellness services** delivered through an in-home oriented primary care medical home, behavioral health supports and a network of specialists committed to caring for people living with disabilities.
- **24 hour consumer driven attendant support** delivered in full coordination with the LIFE interdisciplinary team and backed up by Inglis.
- **Active engagement** through virtual and physical day services, adapted computing, employment readiness and social networking.
- **Innovative use of technology** to ensure coordination of services (EMR for physical, behavioral and ADLs) and to maximize independence (social networking, communication, mobility and housing).
- **40 Integrated Accessible, Affordable Housing** to enable individuals currently living in nursing homes to move into the community and to a life of independence.
- **Medicaid savings of \$50,000 per member per year** for 300 members (\$15M annually) plus \$6.7M in annual savings through elimination of 50 high cost skilled nursing beds at Inglis House.

### Inglis LIFE Model

The current fee-for-service Medicare/Medicaid system is ill-equipped to meet the needs of individuals with disabilities who face physical, social and attitudinal barriers to quality care. Persons with functional limitations and complex healthcare needs require highly personalized, coordinated solutions for health and LTSS. Fee for service results in high cost, high utilization due to barriers to access, almost no care coordination and lack of disability competent solutions. Managed care initiatives provide a “one-size-fits-all” approach that have not been successful in meeting the needs of complex and vulnerable populations.

Inglis LIFE implements several major innovations to deliver improved quality of care and quality of life for people with disabilities while helping the government comply with the 1999 Olmstead decision and save over \$20M annually by serving 300 people living with significant disabilities and complex healthcare needs. LIFE:

- Adapts the successful PACE model to meet the long term needs of young people living with disabilities.
- Creates an integrated network of care designed to coordinate health and attendant care services as well as social services and family support systems that are currently provided *a la carte*.
- Leverages the power of rapidly emerging technologies -- health (EMR, PHR, telehealth, emergency alerts, and activity trackers), social network (communication, social media, digital media) and home management (door openers, environmental controls, monitors) -- to maximize independence while minimizing cost.

Just as the LIFE care model coordinates client services, PFS financing provides new sources of capital to ensure LIFE has the capital resources it needs to:

- Supplement already committed PHFA low income housing tax credits vouchers and Inglis equity investments to create accessible, affordable and fully integrated housing to enable nursing home transition.
- Integrate the disparate revenue streams (Medicare, Medicaid, 40 HUD rental subsidies) to provide on-going support with savings generated by capitation, risk management and the elimination of inappropriate utilization and duplication. LIFE achieves this by through intensive service coordination and intelligent investment of information technologies to improve quality while reducing cost.
- Offer incentives for performance, accountability for cost management and transparency for investors by employing an independent evaluator to review performance outcomes and validate savings. PSFs have the potential to increase funding from current social services donors looking to fund outcomes and attract funding from non-philanthropic investors looking for new investment opportunities.

#### **Inglis LIFE Advantages:**

1. Saves Medicaid over \$20M annually in serving 300 people living with significant disabilities and complex healthcare needs who are among the high cost and highest utilizers of services.
2. Supports the LIFE members in establishing a comprehensive Life Plan that articulates his/her goals and defines success for the next chapter of his/her life.
3. Improves the quality of care through access to disability competent, fully coordinated, cost effective health providers and facilities.
4. Ensures coordinated and reliable attendant care services in the home.
5. Reduces isolation and depression through in-person and virtual engagement opportunities.
6. Leverages technology to increase independence and minimize transportation challenges

#### **Return on Mission: Inglis LIFE Pay For Success Investment Opportunity**

The initial success of this PFS Investment will be measured by the success of the public offering. The investors will require the Commonwealth and Inglis to agree to a third party evaluator to validate the achievement of the targets as well as the delivery of savings to Medicaid. The evaluator will measure specific quality of care, quality of life and cost savings targets. Achievement of these targets is required for Inglis to receive incentive payments built into the investment. We have included funding for actuarial services in this

grant proposal to update Medicaid per member per month costs and to potentially serve as the evaluator for the bond. The PFS Measures will be a subset of the LIFE program's extensive quality improvement measurement system:

- **Health and Wellness:** Skin Wound Rates, Urinary Tract Infection Rate, Pharmaceutical Usage Rates, ER Visits, Hospital Days, Re-admission Rate, Routine Immunizations, Unscheduled Care, Nursing Home Days, Deaths
- **Independence:** Functional Independence Measure™, Community Integration, PCA Number of Missed Shifts, PCA Turnover Rate, Well Being Scale Scores, Member Support Calls Completed
- **Engagement:** Life engagement test scores, MDS Depression Scale Scores, Anti-Depressant and Sleeping Aid Usage, Job Readiness Competencies, Computing skills, Volunteer internship experiences, Social media usage, Community event participation
- **Person Centeredness:** LIFE plan goal attainment, Member satisfaction scores, Member grievances/appeals and unusual incidents, Collaboration in care decisions and assessment of IDT performance, Well-being scores, Engagement scores

If these measures are achieved, investors will earn their returns – and of course most importantly, LIFE members will achieve their goals and live life to the fullest.

#### **Pay For Success Resources Desired:**

Inglis is raising \$20.1 million of innovation capital to develop the LIFE program to serve 300 nursing home eligible consumers and support the transition of at least 40 residents from Inglis House and other nursing homes into a newly constructed Inglis managed apartment community where they will be among LIFE's first clients. The Inglis Board has committed \$5.1 million of LIFE's implementation costs and now seeks to fund the \$15 million balance through SIB financing.

Competition for traditional social services funding is fierce. As a result, many funders – particularly governmental funders -- are facing resource constraints which often makes them risk averse and unable to invest in new service models. PFS/SIBs offer a new source of social innovation capital to fill this gap by offering meaningful investment returns to investors accustomed to higher levels of risk. Based upon extensive financial modeling, LIFE is an excellent pilot project not only for the extension of the PACE model to a new population, but as a lower risk investment to demonstrate the potential of PFS/SIB in the healthcare field. Inglis projects a Fall 2015 investor roll out with the public offering taking place Winter 2015-16.

As LIFE planning advances, Inglis has been working closely with organizations on the leading edge of PFS financing, including The Robert Wood Johnson (RWJF) and Hess Foundations both of which provided initial planning support. RWJF has introduced Inglis to its project partner CSH which has provided technical support for several of the SIB offerings done in the United States to date. RWJF and Hess have also expressed interest in investing in Inglis LIFE's SIBs once the offering becomes available. Other potential investors include The Reinvestment Fund, Philadelphia, PA; the Harry & Jeannette Weinberg Foundation, Baltimore, MD; The Pew Charitable Trusts and as well as several high net worth impact investors. Inglis has had preliminary discussions with Goldman Sachs concerning their interest in serving as the investment intermediary for the project.

#### **Return on Investment: Inglis LIFE Pay For Success Investment Opportunity**

CHS and Inglis have completed extensive analysis of the LIFE opportunity in collaboration with DHS based upon actuarial analysis from the Mercer and Milliman. As a result, we believe that a PFS investment in this project is highly feasible, low risk and can deliver substantial savings to the Commonwealth.

**Feasibility** - This proposed \$15M PFS pilot project is a low risk, high return project which has the potential to **generate over \$25M savings for the Commonwealth over the initial 5 year PFS period** net of interest and principle repayment. Subsequent years could achieve over \$20M annually.

**Low Risk** – Due to Inglis’ commitment to ***eliminate 50 high cost Inglis House skilled nursing home beds***, the annual savings of \$6.7M essentially guarantees payment of the annual interest (\$755,000 per year @ 5% interest) and the \$15M principle over the term of the 5 year investment.

**Shovel Ready** – Inglis has partnered with PHFA, PHA and DHS to develop Inglis Gardens at Belmont and the Inglis Community LIFE program. Construction of the Belmont community has begun and are targeting opening in May 2016. The Inglis LIFE program is in full development and will begin to support consumers with complex disabilities and health care needs who will be transitioning to the community from Inglis House and other nursing homes by June 2016.

State Savings Summary					
	Year 1	Year 2	Year 3	Year 4	Year 5
From LIFE Program	4,736,700	10,121,580	13,362,480	14,958,000	14,958,000
From Inglis House Bed Reduction	6,752,500	6,752,500	6,752,500	6,752,500	6,752,500
Total state savings before Medicare funding	11,489,200	16,874,080	20,114,980	21,710,500	21,710,500
Less: Medicare funding at 51.82%	(5,953,703)	(8,744,148)	(10,423,583)	(11,250,381)	(11,250,381)
Total state savings after Medicare funding	5,535,497	8,129,932	9,691,397	10,460,119	10,460,119
Less: Success payments @ 5.00% of investment	(755,000)	(755,000)	(755,000)	(755,000)	(755,000)
<b>Net Savings After Success Payments</b>	<b>4,780,497</b>	<b>7,374,932</b>	<b>8,936,397</b>	<b>9,705,119</b>	<b>9,705,119</b>
Five year savings, net of success payments		40,502,063			
Repayment of debt, end of year five		(15,100,000)			
<b>Net savings to state</b>		<b>25,402,063</b>			



## Chronic Homelessness and Super-Utilizers: The Evidence

First documented by Kim Hopper and colleagues in 1997, a growing body of research has identified a group of people who are caught in a revolving door of homelessness and high use of public services, such as homeless shelters and emergency rooms. These “super users” of public services typically have complex health conditions and consume a disproportionate share of Medicaid costs (e.g., the 5% of Medicaid beneficiaries who use 50% of costs). A study of homeless recipients of general assistance in Los Angeles County found that the most expensive 10% of homeless individuals used over \$70,000 per year in county hospitals, emergency rooms, and correctional health services. While not all chronically homeless individuals are frequent users, many cycle between shelter, ERs, detox, and the street, presenting a costly and sizable population for a Pay for Success contract focused on supportive housing. For instance, analysis of the University of Michigan and Saint Joseph Mercy health systems in Washtenaw County, MI showed that each of the top 100 utilizers amassed an average per person cost to hospitals of \$178,500 annually with a median annual cost of \$99,500. The core components of the intervention include: use of data and/or a triage tool to identify the highest-cost users; intensive outreach and engagement of homeless, frequent utilizers; and strong partnerships between supportive housing providers and community health clinics to comprehensively serve the health, housing, and social

service needs of clients/tenants in a comprehensive fashion. CSH would work with the Commonwealth and local partners to tailor this basic model to the needs and local circumstances in Pennsylvania.

In dozens of studies across the country over the last 20 years<sup>21</sup>, supportive housing has been repeatedly proven to be an effective intervention that improves housing stability, reduces the use of expensive crisis care, and improves outcomes even for the most vulnerable individuals with complex needs. Based on this body of research, the Substance Abuse and Mental Health Services Administration (SAMHSA) has long regarded supportive housing as an evidence-based practice that is “the most potent” intervention to impact housing stability and one that consistently helps people with disabilities achieve their desired goals. This section includes a cross section of research demonstrating that supportive housing works.

**Supportive housing results in dramatic reductions in hospitalizations, emergency department usage, and health costs for persons with complex co-occurring disorders including chronic health conditions, mental illness and substance abuse disorders.**

- In Los Angeles county 10% of the homeless population accounts for 72% of homeless healthcare costs. When comparing the year before and after entering supportive housing among this group:
  - ER visits decreased 71% from 9.8 to 2.8 visits per person per year on average;
  - Inpatient readmissions dropped 85% from 8.5 to 1.2 admits;
  - Inpatient days decreased 81% from 28.6 to 5.5 days; and,
  - On average cost avoidance per person per year was \$59,416 with a total cost decrease of 81%.<sup>22</sup>
- In Massachusetts, a statewide pilot of chronically homeless individuals showed a reduction in mean Medicaid costs from \$26,124 per person annually before entering supportive housing to \$8,499 in the year after entering supportive housing.<sup>23</sup>
- Among chronically homeless persons with physical and/or psychiatric conditions in Seattle overall Medicaid charges were reduced by 41% in the year after entering supportive housing.<sup>24</sup>
- The Chicago Housing for Health Partnership study found a 41% reduction in nursing home days used (from 10,023 to 5,900) when comparing the years pre and post supportive housing.<sup>25</sup>

**Supportive housing results in improved health and mental health for individuals when comparing the period before and after they enter supportive housing.**

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<sup>21</sup> Rog, D., Marshall, T., Dougherty, R., et al. (2013). Permanent supportive housing: Assessing the evidence. *Psychiatric Services*. Retrieved from <http://ps.psychiatryonline.org/article.aspx?articleid=1790640>

<sup>22</sup> Flaming, D., Lee, S., Burns, P., & Sumner G. (2013). Getting home: Outcomes from housing high-cost homeless hospital patients. Retrieved from [http://www.csh.org/wp-content/uploads/2013/09/Getting\\_Home\\_2013.pdf](http://www.csh.org/wp-content/uploads/2013/09/Getting_Home_2013.pdf)

<sup>23</sup> Massachusetts Shelter and Housing Alliance. (2007). Home and health for good: A statewide pilot housing first program. Retrieved from <http://www.mhsa.net/matriarch/documents/HHG%20June%20report%20FINAL.pdf>

<sup>24</sup> Larimer, M., Malone, D., Garner, M. et al. (2009). Health care and public service use and costs before and after provision of housing for chronically homeless persons with severe alcohol problems. *JAMA*. 2009; 301(13):1349-1357.

<sup>25</sup> CSH. (2011). Supportive housing: Reducing Medicaid costs and improving health outcomes. Retrieved from [http://www.csh.org/wp-content/uploads/2011/12/6\\_9Presentation.pdf](http://www.csh.org/wp-content/uploads/2011/12/6_9Presentation.pdf)

- In Denver, a study found 50% of tenants placed into supportive housing experienced improved health status, 43% had improved mental health outcomes, and 15% reduced substance use.<sup>26</sup>
- The Minnesota Supportive Housing and Managed Care Pilot demonstrated that after 18 months participants experienced fewer mental health symptoms, decreased their use of alcohol and/or other drugs and improved their housing stability. They also reported a greater sense of safety and improved quality of life.<sup>27</sup>

**Supportive housing has a positive impact on housing retention, even among tenants with long histories of homelessness and the most severe psychiatric, substance abuse and health challenges.**

- The evaluation of the Closer to Home Initiative – a project targeted to people who were chronically homeless – found that 83% of the tenants were still in supportive housing after one year and 77% after two years. The retention rate was high even among those tenants with the most severe psychiatric and substance use disorders – 79% were still housed one year after placement.<sup>28</sup>
- Similarly, an evaluation of two supportive housing projects in San Francisco, also targeting chronically homeless individuals, found that 81% of tenants remained in housing for at least one year. The large majority of the tenants in these two projects had dual psychiatric and substance use disorders.<sup>29</sup>

**Chronic Homelessness and Super Utilizers: Feasibility and Opportunity**

CSH, in partnership with a number of jurisdictions, has designed, implemented and execute a proven model for successfully housing and supporting “super utilizers”. The Frequent Users Systems Engagement (FUSE) model has proven to be an effective intervention for reducing costs and improving outcomes for chronically homeless individuals and super-utilizers. **Variations and adaptations on this model are currently be planned or implemented in at least three Pay for Success initiatives.**

CSH designed and implemented the first Frequent Users Systems Engagement – FUSE – initiative in 2007 in New York City to address the acute housing needs of the population that cycle in and out of jails, homeless shelters, psychiatric hospitals, detox and drug treatment programs, and other emergency systems at immense cost to the public. In total, the project placed 200 frequent users in enhanced supportive housing and *generated over \$15,000 in annual cost savings per individual, realized through reduced hospitalizations and days spent in jails and shelters.*<sup>i</sup> The initiative has demonstrated similar results in other jurisdictions.

- The Hennepin County, MN, FUSE initiative found dramatic reductions in shelter and arrests – 60% of FUSE participants experienced fewer arrests in the 22 months post-housing, and 45% had 1 or no arrests at all. There were 1,704 fewer shelter nights and 700 fewer nights in county jails.

<sup>26</sup> Perlman, J. & Parvensky, J. (2006). Cost benefit analysis and program outcomes report. Retrieved from [http://www.denversroadhome.org/files/FinalDHFCCostStudy\\_1.pdf](http://www.denversroadhome.org/files/FinalDHFCCostStudy_1.pdf)

<sup>27</sup> National Center on Family Homelessness. (2009). The Minnesota supportive housing and managed care pilot: Evaluation summary. Retrieved from <http://www.hearthconnection.org/storage/files/Pilot%20-%20Evaluation%20Summary.pdf>

<sup>28</sup> Barrow, S., Soto, G., & Cordova, P. (2004). Final report on the evaluation of the Closer to Home Initiative. Retrieved from [http://www.csh.org/wp-content/uploads/2011/12/Report\\_cth\\_final1.pdf](http://www.csh.org/wp-content/uploads/2011/12/Report_cth_final1.pdf)

<sup>29</sup> Martinez, T. & Burt, M. (2006). Impact of permanent supportive housing on the use of acute care services by homeless adults. *Psychiatric Services*, 57, 992-999.

- Connecticut’s statewide FUSE initiative, which houses 120 individuals, found that after the first year of housing, individuals experienced a 99% decrease in shelter days and a 73% decrease in jail episodes.
- King County, WA implemented a FUSE model evaluation found a 45% reduction in jail /prison bookings, and a 38% reduction in jail days.
- The Denver FUSE initiative, headed by the Denver Sheriff’s Department, recently shared findings that there has been a 90% decrease in annual jail days for FUSE consumers, translating into an estimated \$114,480 savings to the Department annually.

The evidence for FUSE is clear: it dramatically improves the lives of vulnerable individuals caught in the institutional cycle of homelessness and incarceration while reducing public costs. To date, 12 communities are operating FUSE programs across the country; an additional three sites are in the planning stages.

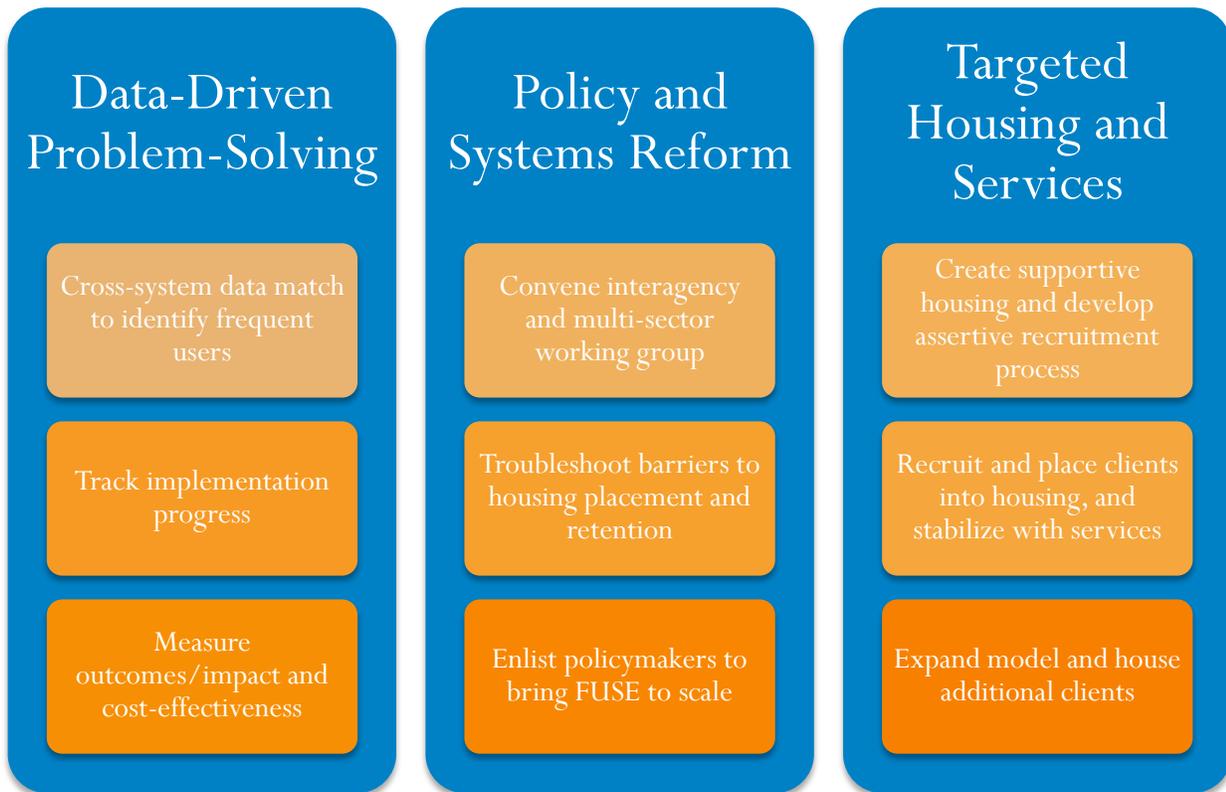


To maintain housing and end the cycle of homelessness and incarceration, the target population requires a comprehensive, multi-sector service solution that involves coordination of services and funding streams across several, currently disparate, systems of care. FUSE combines permanent affordable housing with comprehensive support services, and hinges on interagency coordination. Across the country, public and private agencies are partnering to develop, implement, and evaluate innovative cross-system strategies to improve the quality of life and reduce public costs among frequent users. Of all the issues facing this group, none is more immediate than the need to secure housing. Without access to safe and affordable housing, people re-entering the community have little chance at success. CSH and FUSE are at center of these efforts.

**The FUSE Blueprint**

The FUSE model hinges on three essential pillars, described below.<sup>ii</sup> The FUSE Blueprint services as the roadmap for communities looking to implement the FUSE model. For more, visit our web site at [csh.org/fuse](http://csh.org/fuse).

- **Data-Driven Problem-Solving:** Data is used to identify a specific target population of high-cost, high-need individuals who are shared clients of multiple systems (jails, homeless shelters and crisis health services) and whose persistent cycling indicates the failure of traditional approaches. Data is also used to develop a new shared definition of success that takes into account both human and public costs, and where the focus is on avoiding institutions altogether, as opposed to simply offloading clients from one system to another.
- **Policy and Systems Reform:** Public systems and policymakers are engaged in a collective effort to address the needs of shared clients and to shift resources away from costly crisis services and towards a more cost-effective and humane solution: permanent housing and supportive services.
- **Targeted Housing and Services:** Supportive housing—permanent housing linked to individualized supportive services—is enhanced with targeted and assertive recruitment through in-reach into jails, shelters, hospitals and other settings, in order to help clients obtain housing stability and avoid returns to costly crisis services and institutions.



**Pay for Success Contracts: Contract Design, Partner Roles, & Payment Triggers**

In the past two years, CSH has been very active on the PFS/Social Financing front and has developed significant experience and expertise in this area. CSH was a partner in the executed SIB agreement in the Commonwealth of Massachusetts, and we were chosen as the lead entity to develop a Pay for Success initiative in Minnesota

focused on institutionalized care populations. Additionally, CSH is partnering with Enterprise to be the programmatic and financial intermediary on a Pay for Success deal with the City of Denver. Finally, CSH was selected by the Corporation for National and Community Service to receive a Social Innovation Fund (SIF) Pay for Success grant to support and engages more than a dozen states and communities in exploring Pay for Success models, including for super-utilizers and institutionalized care population. Based on our expertise and experience, CSH offers the following:

### Intermediary Roles

The intermediary role can be separated into two primary functions—program and financial. CSH (or another entity) could play both roles or could play only the programmatic role working in partnership with another organization that would perform the financial role. Programmatic intermediary roles include:

- Advise on program design and structure of the PFS model.
- Guide and support efforts to use data to identify target population.
- Assist in the development of contract and included performance metrics.
- Assemble and manage teams of service providers.
- Assist with the development of appropriate programming, utilizing evidence-based models.
- Manage teams of service providers.
- Conduct ongoing management of grants awarded to service providers to achieve performance targets.
- Monitor and track outcome measures.
- Provide oversight and partnership with independent evaluator.

As a financial intermediary CSH (or another entity) would:

- Identify and secure institutional and philanthropic investors.
- Receive working capital from investors and distribute it to service providers.
- Receive success payments from the State and provide relevant repayments/returns to investors.

### Service Provider Considerations

CSH is engaged with a number of service providers in the exploration, design, development, and execution of Pay for Success models. It is critical to have the right on the ground implementers to achieve the PFS goals. Outlined below are several key considerations for identifying and considering service providers.

- Track record of provider in executing a proposed, evidenced-based intervention. Provider should have extensive experience with proven track record of success.
- Accurate and reliable data and outcome tracking mechanism, including the IT infrastructure and software necessary to track outcomes, provide sound data to third parties, etc.
- Board and executive understanding and commitment. PFS presents a new approach to payment and reimbursement into which organizational leadership must buy.
- Organizational management for program accountability. In addition to compiling sound data, the organization should have a commitment to making course corrections and refining intervention approaches as needed.

- Network of community relationships. Execution of any PFS deal requires an array of partners, so trusted relationship among the key stakeholders is critical to success.

### Pay for Success Contracts – Considerations

When consider potential terms for a Pay for Success contract, CSH offers the following from our experience to date:

- Based our experience, the term of Pay for Success contracts should be in the 5-7 year timeframe. This enables enough time for the Payor to confidently track and measure impacts, while not creating a time horizon that is too long for investors.
- Developing 1-2 key payment triggers that are binary in nature or easily measured. The ability to track outcomes concretely and accurately is critical. Additional metrics may also be tracked and tied to bonus payments (or reductions) in order to get a fuller picture of impact.
- Payment schedules need to balance the risk/reward proposition and begin in the 6 months to 2 year range. Determining the time at which the Commonwealth can confidently assume an outcome has been reached will be critical, and drive the payment schedule from the government perspective. However, the further out initial and additional payments are pushed will likely have an impact on investor demand for interest rate and bonus payments, to compensate them for the additional time and risk they are assuming.
- Choosing benchmarks or proxies that have strong relation to projected costs savings/offsets.
- Clear description of multiple parties' roles and responsibilities.

CSH and Inglis House are already working together and have made substantial progress in many of these areas, including:

- Draft program design and structure of the PFS model
- target population identified through data analysis
- Service team in place for housing development. Nursing home transition. LIFE team development underway.
- Low income tax credits and rental subsidies provided, construction begun.
- LIFE model developed in partnership with DHS and CMS. State innovation model approval initiated
- Initial investors identified and conversations begun.

### Identifying Metrics and Payment Triggers

CSH believes the Commonwealth should focus its efforts on a composite of outcomes that focus on financial impact, including return on investment, as well as human outcomes. Pay for Success contracts focused on **supportive housing for people exiting institutional care setting** should include the following outcomes:

- Reductions in health care (behavioral and medical) system costs. This measure should include an analysis of resident's utilization and cost of Medicaid (and Medicare for dually-eligible residents) to measure reductions in utilizations, and allow for potential increased in utilization of preventative or more efficient and effective care.

- Housing stability in the community. The Commonwealth should track residents' length of stay in housing, as well as number of moves made, taking into account that sometimes a move or two are positive and necessary to get someone into the right situation.
- Choice and Integration. The Commonwealth should track and ensure that residents' have a choice in their housing options and that they are in the most integrated setting appropriate to their needs.
- Resident satisfaction and integration to the community. This measure should include a survey instrument that captures the resident's experience.

Pay for Success contracts focused on **supportive housing for super-utilizers of public systems** including jail, emergency rooms and hospitals, detox, and shelter should include the following outcomes:

- Reductions in health care system utilization. This measure should include an analysis of resident's utilization of Medicaid to measure reductions in utilizations, as well as potential increased in utilization of preventative or more efficient and effective care.
- Reductions in jail system utilization, with a focus on days spent in jail, not recidivism rates. The contract should delineate between fixed /sunk costs, which may not be impacted, as well as marginal costs like psychiatric visits, medications, and other correctional health costs. Measure by Commonwealth of PA administrative data.
- Housing stability in the community. Measured by tracking length of stay in apartment through landlord/provider administrative data.

### Key Takeaways

As the field of Pay for Success continues to emerge and evolve, CSH recommends that as the Commonwealth considers the following as it prepares a formal Request for Proposals:

- Focus on populations and interventions that have a strong track record of success in improving lives and generating public systems savings of cost offsets.
- Select target populations and interventions that have an ability to scale across the Commonwealth, and have the greatest potential return on investment.
- Align the RFP to support existing, ongoing efforts that Commonwealth has as high priorities in order to leverage and complement efforts.
- Design the RFP to use PFS as lever for changing public systems, not only as a financial instrument

## **CSH: Qualifications & Experience**

In the past two years, CSH has been very active on the PFS/Social Financing front and has developed significant expertise in this area. Outlined are key highlights of our work and experience with Pay for Success:

- In 2014, CSH was selected by the Corporation for National and Community Service to receive a Social Innovation Fund (SIF) Pay for Success Grant. CSH is one of only eight organizations across the country to receive this award. Through a very competitive RFP process, we selected our first 6 jurisdictions for engagement, including the states of New York, New Mexico, and Washington on Pay for Success for long-term care and institutionalized populations, and the cities of Camden, NJ, Austin, TX and San Diego, CA focused on Pay for Success for chronic homelessness and super-utilizers.
- In Massachusetts, CSH was part of a successful application to the state to implement a supportive housing SIB/PFS pilot. In the past 18 months, CSH has worked intensively to advise the lead partner, the Massachusetts Housing and Shelter Alliance (MHSA), in order to refine the program model, targeting approach, and financial model.
- In Denver, CSH is partnering with Enterprise as co-program and financial intermediaries on a Pay for Success contract that will place 300 super-utilizers of the criminal justice, homelessness, and emergency healthcare systems into supportive housing. CSH is working closely with the City of Denver, The Denver County jail, service providers, and investors to design and execute a contract by the end of 2015.
- In Minnesota, CSH was selected as the lead intermediary for a SIB pilot in Minnesota focused on supportive housing for disabled individuals who are currently residing in state institutions. CSH has spent the last year negotiating the terms of the pilot with the State, including developing financial models and numerous scenarios for eligibility criteria for pilot participants.
- In Los Angeles, CSH retooled the Just in Reach (JIR) reentry SH model, enhancing the targeting of clients for supportive housing placement and bolstering the service package and data collection processes. In 2013, CSH received a \$1.5MM grant from the Hilton Foundation to support this work. The goal is to position the model for eventual performance under a PFS construct.
- CSH received a contract from the Valley of the Sun United Way in Maricopa County, AZ, to conduct a ROI analysis for a Social Impact Investment in SH for homeless frequent users of the County jail. This work involved CSH receiving five years of data on jail history from the county, which we then analyzed to uncover the cost of frequent users. Results of the ROI have showed savings that could be achieved, and we continue to be engaged there in the planning phases of the model.

Additionally, CSH has created tools and resources for these groups. CSH created and is continuously refining a "plug and play" PFS financial model based on our work for Minnesota and has used it to review numbers in other states. CSH has also developed a broad framework and sample term sheet. The financial model enables us and our partners to use a broad set of parameters and indicators, and test out an array of scenarios for

return on investment scenarios. The sample term sheet provides an overview and is a useful tool for state and local partners to understand what would be required of various partners and what the various roles and responsibilities of stakeholders might be in a SIB/PFS deal.

We released a six-page discussion paper, co-authored with Center for Health Care Strategies, RWJF, and the Rockefeller Foundation that outlines the benefit social impact investment offers to states implementing the *Olmstead* mandate. We also created and released a two-page overview of social impact investing and how it can be a tool to create supportive housing. Additionally, we released a concept paper that provides a more detailed look at using social impact investing to create supportive housing for vulnerable populations. Finally, we launched CSH's social impact investing webpage housing our publications and other resources at [www.csh.org/socialimpact](http://www.csh.org/socialimpact).

CSH is both a good partner and an excellent steward of resources as demonstrated by our exceptional ratings by such entities as Charity Navigator, Great Nonprofits, and CARS, where CSH has a AAA+2 rating, representing our strong impact and our financial strength. CSH has also been accepted into the S+I 100, an index of top nonprofits creating social impact. In 2013, CSH was selected as one of three winners of the New York Community Trust-New York Magazine Nonprofit Excellence Awards, a highly-competitive awards program that recognizes and encourages outstanding management practices among the nonprofit community. Of note, as a national non-profit and Community Development Financial Institution (CDFI), CSH has committed over \$350MM in loans and grants to support the creation of over 75,000 new supportive housing units nationally. For 20 years, CSH has refined the supportive housing model, built credible evidence for its outcomes and cost-effectiveness, and helped establish SH as the central solution to long-term homelessness. Given its broad impact, our goal is to bring supportive housing to the forefront of mainstream systems.

CSH provides the following core activities:

- **TRAINING AND EDUCATION.** CSH enriches the industry with research-backed tools, trainings and knowledge sharing. CSH has extensively researched best practices in supportive housing development and operations, profiled projects, and conducted in-depth interviews with tenants and providers.
- **LENDING & DEVELOPMENT.** Supportive housing project sponsors must cobble together funding from disparate sources, engage in a lengthy planning process, and build community support. We provide recoverable grants, low-cost loans, and provide a wide array of technical assistance to overcome these challenges.
- **CONSULTING AND ASSISTANCE.** CSH leads the industry by developing innovative supportive housing models with our partners and testing them through national demonstration pilots. We partner with independent evaluators to document lessons learned and assess impact. This work provides cutting-edge best practices and techniques for the industry.
- **POLICY REFORM.** CSH engages government leaders and public agencies through systems reform. We also increasingly partner with government agencies to effectively target frequent users.

## **Inglis: Qualifications & Experience**

Founded in 1877, Inglis enables people with disabilities and those who care for them to achieve their goals and live life to the fullest.

Inglis House is one of only a few 24/7/365 nursing facilities in the US specializing in long-term, residential care for younger (ages 18 – 65) adults with very severe disabilities. Inglis has introduced comprehensive community-based disability services to the Philadelphia area: the first accessible affordable apartment complex in 1976 (Inglis is the largest regional provider of accessible housing); the first day service program (1984); supports coordination (helping people connect with needed services) and community employment programs (2002) – all offered without regard to race, income, color, creed, gender, religion, sexual preference or national origin. This service continuum enables Inglis to offer unique supports to people with disabilities transitioning from institutional to community-based living. Inglis current serves nearly 1,000 people in the Philadelphia region and draws consumers from across the state to live as a part of its community.

Inglis brings unique and critical competencies required to implement our LIFE and PFS/SIB projects. Inglis has 138 years serving people with disabilities. Our Inglis day, employment and care management programs achieve 95% or better satisfaction ratings, our affordable, accessible housing team is recognized by HUD and PHFA for excellence; we are a national leader in adapted technology and have extensive health care delivery experience through our Inglis House, our Special Rehabilitation Facility.

Inglis has the strong governance, strategic and financial expertise needed to implement and manage the LIFE and PFS/SIB offering. Our Board brings diverse financial, health care, legal, housing and long term care management expertise. The Board’s Investment Committee includes the most respected investment managers in the region and has had a strong record of investment success which provides Inglis with unique balance sheet strength to build investor confidence in the LIFE project and our PFS/SIB offering.

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<sup>i</sup> <http://www.csh.org/2014/03/nyc-fuse-evaluation-decreasing-costs-and-ending-homelessness/>

<sup>ii</sup> <http://www.csh.org/fuse>



*Accelerating America's Transition to a Performance-Driven Social Sector*

**Response to Commonwealth of Pennsylvania  
Request for Information: #OB 2015-1  
Pay For Success Initiative  
May 8, 2015**

**Third Sector Capital Partners, Inc.**  
200 Clarendon Street, 9<sup>th</sup> Floor  
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<b>BACKGROUND INFORMATION</b>	<b>3</b>
Introduction	3
About Third Sector Capital Partners, Inc.	3
<b>PROMISING POLICY AREAS, SERVICE PROVIDERS, AND INTERVENTIONS</b>	<b>5</b>
Early childhood care and education	5
Education, workforce preparedness and employment	5
Public safety	5
Health and human services	6
Long-term living	7
<b>CONSIDERATIONS IN STRUCTURING PAY FOR SUCCESS CONTRACTS</b>	<b>8</b>
Intermediary Roles	9
Service Providers	12
Financing	13
PFS Payments	14
<b>PAY FOR SUCCESS OUTCOME METRICS AND MEASUREMENT</b>	<b>16</b>
<b>OPPORTUNITIES TO PARTNER WITH LOCAL GOVERNMENT ENTITIES</b>	<b>18</b>
<b>LESSONS FROM PFS EXPERIENCE WITH OTHER GOVERNMENTS</b>	<b>18</b>
<b>ADDITIONAL INFORMATION FOR CONSIDERATION</b>	<b>19</b>

## BACKGROUND INFORMATION

### Introduction

Third Sector Capital Partners, Inc. (Third Sector) is excited that the Commonwealth of Pennsylvania is joining other pioneering governments in exploring Pay for Success (PFS). Over the past year, Third Sector has had a variety of conversations with social service, public policy, business, and philanthropic leaders across the Commonwealth. There is an intense desire to pursue innovative tools that can improve outcomes for Pennsylvania's most vulnerable and at-risk residents.

### Third Sector believes Pay for Success projects have the potential to:

- Measurably improving the lives of people most in need;
- Develop a more rigorous, outcomes-focused, and sustainable way to address social challenges in our communities;
- Support scaling of evidence-based practices by the public and nonprofit sectors; and
- Increase government accountability by directing government resources and funding toward effective programs that actually improve lives.

### Pay for Success helps provide:

- Underserved individuals with the highest-quality supports that they need to thrive;
- Social service organizations with the stability of upfront, flexible funding that enables them to scale and focus on delivering proven, outcomes-focused services;
- Governments with the flexibility to support preventive services that lead to reduced costs and better outcomes in the long term;
- Taxpayers with the security of knowing that government resources are directed toward programs that produce demonstrated results for society; and
- Funders with the opportunity to put their capital to work in service of society.

### About Third Sector Capital Partners, Inc.

Founded in 2011, Third Sector Capital Partners, Inc. (Third Sector) is a 501(c)(3) nonprofit whose mission is to accelerate America's transition to a performance-driven social sector. In order to realize this vision, Third Sector is making Pay for Success a reality in the United States. Third Sector serves as a trusted advisor that leads governments, high-performing nonprofits, and funders in building collaborative initiatives that re-write the book on how governments contract social services by funding programs that work, enhance taxpayer value, and measurably improve the lives of people most in need.

Third Sector is a grantee of the [Corporation for National and Community Service's Social Innovation Fund](#).

Our team brings extensive experience in developing innovative financing and contracting across the public and private sectors. We are highly versed in managing projects with diverse groups of stakeholders, economic modeling, fundraising, and evaluation/data analysis. Third Sector has offices in Boston, MA and San Francisco, CA and has clients across the United States.

## Our Services

<b>Feasibility and Strategy</b>	Assess the feasibility of PFS projects with government, providers, and funders. Develop and advise the implementation of organizational strategies.
<b>Project Construction</b>	Create strong partnerships through financial arranging, economic modeling, contract development and negotiation, project planning, and evaluation support.
<b>Education, Training, and Advocacy</b>	Build the field for pay for success and social innovation finance through presentations, trainings, advisory groups, reports, and case studies.
<b>Project Management</b>	Support successful project implementation through performance monitoring, data tracking and reporting, risk assessment, and conflict resolution.

## Highlights from Third Sector’s 39 PFS Engagements

Project Level	Engagement Details
<b>Federal</b>	<ul style="list-style-type: none"> <li>▪ <b>Developed the first and largest federally-funded PFS projects in the country.</b> <ul style="list-style-type: none"> <li>▪ Cuyahoga County (Cleveland, Ohio) earned a Second Chance Act Grant from the Department of Justice in 2012</li> <li>▪ The Massachusetts Juvenile Justice Pilot was awarded a \$11.67 million grant from the Department of Labor in 2013</li> </ul> </li> </ul>
<b>State</b>	<ul style="list-style-type: none"> <li>▪ <b>Intermediary for the \$28 million Massachusetts Juvenile Justice Pilot</b>, the first state-level PFS project in the country and to date the largest PFS project in the world.</li> <li>▪ Constructing PFS projects on:           <ul style="list-style-type: none"> <li>○ <b>Mental health for underserved mothers</b> in Connecticut</li> <li>○ <b>Community-based foster care for at-risk youth</b> in Illinois</li> <li>○ <b>Alternatives to incarceration</b> for justice-involved youth in New York state.</li> </ul> </li> <li>▪ Advising <b>6 state governments from across the country</b> as part of Federal SIF grant:           <ul style="list-style-type: none"> <li>○ <b>Early childhood education</b> in Nevada and Washington</li> <li>○ <b>Averting children from foster care</b> in Oregon</li> <li>○ <b>The first Managed Care Organization PFS Project</b> in Virginia</li> </ul> </li> </ul>
<b>Local</b>	<ul style="list-style-type: none"> <li>▪ <b>Developed the first two county-level PFS projects in the country</b> in Cuyahoga County, Ohio and Santa Clara County, California, where we:           <ul style="list-style-type: none"> <li>○ Convened and educated government, funders, providers</li> <li>○ Performed landscape analyses to identify target populations and program areas</li> <li>○ Co-designed PFS procurement processes; and</li> <li>○ Performed due diligence and economic modeling.</li> </ul> </li> <li>• <b>Developing at least three PFS projects in Salt Lake County</b> in child and maternal health, criminal justice, and homelessness.</li> </ul>
<b>Service Provider</b>	<ul style="list-style-type: none"> <li>▪ <b>Advised promising evidence-based service providers from across the country</b> to help make them PFS-project ready</li> <li>▪ Services provided included: running a service-provider feasibility study, assessing funder interest, and actively matching providers to government priority areas.</li> </ul>
<b>Training</b>	<ul style="list-style-type: none"> <li>▪ Third Sector is also engaged to <b>build technical assistance capabilities</b> in the University of Utah and Case Western University</li> </ul>

## PROMISING POLICY AREAS, SERVICE PROVIDERS, AND INTERVENTIONS

Two common bottlenecks in constructing PFS projects we have observed have been 1) finding an intervention with a solid evidence base and 2) sourcing a service provider with the capacity to deliver via a PFS contracting mechanism. While we have not performed a comprehensive feasibility study, several interventions and service providers are particularly intriguing within the Commonwealth's 5 high priority areas:

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### Early childhood care and education

- **Improving access to quality pre-K education.** Across Pennsylvania, supply for high quality pre-K education falls far short of demand. In the Allentown School District, the **Lehigh Valley Early Childhood PFS Task Force** has already begun exploring how to expand the number of high quality pre-K programs via a PFS project. It has a stable of high-quality service providers as partners, including Community Services for Children. In addition to the long-term societal benefits from high quality pre-K, one short-term benefit is the avoided costs of special education at about \$13,000 per pupil. The Task Force has secured the support of the Deputy Secretary of the Office of Child Development and Early Learning (OCDEL) and the Superintendent of the ASD.

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### Education, workforce preparedness and employment

- **Reducing high school dropouts.** In 2012, there were 38 “dropout factory” high schools in Pennsylvania.<sup>1</sup> **Diplomas Now** is a turnaround program that reduces high school dropouts. By preventing high school dropouts, it decreases juvenile justice expenses, breaks the cycle of teen pregnancy, and increases future tax income. It currently operates in 33 schools in 13 cities across the country, serving a total of 26,000 students. Diplomas Now has been operating in Pennsylvania for the past seven years in four middle schools. Evaluation has shown an increased attendance rate, increased academic completion rate, and better academic performance. A PFS project would be a good way to expand Diplomas Now to high-risk high schools, potentially benefitting from synergies with feeder middle schools.

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### Public safety

- **Providing alternatives to residential placement of juveniles.** Pennsylvania has one of the highest rates of residential placements of juveniles in the nation<sup>2</sup>. Low-cost alternatives exist to improve outcomes for at-risk youth. For example, the Redirection Project in Florida and the Evidence-based Practice Initiative in Georgia have dramatically and effectively reduced juvenile incarceration while simultaneously improving public safety and saving taxpayers dollars. In those projects, **Evidence-Based Associates** provided technical assistance, oversaw project implementation, and partnered with juvenile justice judges and agency leaders to successfully divert youth to evidence-based programs.

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<sup>1</sup> Balfanz, R., Bridgeland, J., Bruce, M., & Fox, J. (2014). *Building a grad nation: Progress and challenge in ending the high school dropout epidemic 2014 annual update*. Retrieved from:

[http://gradnation.org/sites/default/files/17548\\_BGN\\_Report\\_FinalFULL\\_5.2.14.pdf](http://gradnation.org/sites/default/files/17548_BGN_Report_FinalFULL_5.2.14.pdf)

<sup>2</sup> U.S. Department of Justice, Juvenile Offenders and Victims National Report Series 2013. Retrieved May 07, 2015 from <http://www.ojjdp.gov/pubs/241060.pdf>

- Another proven intervention in this area is **Multisystemic Therapy (MST)**, a treatment that targets chronic juvenile offenders and their families in the community to divert them from out-of-home placements. Studies of MST have demonstrated reductions in future criminal offending and incarceration and improved educational attainment as compared to youth who receive “usual services” or individual therapy. MST has a long history of serving children in Pennsylvania, with 38 standard MST teams serving 54 counties. Four of these teams offer MST for Problem Sexual Behavior (MST-PSB). An independent study from the EpisCenter at Penn State shows that in the short-term, MST has saved the state \$67.6 million by diverting youth from placement. Of the 4,026 youth clinically discharged from MST in FY 2012-2014: 3,052 youth were at high risk of placement upon admission. Only 497 were discharged from MST to restrictive, out-of-home placement.
- **Reducing juvenile recidivism.** Public safety interventions should help high-risk offenders, particularly young offenders who are the drivers of crime and violence in many of our communities. One such model that would excel in a pay for success structure would be **Roca’s Intervention Model** for very high-risk young men, aged 17-24. This is a clear single-service cognitive restructuring model that offers two years of intensive services and two years of follow up support helping young men to change their negative behaviors and break the cycle of incarceration and poverty. Roca has demonstrated clear results in the Massachusetts PFS project, where Third Sector is playing the role of the intermediary.

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## Health and human services

- **Reducing high school substance abuse.** The Commonwealth spends over \$3 billion a year on health and criminal justice costs due to substance abuse<sup>3</sup>. **The PROSPER delivery system** can implement a range of evidence-based interventions to help youth avoid substance abuse in high school. In a large scale RCT conducted in Pennsylvania and Iowa, PROSPER has been shown to reduce the abuse of drugs by 10-35%, reduce alcoholism and smoking, as well as improve behavioral outcomes.
- **Reducing unintended pregnancies.** In 2010, there were 59,300 unplanned births in Pennsylvania, costing PA Medicaid more than \$700 million.<sup>4</sup> A major driver of unplanned births is contraceptive failure – it is estimated that the 10-year failure rate of mechanical contraception is 86% under normal use cases. By contrast, Long Acting Reversible Contraception (LARC) products such as the IUD have a 1% failure rate. **UpstreamUSA** focuses on removing barriers to the adoption of LARCs by training staff of health centers and clinics on how to provide LARCs to women who want them. In Texas, they have been shown to increase the rate of LARC uptake from 6% to 26%. **The National Campaign To Prevent Teen and Unplanned Pregnancy** is also an experienced partner in delivering a range of high quality interventions to tackle this issue.

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<sup>3</sup> National Center for Addiction and Substance Abuse at Columbia University, 2009, The Impact of Substance Abuse on Federal, State and Local Budgets pp 135. Retrieved May 7 2015 from <http://www.casacolumbia.org/addiction-research/reports/shoveling-ii-impact-substance-abuse-federal-state-and-local-budgets>

<sup>4</sup>Guttmacher Institute, 2015, Public Costs from Unintended Pregnancies and the Role of Public Insurance Programs in Paying for Pregnancy-Related Care, National and State Estimates for 2010 pp11. Retrieved May 7, 2015 from <http://www.guttmacher.org/pubs/public-costs-of-UP-2010.pdf>

- **Preventing diabetes.** Diabetes health care costs are 2.3 times higher than costs for those without diabetes. In 2011, diabetes costs averaged \$20,000 per year for advanced stages of diabetes while prevention costs only average \$3,700 per year. Since 2008, the **YMCA Diabetes Prevention Program** has enrolled more than 27,000 overweight adults at risk for diabetes in a healthy living program. The Diabetes Prevention Program has been rigorously trialed in more than 4 countries worldwide. In the U.S., the NIH Diabetes Prevention Program trial showed that participants' diabetes incidence rates were reduced by 34 percent in the lifestyle group compared with the placebo and that the effect can persist for at least 10 years.
- **Reducing the need for foster care.** In 2013, there were 15,000 children in foster care in Pennsylvania. 3,075 of these children and teens were living in a residential treatment facility,<sup>5</sup> which can cost an average of \$400 per day per bed. Furthermore, 5,000 children in foster care are of ages 16-18<sup>6</sup> and will "age out" of state custody with little natural support. The **Youth Villages Intercept Program** helps 1) divert youth from foster care stays and 2) support those who leave foster care in reintegrating with their parents. Youth Villages has found that more than 80% of graduates from the intercept program remain at home with their families one year post discharge.
- **Combining housing services with other HHS interventions.** Many health and human service interventions can benefit from being combined with housing. In Cuyahoga County, a PFS project is underway where housing is provided to homeless mothers to reduce the need for their children to be in foster care. **Enterprise Community Partners, Inc.** is the programmatic intermediary for that project, whose national network has over 2,500 partners. In Pennsylvania the Commonwealth could combine housing with interventions for homeless adults and families; low income seniors; service models utilizing trauma-informed care; or mental health.

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## Long-term living

- **Reducing hospital readmissions for the elderly.** When a patient's care shifts from one care setting to another, there is often a lack of coordination. This leads to diminished health, high costs, and poor patient care satisfaction. The **Transitional Care Model (TCM)** is a leading transitional care improvement intervention. Under the model, an Advanced Practice Nurse (APN) regular home visits for high-risk elderly patients who have been discharged. 40 published articles, three randomized control trials, and one comparative effectiveness study have indicated efficacy and Medicare cost savings. A 2004 randomized control trial in elderly patients admitted with heart failure demonstrated fewer readmissions after 1 year (164 readmission in control group versus 104 in treatment group) and lower mean total costs (\$7,636 versus \$12,481).

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<sup>5</sup> Children's Defense Fund. (May 6, 2014) *Children in the States Factsheets: Pennsylvania*. Retrieved May 4, 2014, from <http://www.childrensdefense.org/library/data/state-data-repository/cits/2014/2014-pennsylvania-children-in-the-states.pdf>

<sup>6</sup> Administration for Children and Families: Child Welfare Outcomes Report Data. (2013). *Demographics: Child Welfare Summary: Pennsylvania*. Retrieved May 4, 2014, from

[http://cwoutcomes.acf.hhs.gov/data/tables/demo\\_stats?states%5B%5D=39&state=&region=](http://cwoutcomes.acf.hhs.gov/data/tables/demo_stats?states%5B%5D=39&state=&region=)

## CONSIDERATIONS IN STRUCTURING PAY FOR SUCCESS CONTRACTS

While every project is unique, Third Sector believes that the work to move from a desire to do a PFS project to an actual project implementation can be divided into five phases. These are shown below:

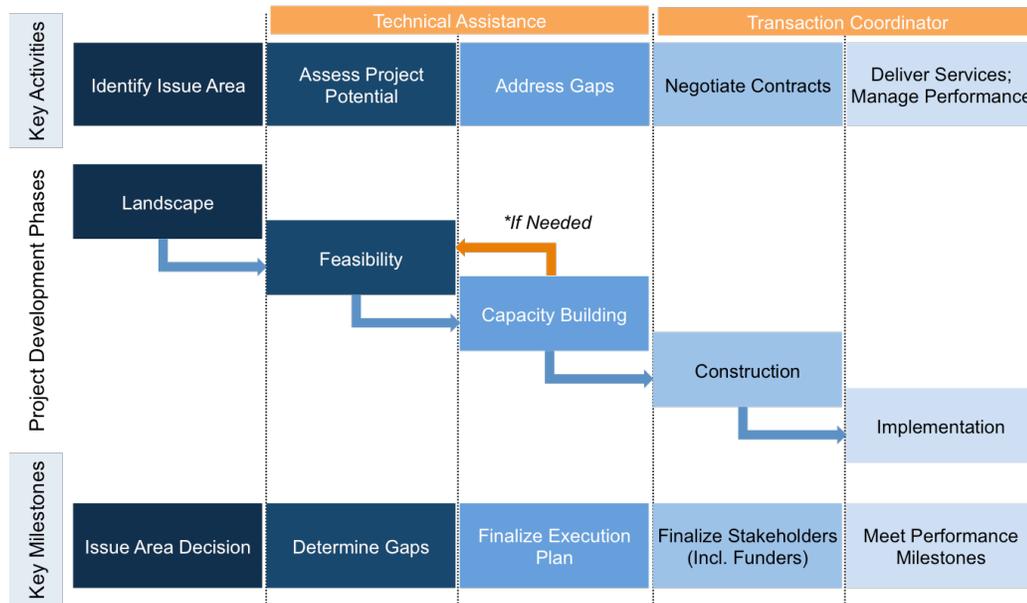


Figure 1 PFS Project Development Timeline

As the Commonwealth progresses towards project implementation, the Commonwealth should think about the details of four key components of any PFS project:

- 1) The intermediary
- 2) Service delivery
- 3) Financing
- 4) Outcome payments.

In our work thus far, we have noticed best practices in each of these areas that the Commonwealth should take into account.

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## Intermediary Roles

### Recommended Role of the Intermediary

The functions of the intermediary can be broadly divided into two parts, one short-term and one long-term. The short-term intermediary (henceforth referred to as the *transaction coordinator*) is tasked with driving the project from design to execution. In particular, this transaction coordinator should:

- **Provide initial vision:** conduct cost-benefit analysis of interventions, construct a financial model, project budget requirements and estimate the necessary upfront capital and success payments required.
- **Drive project development:** coordinate the program design efforts, negotiate the project's term sheet, ensure that necessary contracts and data sharing agreements are present, and work with providers to ensure that they are operationally ready to undertake the PFS project.
- **Raise upfront funding:** draft a funder summary, leverage funder relationships, assist in due diligence and managing funder relations.

Because a large amount of specialized data and financial work is required to construct the project, a dedicated PFS firm, such as Third Sector, adds significant value in this role.

By contrast, the long-term intermediary is analogous to property management companies that are commonplace in the real estate development industry. They are professional operational managers that orchestrate delivery, monitor day-to-day operational performance, gather and report upon performance data, and otherwise ensure that adequate focus is kept on achieving project success.

From our experience, the long-term intermediary function can either be embedded within a service provider if it is large, or it can be an independent organization. In our work in New York State and Illinois the service provider will serve as the long-term intermediary. In the Cuyahoga County Partnering for Family Success Program, a third party with deep programmatic expertise and established relationships is playing this role.

### Recommendations for the procurement of the intermediary

**Procure the transaction coordinator early.** We have seen several cases where project feasibility has been reworked and revisited once a transaction coordinator is at the table. Project parties could have been more efficient if working backwards from a fundable proposition from the outset instead of needing to switch quarterbacks halfway through the game. As was the case in the Massachusetts Juvenile Justice project, project construction and arranging funding involve different skills and are highly complementary to the functions of Harvard's SIB Lab technical assistance.

Since the transaction coordinator's services can greatly improve the quality of the resulting project, we believe it would be wise to procure these services as an early step in the overall PFS/SIB procurement process even before issue areas, providers or long-term intermediaries have been selected.

Procuring the transaction coordinator early also:

- **Helps the Commonwealth decide on the most feasible PFS project.** Deciding which specific issue areas to tackle in the first place requires detailed knowledge of service providers and funder interest, both of which are enhanced by the early presence of a transaction coordinator.
- **Facilitates the hiring of the most suitable service provider.** Knowing which service provider to hire requires knowledge of the true economics behind the RFP. Procuring the transaction coordination

intermediary early will improve data quality and help the Commonwealth make a more informed decision as to service providers.

- **Allows a single transaction coordinator to support feasibility and project construction across multiple projects:** In Salt Lake County, we have seen that a major advantage of procuring the transaction coordinator prior to the long-term intermediary and service providers is that the same transaction coordinator can support multiple projects. A consistent team can streamline the use of government resources instead of creating duplicative meetings on a per-project basis. And it enables innovations like the collective fund in Salt Lake County that can accelerate fundraising and project development.

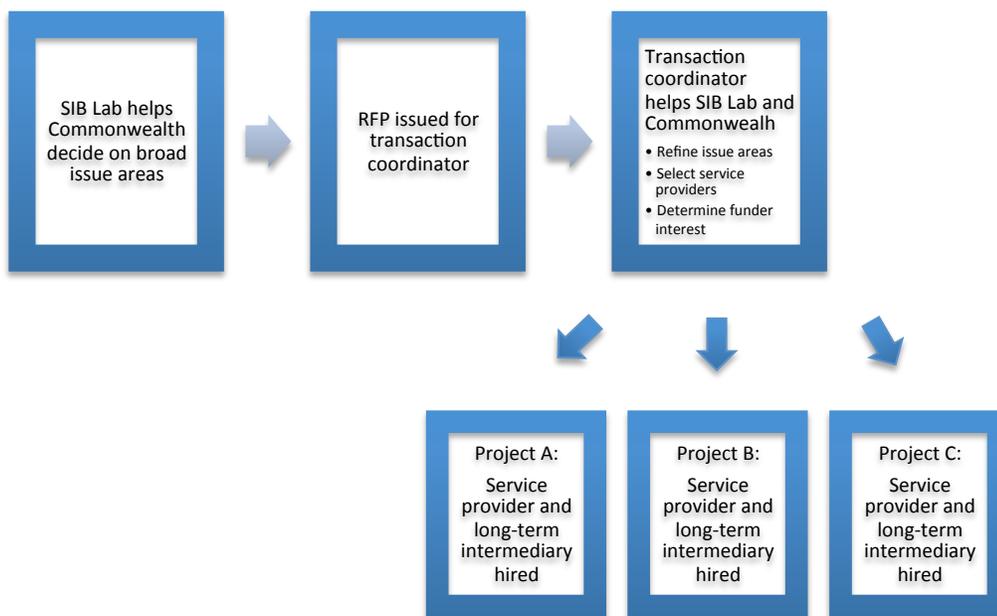


Figure 2 Suggested Procurement Timeline

**Align transaction coordinator and provider financial incentives with developing the best possible project.**

Project construction of a PFS project is a complex, resource intensive process that can take more than a year to complete. To date, winners of the procurement for project construction have not been awarded a contract, but only been the *right to negotiate* a contract. This means that providers and transaction coordinators have not received cost coverage from the government upon hitting project construction milestones. Instead, they are only compensated if and when a project launches.

This 100% fee contingent on project launch creates three problems:

- It deters all but the largest service providers and transaction coordinators from responding to the RFP, as smaller players cannot take the risk of never being paid
- It creates a short-term incentive to launch the project ASAP to avoid cash-flow problems, potentially compromising project quality
- Above all, it incentivizes a push to launch a project even when it may make the most sense for the government to stop negotiations for a project launch

**The 100% contingent "closing fee" should be modified to share risk and align incentives between project constructors and the Commonwealth**

In designing a better payment structure, there are two distinct questions the Commonwealth should think about:

- A) *When are project partners paid?*
- B) *On what basis are they paid?*

**A) When should project partners be paid?**

The status quo is that the transaction coordinator and service providers are only paid when the project launches. The following diagram illustrates this in an example of a \$30m PFS project with \$500k of costs incurred by the intermediary and service provider for project construction:

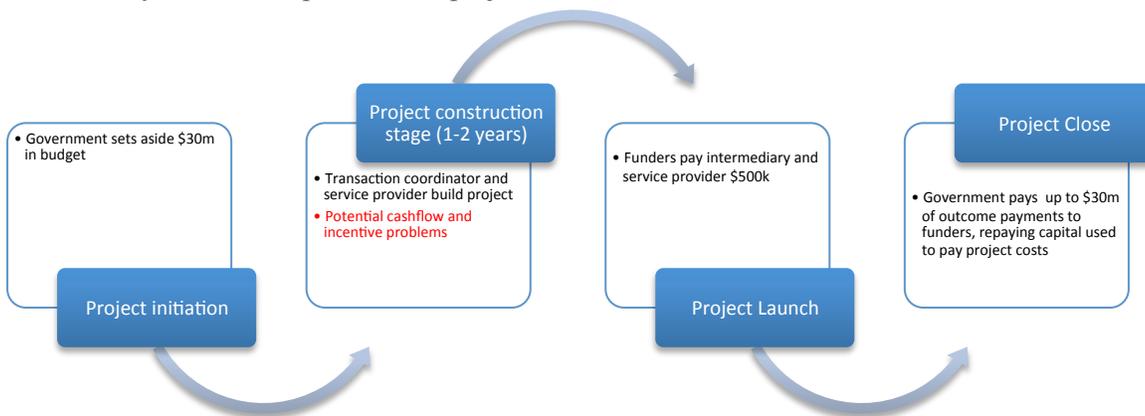


Figure 3 Project Payment Schedule: Status Quo

**Instead, we suggest that the Commonwealth pay service providers and intermediaries based on hitting key project development milestones.** These milestones could correspond to critical decision points where the Commonwealth itself may want to significantly change the direction of the project. For instance, the creation of the detailed project feasibility model or the securing of funder commitment could be significant milestones.

**Note that paying based on project development milestones will not change the total funding commitment from the government or amount received by the intermediary.** Instead, our recommendation is that these milestone payment amounts be offset from the outcome payments at project close, as shown below:

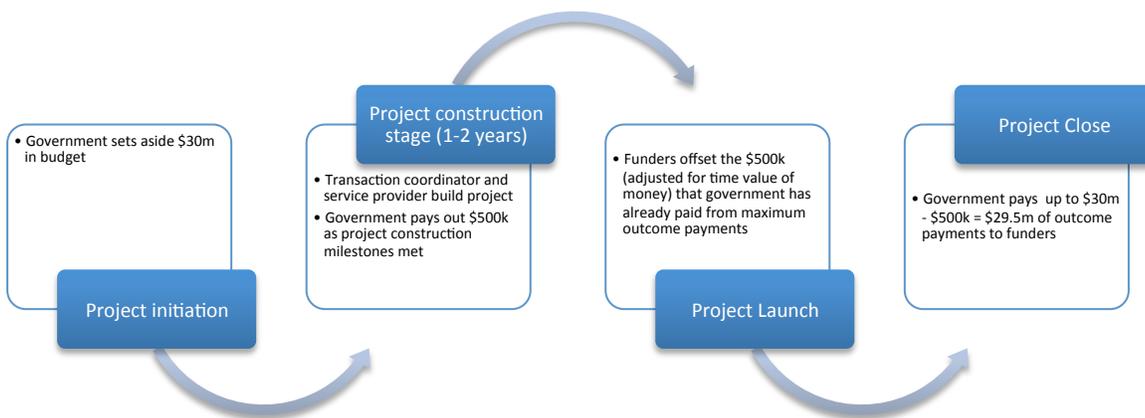


Figure 4 Project Payment Schedule: Suggested Revision

**Funders prefer the suggested payment schedule.** Although funders will have their outcome payments ultimately reduced, they have indicated that they are more willing to commit capital under this structure because:

- The service provider and intermediary fees for project construction are ultimately a small sliver of the overall outcome payments
- They are reassured that the government also has some “skin in the game” in making the project succeed

### **B) On what basis should providers be paid?**

One big decision the Commonwealth has to make is whether to pay the intermediary based on time and materials or on a fixed price.

- Fixed priced payments make the most sense when the level of effort required to achieve a milestone is reasonably knowable and achievable
- Time and materials payments make more sense when there are too many unknowns to reasonably predict the cost

It is also possible to combine the two approaches by dividing the project into different phases. If there is a lot of uncertainty around a part of the PFS project (i.e. funder interest), the first phase could be based on time and materials until a certain milestone is achieved. The second phase can then incorporate these findings and be based on a fixed price. The cost of this second phase might be estimated in the original proposal, but can be subject to final negotiation based on the findings in the first phase.

Depending on the number of unknowns within the project at the point of the RFI, the Commonwealth should tailor contracting to share risk and align incentives with the PFS project constructors.

### **Precedents for Milestone-Based Compensation**

Third Sector is currently involved in several initiatives where compensation has been contingent on hitting project milestones rather than project launch, such as:

- The California Pay for Success initiative
- The Federal Social Innovation Fund
- Projects in Salt Lake County, Santa Clara, and San Francisco

By compensating based on project construction milestones, we have found that project partners have been able to hire project managers and dedicate senior staff time to critical project negotiations and decision points. This improves ultimately the quality of the resulting PFS project for the Commonwealth.

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## **Service Providers**

### **Recommendations for selecting the intervention and service provider**

The most straightforward case for service provider selection is where a service provider delivers a single intervention it is familiar with. However, in some cases, a single service provider may not be able to deliver the intervention at enough scale. In other cases, it may be that a combination of multiple services and providers is more promising than any single intervention. In these more complex cases, it may be necessary to have multiple service providers providing the PFS intervention. We have created this sort of multiple-service-provider PFS project in our work in Illinois and Cuyahoga County, a “Collective Action” intervention as opposed to a “Single Provider Intervention.”

Both the Collective Action and Single Provider approaches are valuable and pose different challenges. In the collective action model, it may be more difficult to evaluate which providers are driving impact if they are serving the same population. Coordinating the operations of multiple service providers is also more challenging and makes the lead agency especially critical. In the single provider model, evaluation is less complicated, but placing too

much emphasis on one organization can limit the scope and scale of a project, and can add concentration risk compared to a multi-provider approach.

As a practical matter, the single provider model is easier to implement, and may be preferable for a state’s first-time pilot. Third Sector is able to work with both types of projects and prefers whichever model is most appropriate for the target population whilst being amenable to rigorous evaluation to determine achievement of outcomes.

### Financing

PFS describes a form of contracting where the state only pays on rigorously evaluated outcomes. The most common way of providing the up-front financing for such contracts so far has been via a Social Impact Bond. Three key financial questions to think about when are how the state will pay, where it will store the money and when it should start raising it.

#### Recommendations about how the state should pay

In order to bring partners to the table, government should strongly consider offering contractual terms that will bring comfort to investors that the State’s obligations will be honored.

There have been four broad ways we have seen this done so far, each offering different levels of security to investors.

Policy Option	How it works	Level of Security	Example
<b>Full Faith and Credit</b>	A clause that requires the legislature to honor contract obligations or else face substantial credit rating implications	High	In Massachusetts, the Commonwealth approved legislation to establish a "Social Innovation Trust Fund" with the "full faith and credit" of the Commonwealth
<b>Multi-year Appropriation</b>	Governments pass a multi-year appropriation	Medium	In New York State's prison re-entry project, the State appropriated an initial two-year allocation in the 2013/2014 budget
<b>Designated Account</b>	Establish a designated account that is pre-funded at the start or funded each year as savings accrue	Medium	In Utah’s School Readiness Initiative, the State set up an ongoing appropriation from the General Fund into a special revenue fund which is used to administer the program.
<b>Rating Agency Trigger</b>	Governments write a contract in which payment is "subject to appropriation" and includes a provision that it will report any failure to make a payment to the credit rating agencies	Low	In the Chicago PFS transaction, payments from Chicago Public Schools are subject to appropriation (as required by local laws), but any failure to pay will be reported on their CAFR to rating agencies

Source: *Living Cities*, retrieved from <https://www.livingcities.org/blog/809-4-ps-of-pay-for-success-policy>

What the Commonwealth chooses will depend on the particulars of its procurement laws, but we recommend going for the highest level of security available so as to bring the best funders to the table.

## Recommendations for fundraising

Early engagement of funders increases buy-in and ensures that the project will ultimately be an investible proposition. Given that all funders require some form of an iterative due diligence process before committing to a project, early funder engagement is needed to keep the project completed on a timely basis. It is also important to draw in a diverse range of funders and to understand the preferences of each. For instance, we have observed that, while philanthropies tend to prefer assisting in the development of a PFS project, commercial lenders tend to prefer evaluating a more specified term sheet. Our experience suggests that the best way to engage a diverse pool of interested funders is to establish a “Funder Council” early in a project’s development.

## PFS Payments

A key question when engaging in PFS is: how can the project maximize government benefit while attracting funders? A PFS project incurs a variety of risks, such as performance risk, early shut-down risk, repayment risk and evaluation risk. Governments want to share these risks and maximize performance. Funders, on the other hand, usually want to minimize risk while maximizing payments. The way in which outcome payments are distributed between the Commonwealth and different sorts of funders is hence key in ensuring that risk is fairly distributed and performance incentives aligned.

There are three main questions to ask when determining how outcome payments should be distributed:

### 1. How should value from the project be shared between funders and the Commonwealth?

If the intervention is successful and delivers financial benefits, including savings and increased revenues, to the Commonwealth, it is important to decide how the Commonwealth shares those financial benefits with the project.

In an ideal world, a state would try to incentivize performance by making funders pay if the intervention turns out to have a lower levels of success than predicted. In return, funders should be able to get a higher share of savings if the intervention is more successful than anticipated. However, in early projects so far, funders have been wary of absorbing too much risk and so have prioritized repayment of their principal rather than capturing the upside of success. Thus, in Massachusetts, funders are partially repaid if the intervention does not reach its target, but if the intervention is more successful than expected, the state keeps the savings. Similarly, in Illinois, most payouts below repayment of investor principal go to funders, but after that the principal is repaid most additional savings are retained by the state.

<b>Incarceration-Based Payment Terms</b>		
<b>Decrease in Days of Incarceration</b>	<b>Incarceration-Based Success Payments</b>	<b>Gross Savings for Commonwealth</b>
70.0%	\$ 27 million	\$ 45 million
55.0%	\$ 26 million	\$ 33 million
40.0%	\$ 22 million	\$ 22 million
25.0%	\$ 11 million	\$ 11 million
10.0%	\$ 2 million	\$ 2 million
5.0%	\$ 0	\$ 0.9 million

Figure 5 Illustrative Payment Outcomes in MA PFS Project

Third Sector has deep experience in using a variety of custom financial concepts to accommodate funder and government preferences, including threshold payments, caps, catch-up payments, and funding stacks.

## 2. How should PFS payments be distributed between different sorts of investors?

As the PFS project is likely to draw different types of funders from both commercial and philanthropic worlds, it is important to accommodate each funder's risk and return requirements.

Typically, philanthropic capital has been more willing to take risks and accept a lower return. Thus, one way to make the investment more appealing to commercial lenders is to create different “tranches” of funding. These tranches can differ in the amount of return, the risk of losing the principal, and the timing at which the funding is drawn down or paid out.

**Different returns:** one way in which the PFS project can give commercial lenders a better return is to simply pay commercial lenders more than philanthropic ones for the same amount of capital. As the market has matured, however, this difference in payment has become increasingly difficult to justify.

**Different risk:** we can also vary the distribution of risk with a capital stack. Third Sector was the first to introduce this concept into the PFS world. Essentially, philanthropy is used as “first-loss” capital in case the project is unsuccessful. This lowers the risk profile for commercial funders.

**Different timing:** many funders care greatly about the internal rate of return (IRR) of their commitment, which is the implied rate of interest that their funds are yielding. By varying the timing of capital drawdown and payout, it is possible to increase the IRR of a commercial loan to the PFS project even if the net amount of payment is the same.

## 3. Who should bear the risk a project not hitting its outcome targets?

Third Sector firmly believes that a PFS contract must be used to incentivize better performance. We therefore think that it is of the utmost importance that all parties have “skin in the game”.

- Funders should retain some performance risk, thus senior lenders should not have their investments entirely backstopped by philanthropic capital.
- Large service providers can stake a portion of their service fees on success rates, as was the case in the Massachusetts PFS Project.

## PAY FOR SUCCESS OUTCOME METRICS AND MEASUREMENT

When thinking about paying on outcomes, the Commonwealth should bear in mind three key “M”s: **metrics, method, & measurement partners.**

### 1. Metrics: what should payments be paid on?

**Payments must be based on outcomes, not outputs or inputs.** The most profound feature of PFS is its shift to a procurement system that focuses on social outcomes, not cost reimbursement. A well-structured PFS arrangement frees up providers to innovate and invest in ways that a prescriptive cost reimbursement system simply does not permit. It invites investment toward innovation, and replaces “fund what once worked” or “fund what we hope works” with “fund what’s working now.” It is vital that PFS procurements be designed in such a way that the outcomes focus is not lost over time.

The outcomes measured are frequently those that lead to financial value created for the government. However, we have also worked with government partners who want to measure quality related outcomes. And in some cases, for example with pollution reduction, a government goal cannot be closely tied to financial value. Thus, as Pennsylvania writes considers releasing RFPs, it is crucial that the Commonwealth provides clarity for respondents on the Commonwealth’s outcome and value proposition priorities.

**Outcome measures must be clear** so that there is transparency between funders and the government that targets have been met. Practically, this has sometimes meant that the outcome metric is a proxy for the total value generated to the Commonwealth.

**The Commonwealth can also decide to collect additional metrics not tied to outcome payments.** For example, in Cuyahoga County, while out-of-home placement days are the outcome metrics, the project also measures the contributions of housing stability, home visitation, and family meetings.

### 2. Measurement: how should metrics be assessed?

**The Commonwealth must be very conscious of evaluation risk.** Rigorous evaluation of outcomes is at the core of PFS and contracts between parties. All too often, however, impact analyses of social programs seem to be compelling – even in the eyes of experts – only to be debunked when put to a more rigorous statistical test. The world is full of false-positive evaluations due to a number of factors: underpowered experimental designs, publication bias, low-fidelity execution, wishful thinking, regression to the mean, and others.

For these reasons, we believe that the number one risk of PFS/SIB failure is tied to the possibility of non-rigorous evaluation. Third Sector is particularly concerned that PFS contracts could be designed in conjunction with non-rigorous evaluation, in which case every party in the transaction might have “good news” to report and yet society would actually be worse off. At the same time, we must be careful not to have a bias for false negatives that makes providers and funders bear an inequitable risk.

The gold standard in the social science literature for the measurement of outcomes is the Randomized Controlled Trial (RCT). When possible, this is what should be used in a PFS project. However, RCTs may not always be feasible due to implementation limitations and ethical concerns. In such cases it is possible to use quasi-experimental statistical techniques instead. Third Sector has done both in Massachusetts, with an RCT serving as the primary mode of measurement with a quasi-experimental secondary baseline evaluation as a backup. Alternatively, payment metrics can be based on one methodology, while a rigorous RCT is run by the project in order to provide policy-

makers with insight when deciding whether to scale the program. This is Third Sector is working on with Santa Clara County.

### **3. Measurement partners: who should assess outcomes?**

Highly rigorous independent expert evaluators with a strong focus on counterfactuals and a power to audit is absolutely essential. There can sometimes be a pressure to exclude an independent evaluators, or for the state to do the evaluation itself. We firmly believe that only by having a trusted third party can the state and funders be sure that the effort and investment in the PFS project truly delivered its promised social impact.

Pennsylvania has several excellent universities and think tanks that would be well suited to playing the impact evaluator role. Indeed, some of these have previously done evaluations of the service providers we suggested above. Should a local partner not be found, Third Sector is able to bring in an external evaluation company or to train a local partner.

## OPPORTUNITIES TO PARTNER WITH LOCAL GOVERNMENT ENTITIES

Third Sector has a wealth of experience in working for and with local government entities. We are directly advising Salt Lake County, UT and Santa Clara County, CA on multiple PFS projects. In Nevada, we are exploring a PFS project where the state, county and city governments may serve as collective payors. In Oregon, our recent project involves a partnership of counties as payors. Finally, in our juvenile justice projects in Illinois and New York, while the counties are not outcome payors, they are intimately involved because even though child welfare is a state level issue juvenile justice is a county level one. The Commonwealth should explore partnerships with local government entities depending on the issue area(s) prioritized for PFS projects.

We have noticed that one key driver of success in these multi-level projects is the presence of a government champion. The government champion is able to convene different agencies, work through internal processes, and ensure buy-in from the stakeholders responsible for implementation. The earlier and more often the government champion can perform these functions, the more likely a multi-level and multi-agency PFS project is to succeed.

## LESSONS FROM PFS EXPERIENCE WITH OTHER GOVERNMENTS

### Recommendation for Writing Requests for Proposals

In addition to responding to RFPs as a transaction coordinator, Third Sector has advised governments, including Salt Lake County, UT; Cuyahoga County, OH; and Santa Clara County, CA, on preparing Request for Proposals (RFPs) for service providers and other partners for PFS projects. Our experience has led us to the following broad principles regarding RFPs:

- **Err on the side of flexibility.** Writing the RFP requires a careful balance between specifying the scope of work and allowing the transaction coordinator to respond to information on the ground. The government should conduct as much provider, data and funder groundwork in advance of the procurement.
- **RFP-writing can in itself help build coalitions.** Writing the RFP is an extremely valuable exercise. We have found it to be an incredible opportunity to bring together government agencies - procurement, legal, social services - to understand how PFS will actually work for that government and build buy-in from stakeholders.
- **Set a high bar.** A PFS project is a demanding one and is not for just any provider – instead, the RFP must seek out providers who are ready and confident enough to be accountable for their outcomes. Setting these expectations early is critical for executing a successful project.
- **Be wary of “settled answers”.** PFS is still a new instrument, and all parties are still experimenting to see what works best. The Commonwealth should therefore not take what has been done in the past as a given and best practice. From payment structures to success metrics to PFS contract setup, the Commonwealth should find transaction coordinators, intermediaries, and service providers that are rational and bold enough to want to be part of this process. Further, the Commonwealth should be prepared to continue negotiations that go beyond the parameters of the RFP. Given the nature of PFS, it is inevitable that providers will not have full access to necessary data until they sit at a table with the Commonwealth and understand how the evaluation and referral mechanism will actually work. All parties will have to adjust their expectations until project launch.

## ADDITIONAL INFORMATION FOR CONSIDERATION

Third Sector sees SIB-financed PFS projects as the tip of a spear of a broader shift towards a performance driven culture in the social sector. Our emphasis on performance and social outcomes beyond just the financials/savings has led us to several observations:

- **Not all PFS contracts require financing.** As the Commonwealth considers what issue areas to select, Third Sector recommends that it keep in mind the distinction between Pay for Success contracting and the way in which funds are raised for those contracts. As a general rule, Third Sector recommends that standalone PFS projects without external financing be avoided during these formative years. But in some cases, providers may possess balance sheets, or bank lines of credit, that are large enough to finance/absorb the risk of missing impact goals on a PFS contract. In these cases, a non-financed PFS contract or a partial PFS contract may be viable.
- **But outside funders bring more than just money.** Beyond money, a major consideration in whether or not to use outside financing is the performance-enhancement that private funders bring. Such funders are disciplined and help to maintain focus over periods of time that may outlive the tenure of government champions. They also bring valuable “skin in the game” due diligence and risk management know-how to government contracting. And such financing brings added transparency to a sector that can from the outside feel obscure.
- **Service providers improve due to a PFS project, so a ramp-up period is extremely valuable.** One consistent comment we hear across the service providers we work with is that simply undergoing the rigor of a PFS project helps them to reassess their current service models and improve their service delivery. This means that the success rates of service providers can actually increase over the life of a PFS project. We have therefore found that a pilot or ramp-up period can ensure that the service providers are at optimum efficiency when they treat the main bulk of the target population.
- **PFS projects can be useful for driving a larger performance culture in government.** We have found that the rigor of PFS-style thinking improves not just the service providers, but also the governments we work with. For example, one of our government partners was so impressed by the gains from the due diligence process in the PFS project thinking that they issued a memo calling for all spending to be justified *as if* they were a PFS project. A PFS project can therefore have a large indirect impact even after it ends.

May 8, 2015

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**RE: Comments in response to Request for Information # 0B 2015-1 on the  
Commonwealth Pay For Success Initiative**

The Education Law Center supports access to inclusive, high-quality, learning opportunities for all of Pennsylvania's children and seeks to prioritize the needs of our most vulnerable populations: children with disabilities, those living in poverty, lacking stable housing, English language learners, and for those involved in the dependency and delinquency systems. These children and youth are particularly at-risk for educational failure and, in the absence of learning opportunities, they are more likely to become unemployed, lack stable housing and become incarcerated.

**Our Recommendations:** To ensure that Pennsylvania's most at-risk children have access to inclusive, rigorous and diverse educational opportunities, ELC recommends that the Commonwealth Pay For Success Initiative:

- ✓ Ensure equal access to inclusive learning opportunities for children with disabilities by collaborating with families and stakeholders who serve this population in all aspects of the planning process.
- ✓ Proactively identify and implement effective outreach measures which target and offer additional supports for children and their families living in poverty, experiencing homelessness, or involved in the dependency or delinquency systems to ensure at-risk children and youth participate in and are prioritized for Pay For Success programs.
- ✓ Prioritize and incentivize the inclusion of these at-risk sub-groups.
- ✓ Assure that data collection procedures utilized in any PFS program will track individual and aggregate data to monitor the inclusion, retention, progress, and outcomes of our most at-risk children and families.
- ✓ Consult parents, caregivers, professionals, and community stakeholders to ensure that outcome measures used to determine the success of a PFS program incentivize inclusion of children in the aforementioned at-risk groups.

Sincerely,



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❖ ***What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania?***

Increased benefits access to reduce healthcare costs is an ideal candidate for a Pay for Success contract.

Research clearly shows that unmet social needs lead to poor health outcomes, as well as frequent and expensive emergency room visits, hospitalizations and avoidable nursing home admittance. Healthcare costs, including long-term care, is second only to education in the Commonwealth's general fund budget, and continues to grow at an unsustainable rate.

By helping low-income individuals, particularly dual eligibles and other high cost, high need populations meet their basic needs and better afford food, prescriptions, and shelter expenses, it is possible to improve health outcomes and reduce healthcare costs.

Low-income seniors dramatically underutilize benefit programs that are available to them. For example, an estimated 60% of eligible seniors fail to access the Supplemental Nutrition Assistance Program (SNAP). The majority of benefits that cover basic needs for dual eligibles are federally funded, so increased utilization will not impact tight state budgets. By better leveraging federal benefit programs, Pennsylvania has the opportunity to potentially decrease state funded healthcare costs, while simultaneously helping low-income seniors age in place and with dignity. Increased benefits access for dual eligibles is thus a win for individuals, local communities and our state budget.

Benefits Data Trust (BDT) is a national not-for-profit organization, headquartered in Philadelphia, that is committed to transforming how individuals in need access public benefits. BDT is the largest single provider of outreach and comprehensive benefit application assistance in the nation. The scale at which the organization is able to help individuals enroll in public programs allows for it to identify best practices and work with states, such as Pennsylvania, to make benefits access more simple, comprehensive and cost-effective.

Since November 2013, Benefits Data Trust (BDT) has partnered with noted academic institutions including Massachusetts Institute of Technology (MIT), the Hilltop Institute at the University of Maryland Baltimore County, and Johns Hopkins University School of Nursing to conduct two separate research studies that will assess the impact of public benefits enrollment on health outcomes and associated healthcare costs among community-dwelling, dual-eligible seniors. Early results suggest that participation in SNAP and the Low Income Home Energy Program (LIHEAP) significantly decrease the risk of nursing home admittance and hospitalization in the study population. Final results on the first research study (a retrospective analysis) will be available in November, 2015. The second, more rigorous random control study results will be available in 2017.

❖ ***What outcomes should the Commonwealth prioritize in Pay for Success contracts?***

What types of outcomes should payments be based upon and how should they be measured?

For a benefits access pay for success contract, the outcome that should be prioritized is the enrollment in public benefits and the return on investment and savings generated in Medicaid long term care costs.

# Commonwealth of Pennsylvania

## Request for Information: Pay for Success Initiative

A large teal chevron graphic pointing to the right, with the text "High performance. Delivered." centered within its shape.

High performance. Delivered.

May 8, 2015

**Submitted To:**

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# Contents

<b>1. Executive Summary</b> .....	<b>2</b>
<b>2. Background</b> .....	<b>3</b>
Accenture’s Pay for Success Practice.....	3
Current Pay for Success Involvement in the Marketplace .....	3
<b>3. Answers to Information Solicited</b> .....	<b>4</b>
3A. Pay for Success Opportunities for Pennsylvania .....	4
3B. Learning from Previous PFS Transactions .....	5
3C. Recommended Deal Structure and Target Outcomes .....	6
<b>4. Summary</b> .....	<b>8</b>
About Accenture .....	8
About Accenture’s Health and Public Services Practice .....	8

# 1. Executive Summary

Thank you for the opportunity to share Accenture's perspective on Pay for Success (PFS), grounded in our experience working with our state and local government clients exploring the feasibility of pay for success transactions as well as our extensive experience with value-based contracting.

Intuitively, we all know that preventing a problem is far less expensive than curing it later. Yet, as health care, education, and retirement eat more into state and local budgets, there is a decreasing amount of discretionary dollars available to finance preventative services. Complicating this equation is the fact that we have far too little evidence to understand which preventative programs have the best impact. Fortunately, new tools such as Pay for Success contracts (sometimes referred to as Social Impact Bonds) have emerged as innovative finance mechanisms that have the potential to not only bring new infusions of capital to provide preventative solutions, but also to expand the body of evidence about programs that work.

Pay for Success is a transformational tool that state and local leaders can use to address some of the toughest social problems facing their citizenry. PFS is a new contracting structure in which the private sector provides up-front financing to support the delivery of preventative services that reduce the need for future, more costly, government services. The state or local government only repays the investment after the agreed upon outcomes are achieved. Defining and valuing these outcomes requires a new focus on results and demonstrates a renewed commitment to strong stewardship of taxpayer investments. And, by shifting risk to the private sector, we can bring new discipline and efficiency to address challenges in the social, education, environmental, health, and energy sectors.

Pay for Success transactions are built on the premise that specific outcomes can and will be achieved, and a foundational component for that premise is whether the data needed to support these transactions is available, accessible, and substantive. We believe that ultimately, the sustainability of PFS will be determined by our collective ability to harness and use data in new and transformative ways. Investors are increasingly asking for information about the evidence supporting interventions, service providers, and how performance will be managed. Furthermore, rigorous evaluation is a critical component of any PFS deal, and having access to high quality administrative data can both reduce the cost of the evaluation as well as offer new opportunities for transparency. Embracing a new focus on data and analytics can help position the Commonwealth to compete effectively for investment dollars and provide the maximum return on taxpayer investments.

## Why are Data and Analytics Critical in PFS?

Fostering an environment in which data can be shared across PFS stakeholders helps in three main areas:

- **Case Management:** Dynamic case management can help target the most appropriate suite of services to the needs of the target population at the time they are needed. This ensures that the target population receives the most appropriate services, resulting in the best outcomes.
- **Performance Optimization:** Having the ability to harness granular data can help identify best practices of the high performing service providers, pushing those practices to lower performers. Optimizing performance drives down the cost of delivery while delivering better results.
- **Evaluation:** Using administrative data and rapid-cycle evaluation techniques can both inform ongoing operations while maintaining rigorous standards and cost less than traditional "black box" evaluation.

Pay for Success is an opportunity to demonstrate strong leadership that focuses on financing programs that work and building the evidence and learning that will enable wise investments in the future. It focuses on preventing problems, getting better results, and reducing governmental costs. While PFS contracts are a recent innovation, the principles associated with these mechanisms have been a part of Accenture's work with public service clients for years. We have deep experience in PFS feasibility studies, data and analytics in the context of the public sector, and local and state government operations in general. We bring lessons learned and insights related to governance, data and analytics, and performance management to inform the Commonwealth's PFS efforts.

## 2. Background

### Accenture's Pay for Success Practice

Accenture's Pay for Success Practice is part of our larger Delivering Public Service for the Future (DPS4tF) practice focused on bringing transformation and innovation to the public sector. Our PFS practice is led by Gary Glickman, one of the country's foremost leaders in the industry. He is supported by a team with experience and expertise across public service strategy, operations, nonprofit management, financial services, human services, education, and data and analytics. His team is currently working with several state and local jurisdictions to design and launch PFS deals focused on foster care, juvenile justice, homelessness, and early education.

Accenture's Pay for Success practice offers state and local governments, funders, and nonprofit organizations support in three areas:

- Technical Assistance
- Intermediary and Project Management Services
- Data and Analytics Services

Accenture operates in 40 cities and 23 states in the U.S., including Pennsylvania, and our State and Local government work spans the full range of our global capabilities. Our teams collaborate with government agencies to create unique strategies to reap the full benefits of new organizational strategies, structures, processes, and technologies, driving transformational value.

Accenture's offices in Pennsylvania are located in Philadelphia and Pittsburgh. Accenture employs over 2,700 professionals in Pennsylvania. Over the last year, Pennsylvania employees contributed more than 1,500 volunteer hours in the community, donated \$218,000+ to our annual Employee Giving Campaign, and over 50 employees sat on local non-profit boards and committees. Our Pennsylvania Corporate Citizenship initiatives have supported 8 non-profits, including Greater Philadelphia Cares, Junior Achievement, United Way, NPower PA, Pittsburgh Cares, YouthWorks, Inc., Holy Family Institute, and Big Brothers Big Sisters.

### Current Pay for Success Involvement in the Marketplace

Accenture's PFS practice is actively involved in supporting the Social Innovation Fund (SIF) grantees through our Data and Analytics Services offering. Accenture is supporting this initiative with up to a total of \$1 million of discounted services to help state and local government jurisdictions advance their PFS initiatives. Accenture will provide supplemental support to the SIF grantee technical assistance teams with a focus on data and analytics. Several of the SIF grantees have reached out to Accenture expressing interest in using this offer for their selected jurisdictions. Our work is designed to help determine the optimal data requirements, infrastructure, and analytics to support a successful

PFS transaction and to support performance optimization and rapid cycle evaluation as methods of realizing potential improvements. Ultimately, this foundational work will build a pathway to the sustainable use of the data and systems to drive better results for government, service providers, and investors.

As one of the states selected by the Harvard Social Impact Bond Lab under the Social Innovation Fund PFS competition, the Commonwealth of Pennsylvania could be eligible for these services in support of its Pay for Success efforts.

### 3. Answers to Information Solicited

Based on the information solicited in the Request for Information, we have organized our perspectives into the sections listed below and have referenced questions from the RFI in the context of each section's content:

- A. Pay for Success Opportunities for Pennsylvania (RFI Questions 1, 4)
- B. Learning from Previous PFS Transactions (RFI Questions 5, 6)
- C. Recommended Deal Structure and Target Outcomes (RFI Questions 2, 3)

#### 3A. Pay for Success Opportunities for Pennsylvania

##### Promising Policy Areas and Interventions

PFS deals are concentrated in a few broad social areas but are becoming more diverse. There is a strong emphasis on children, at-risk youth (young people who are neither employed nor in the educational system), criminal justice, and homelessness. PFS deals under development tackle even more diverse issues, such as teen pregnancy, child welfare, chronic disease management, workforce development, early education, maternal and infant health, and child adoption.

Governor Wolf has outlined five areas of interest for potential PFS transactions. Of these five, some of these areas are already involved in PFS transactions, like early education, teen pregnancy, maternal and infant health, supportive housing and child welfare. However, Pennsylvania would be a leader in the PFS field by pursuing PFS transactions in long-term living, due to the limited PFS activity in this area. As the Commonwealth thinks about these areas, it is critical to keep in mind the following issues when putting together a transaction that would be of most interest to outside investors:

- **There may not be evidence based programs (EBPs) that align to the Commonwealth's areas of interest.** That said, if there are EBPs aligned to Pennsylvania's areas of interest, the programs may be in other parts of the country and would need to be implemented in Pennsylvania with service providers who have not used such an approach. This will increase the execution risk and may require a higher rate of return for investors, as well as a ramp up period to allow service providers the time to learn, train, and test the intervention before being subject to the terms of the PFS deal.
- **Evidence-informed programs can be alternatives to EBPs but may increase execution risk.** Evidence-informed programs can be effective alternatives for several of the policy areas, but they will again increase execution risk and will likely require higher returns based on the lack of historical data to support the economic model of the PFS transaction.
- **Benefits generated through a PFS transaction may not accrue to the agency or agencies who are involved in the transaction.** In this situation, the agencies receiving the savings would either need to be a part of the transaction or the value of their savings would have to be removed from the pool of savings

available for pay out. In that case, it's important to make sure that the amount of money available is more than the cost of the transaction and can meet the agreed upon investor returns.

- **Savings may not be available for pay out to investors.** Sometimes referred to as the “wrong pockets” problem, there may be policy areas that could generate considerable savings across multiple levels of government, but significant portions of resulting savings are unavailable because they currently cannot be used in a PFS transaction. In several cases, savings will be generated from federal programs, like Medicaid; however, federal dollars are not available for payment to investors for PFS transactions. As a result, any monetary benefits must be generated from funds that the Commonwealth can access, and the value of those savings must be more than the cost of the transaction.

### **Partnership with Local Government Entities**

While there is potential for the Commonwealth to partner with local government entities – particularly given the City of Philadelphia’s recent Request for Proposals to explore feasible Pay for Success content areas for the city – benefit sharing protocols and data sharing agreements would need to be negotiated prior to PFS contracting. Given the timeline for securing data sharing agreements (up to 12 months), appropriate stakeholders need to be engaged as early as possible. These agreements, paired with the ability to aggregate data from city, county, and state systems, are critical for program evaluation. Managing multiple service providers across multiple levels of government requires a sustainable model for tracking data as well as strong analytics capabilities.

A critical element to keep in mind when thinking through partnerships across government entities is how savings will be captured and distributed to the investors. As noted above, if sufficient savings from an intervention can be identified, the savings must be able to be captured at the appropriate level of government. Benefits from PFS interventions can accrue at several levels of government – local, state, and federal. For example, a supportive housing intervention for a homeless population has several benefits, including reductions in emergency room visits, prison/jail sentences, drug treatments, and temporary shelter stays. These savings accumulate across program and departmental boundaries and at several levels of government. Savings need to be mapped to the appropriate government entity prior to considering a partnership with local government in a PFS transaction.

### **3B. Learning from Previous PFS Transactions**

Pay for Success contracting is a complicated endeavor. With such complication comes delays in setting up contracts, as there are many parties and pieces to coordinate. Learning from other state and local governments that have implemented Pay for Success contracts can help accelerate implementation. Based on our analysis of the existing PFS deals, we have identified several key “lessons learned:”

- **Pay for Success contracting takes time:** PFS contracting can take longer than expected due to: (i) standard government procurement practices, (ii) satisfying the interests of multiple stakeholders, and (iii) data sharing agreements. Typical government procurement practices are not generally designed to facilitate a “hands-off” approach to contracting for an outcome rather than a prescribed service. Traditional government procurement practices are designed to minimize risk, geared toward compliance over innovation. The necessary shift in procurement for government to foster productive PFS contracts has delayed the issuance of RFPs and moving forward with contracts in several state and local governments. Protracted contracting can also result from the need to satisfy the competing interests of multiple stakeholders across the government, service providers, and

investors. Each party is interested in ensuring that their own risk is minimized which can mean longer negotiation periods. Finally, contracting can be a slow process due to the length of time it takes to achieve agreed-upon data sharing agreements across city, county, and state governments.

- **A Focus on Performance is Critical:** Possibly the key threat to the success of any PFS deal is execution risk. These projects target solutions to difficult problems and in many cases, achieving desired outcomes will require a relentless focus on performance. This is especially true in complex deals involving multiple interventions and/or service providers. Optimizing performance will require dynamically matching individuals and families to services and measuring progress toward outcomes or indicators of outcomes on a routine basis. The Commonwealth may want to consider employing a professional management organization to assist in this process as part of the service provider or intermediary team.
- **Current lack of evidence-based programs to address societal problems complicates programming decisions:** Due to the predominant model of contracting for a service rather than an outcome, there is a lack of evidence supporting many programs. While this lack of EBPs increases execution risk and may require higher rates of return from investors, it also provides an opportunity for government to use evaluation to test intervention models and move toward paying for results rather than services
- **Pay for Success pilots allow testing intervention models prior to major investment:** Pilot programs are a good way to ensure the target population referral and enrollment processes work and the intervention model can be executed consistently prior to subjecting the service providers to the pressures of outside investors.

### 3C. Recommended Deal Structure and Target Outcomes

One of the primary concerns the Commonwealth should consider when structuring a Pay for Success transaction is how to create a transaction that will generate investor interest. Given that PFS transactions are a high risk investment, it's incumbent on the Commonwealth to find ways to mitigate the risk and build in systems that will reduce the risk. The Commonwealth should consider **adopting a portfolio approach**. Some investors are interested in specific program areas while others are interested in achieving more general social impact. The Commonwealth may be able to attract higher levels of investment by allowing investors to invest across multiple projects, thus spreading investment risk across a portfolio. This approach has been embraced by Salt Lake City Mayor Ben McAdams as the city tackles maternal and child health, criminal justice, and homelessness.

#### Valuing Outcomes

One of the most challenging questions in PFS contracts is how to establish a monetary value for an outcome. PFS is based on the concept in which private investment supports the delivery of preventative services that save the government money, using those savings in the future to repay the investment. However, savings often accrue over long time periods and may accrue to multiple jurisdictions and program areas.

In addition to identifying how to capture savings from multiple agencies, a critical part of defining the value of outcomes is determining whether to count other, often less direct social savings or longer-term savings that result from the positive outcome. For example, reducing recidivism can generate direct cost savings for the prison system. However, if this outcome has been achieved by increasing community involvement and employment, there will likely be other positive effects such as decreased dependence on social benefit programs, reduced criminal justice costs, and potentially increased revenue from income tax – all alongside broader societal benefits.

In most PFS deals, proximity, attribution, and quantification are the three key elements in valuation of outcomes. Given this, government may seek to identify “indicators” of positive outcomes that can be used as a proxy for these longer-term savings as part of its valuation.

PFS can only work when a program generates “monetizable” benefits that can be captured and set aside for payment at a later date. These savings, and how they are defined, are critical to understanding whether a PFS deal structure is warranted. There are generally three ways to think about savings in the context of PFS, and each type of savings presents a different challenge to being captured:

Type of Savings	Challenges to Capturing
<p><b>Budgetary savings:</b> A reduction from costs that would have been incurred in the absence of the program. These savings typically stem from reductions in anticipated spending from uncapped program accounts (often referred to as mandatory or entitlement programs).</p>	<p>Government must find ways to set aside funds for payment at a later date. Some states have set up sinking funds, like Massachusetts, while others utilize an annual appropriation that includes what the payment would be for that year.</p>
<p><b>Productivity savings:</b> A reduction in the costs of capped programs in which there may be a waiting list or insufficient funds to serve the entire population. In this case, reducing the cost per outcome allows more people to be served using the same level of funding.</p>	<p>Any productivity savings generated from a PFS transaction immediately gets used to serve more of the population, making it challenging to use the savings to pay the investors. In this case, government must consider the value of this increased productivity as a form of savings.</p>
<p><b>Social or long-term benefits:</b> Benefits created from a re-oriented system typically appear many years after the PFS program begins and are not usually calculated into predicted dollar savings.</p>	<p>The challenge with long-term benefits is determining which savings to consider incorporating in the total value of the outcomes. Typically, these benefits are not considered in the valuation of outcomes for PFS deals.</p>

### Mitigating Risk and Attracting Investment

Once the deal structure has been identified and the desired outcomes have been determined, there are several potential risk factors to keep top of mind when pursuing a PFS contract. Mitigating these risks will help the Commonwealth to attract more investment:

- **Appropriation risk**, as discussed above, is the risk that savings will not be able to be captured for payout. This risk can be addressed through budget, contracts, and appropriations language to ensure the availability of funds. Setting up cross-jurisdiction agreements for the investing agency/department to access savings and/or setting aside funds on an annual basis will assure investors that they will get a return if desired outcomes are achieved.
- **Execution risk** is the risk that the intervention will not be delivered effectively, comprising the potential savings by not achieving the desired outcomes. This risk can be reduced through identification and selection of evidence-based practices backed by effective use of data and analytics and implementing strong performance management. The combination of a proven intervention model and analytics used for case management, performance optimization, and evaluation will ensure higher investor interest.

## 4. Summary

Pay for Success contracts are exciting finance mechanisms that have the potential to bring new infusions of capital to provide preventative solutions while expanding the body of evidence about programs that work. A foundational component for these outcomes-based agreements is whether the data needed to support these transactions is accessible and serviceable. We believe that the effectiveness of a PFS contract hinges on having access to data across all stakeholders participating in the PFS transaction, combined with an analytical framework used for performance management.

The first step to ensuring a successful PFS contract for the Commonwealth is selecting the right contractors through the Request for Proposal. Based on our experience with Pay for Success, we recommend the Commonwealth consider including the following in any subsequent RFP:

- Require a comprehensive plan on how to access and use data across systems in order to (i) match interventions to individuals or families within the target population, (ii) optimize performance among and across providers, and (iii) provide administrative data sets to be used for evaluation.
- Consider employing a professional management organization to assist in managing the implementation as part of the service provider or intermediary team.

## 5. Additional Information

### About Accenture

Accenture is a global management consulting, technology services, and outsourcing company, with more than 323,000 people serving clients in more than 120 countries. Every day, our teams combine unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful organizations to collaborate with clients to help them become high-performance businesses and governments. These collaborations include working with governmental entities similar to the Governor's Office of Pennsylvania and implementing successful initiatives in areas including Human Services and Criminal Justice.

### About Accenture's Health and Public Services Practice

The Commonwealth of Pennsylvania will need to work with multiple stakeholders across government, as well as in the nonprofit and private sectors, to successfully execute PFS contracts. The spirit of Pay for Success aligns with the core of Accenture's Health & Public Service Operating Group mission – to help health and public service organizations achieve high performance, enabling them to deliver better social, economic, and health outcomes for the individuals and families they serve. Our response is based on Accenture's specific experiences and capabilities that can support your PFS strategy. These include:

- Deep industry experience in the Public Service and Nonprofit sectors, including a global Human Services Industry practice that has successfully implemented more than 60 Human Services applications for governments in the last 15 years.
- Practical experience helping other jurisdictions plan for their Pay for Success assessments and initiatives, including Dakota County, Minnesota and Montgomery County, Maryland

- The tools, capabilities, and relationships of a leading global management consulting firm in areas that will be required for a successful social innovation initiative, including program and performance management, business case development, and relationships across the public, non-profit, and commercial sectors.
- Access to the broader industry dialogue on innovative funding for social services through our annual Human Services Summit, sponsored in collaboration with Harvard University. This event brings human services leaders, industry experts, and Harvard faculty together to discuss strategy and best practices for human services organizations.

Responses to Pay for Success Request for Information From:  
Berks Connections/Pretrial Services  
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5/7/2015

***What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania?***

This may include description of programs and service providers, their evidence base, and the results they have been able to achieve for their target population(s).

**Response: Berks Connections/Pretrial Services (BCPS) would be a candidate for a Pay for Success contract. This non-profit agency has been providing services to the criminal justice population in Berks County for the last 40 years. BCPS has been a contracted by the County of Berks to provide reentry programming in the Berks County Jail System's Community Reentry Center since it opened in 2010. Services are provided by BCPS on both a pre and post release basis and include case management, employment assistance, housing assistance, financial literacy coaching, limited family reunification programming and assistance securing basic needs.**

**Program outcomes have consistently been very positive since the Center opened, have exceeding expectations and targets.**

**When compared to a pre-CRC control group, on average, recidivism rates are 70% lower for individuals who complete and are released from CRC programming.**

**When compared to a pre-CRC control group, on average, employment rates are improved by over 200% for individuals who complete and are released from CRC programming.**

***What considerations should the Commonwealth take into account in structuring Pay for Success contracts?***

This may include the respective roles of intermediaries and service providers, the appropriate duration of contracts, and how to design payment schedules and milestones to provide the greatest value to taxpayers and achieve the most progress in addressing social problems.

**Response: We believe the following would be important to consider.**

- **Multiyear support rather than "start-up" funding only would be very important**
- **Ensuring that requirements are feasible for small nonprofits is crucial. Often requirements are such that only large for profit companies can take advantage of an opportunity. Small nonprofits with a proven record of success can provide very valuable services with meaningful outcomes....however contract requirements often preclude them from being**

able to participate. Examples of these requirements that are difficult for smaller agencies to comply with are

- Reimbursement methods of payment from funding source
- A fee for service model where no guarantee of number of clients that will be referred for service makes it very difficult for small agencies to adequately staff a program

*What outcomes should the Commonwealth prioritize in Pay for Success contracts?*

What types of outcomes should payments be based upon and how should they be measured?

**Response: The following categories can measure reentry program success: recidivism reduction, gainful employment, stable housing, D & A sobriety, MH treatment compliance**

*Are there opportunities for the Commonwealth to partner with local government entities on Pay for Success contracts that achieve savings and benefits at multiple levels of government?*

Describe program structure issues that should be taken into account in the development of such contracts.

**Response: Addressing recidivism and other issues with the county jail population will reduce the number of individuals eventually ending up in the state prison system. Conversely addressing recidivism and other issues of returning state inmates will lead to less crime and more stable local communities.**

*What lessons can the Commonwealth learn from the experience in other states that have implemented Pay for Success contracts?*

Are there examples of Pay for Success projects, Requests for Proposals, contracts or other experiences that the Commonwealth should take into consideration in its program development?

*What other information would be useful to the Commonwealth of Pennsylvania in preparing a formal Request for Proposals for Pay for Success contracts?*

Friday, May 8, 2015

**Response to the Commonwealth of Pennsylvania's request for  
information, # 0B 2015-1, "Pay for Success Initiative"**

Bethesda Project  
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## Request for Information

❖ ***What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania?***

*This may include description of programs and service providers, their evidence base, and the results they have been able to achieve for their target population(s).*

Pay for Success contracts in Pennsylvania should focus on ending chronic street homelessness. There are multiple promising policy areas that influence one's ability to achieve this, including minimizing barriers to housing, increasing access to mental health, medical and addiction services, and establishing effective re-entry systems.

Pennsylvania should consider easing the stipulations and restrictions placed on homeless individuals before they can be provided shelter. Some of these rules are counterproductive to caring for and re-integrating the homeless back into society. It costs more money to turn homeless people away from shelters and programs than it does to provide food and shelter first before working to address mental illness, medical conditions and addiction. For evidence that this concept works, reference the Utah Homelessness Task Force's work in the State of Utah. They have reduced homelessness from over 15,000 people in 2010 to less than 300 chronically homeless people today<sup>1</sup>. The foundation of their program is a strategy called Housing First, which prioritizes a stable living environment as the first step to curtailing the cycle of chronic street homelessness. Without the stability of housing, individuals cannot begin to address their psychological, medical and substance abuse issues, start caring for themselves, or regain their footing in life to re-enter society. Housing First was started by New York University psychologist Sam Tsemberis in 1992<sup>2</sup>.

It costs Pennsylvania \$35,000 a year to house a male inmate for one year (more for women and children).<sup>3</sup> In 2009, a person with severe mental illness cost Philadelphia \$25,125 a year to care for when that person was forced to live on the street, but their care only cost \$19,278 when provided with housing and medical support<sup>4</sup>. Similarly, forcing a homeless person with substance abuse issues to remain on the street cost Philadelphia \$18,410 a year but the same person with city housing and a social worker only cost the city \$10,695 a year<sup>5</sup>. Philadelphia could be saving between \$6,000 and \$20,000 a year per homeless person by providing them housing before trying to address their behavioral problems, substance abuse problems, and mental illness. Unfortunately, as of 2009, Philadelphia was already short 5,360 single beds to meet this need and the number of homeless individuals in the city has grown<sup>6</sup>.

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<sup>1</sup> <http://www.businessinsider.com/this-state-may-be-the-first-to-end-homelessness-for-good-2015-2>

<sup>2</sup> ibid

<sup>3</sup> [http://www.pennlive.com/editorials/index.ssf/2012/05/pennsylvania\\_prison\\_reform\\_tax.html](http://www.pennlive.com/editorials/index.ssf/2012/05/pennsylvania_prison_reform_tax.html)

<sup>4</sup> <https://projecthome.org/sites/projecthome.org/files/Saving%20Lives%2C%20Saving%20Money.pdf>

<sup>5</sup> ibid

<sup>6</sup> ibid

There is a presence of service providers who focus on ending homelessness, especially concentrated in urban areas like Philadelphia. Bethesda Project has been serving the city's abandoned poor since 1979, offering a continuum of care that includes 13 sites of shelter and housing with support services, reaching more than 2,500 homeless and formerly homeless men and women each year. The organization's expertise has helped identify interventions that could be viable Pay for Success contracts in Pennsylvania:

1. Housing First model for permanent supportive housing—get those in need of shelter housed first, then begin to address the root causes of chronic street homelessness, employing collaboration and best practices in social service provision.
2. Systems collaboration—get all the key players on the same page. From shelter and housing programs to hospitals, prisons, behavioral health providers, child welfare agencies and addiction counseling, coordinated integration of care is vital to keeping people housed long-term. Not to mention, systems collaboration decreases duplication of services in specific geographic areas; a common problem found in urban settings with thousands of nonprofit service entities.
3. 24/7 access to care—create a space that is open around the clock, every day of the week, where people who are experiencing homelessness go to have basic needs met (food, water, shelter, bathrooms) and have access to critical amenities (laundry, mailing address, case workers, showers, lockers).
4. Medical respite—create a space where people experiencing homelessness can go to receive basic medical care and recover from ailments. This is a vital key in decreasing the dependence on emergency medical services as primary care, which is significantly costly.
5. Permanent supportive housing in trusted spaces—create a system that houses people in the same space where they've built trusting relationships and received services. Chronically homeless individuals are often very reluctant to enter and stay in shelter, many times because of fear of the unknown. If we can offer them housing in a space with which they've already become familiar, the likelihood of keeping them stably housed increases dramatically.

❖ ***What considerations should the Commonwealth take into account in structuring Pay for Success contracts?***

*This may include the respective roles of intermediaries and service providers, the appropriate duration of contracts, and how to design payment schedules and milestones to provide the greatest value to taxpayers and achieve the most progress in addressing social problems.*

The biggest consideration the Commonwealth should take into account in structuring the Pay for Success contracts is to prevent forcing the service providers to increase their administrative capacity. Nonprofit service providers sometimes struggle over “chasing the dollars,” which can not only dictate how services are administered, but can also contribute to mission drift. As stated in the RFI, one of the major advantages of a Pay for Success contract is that it provides stable, multi-year funding for a proven service provider.

However, if the requirements of the contract add significant administrative burden, it becomes harder to focus on the direct service—the very reason why that service provider has a proven track record.

To alleviate the administrative burden on service providers, the Commonwealth might consider:

1. Automated invoicing and payments
2. Appropriate training and clear, simple instructions
3. Fully communicated timelines and expectations
4. Some flexibility in deadlines, if justification is adequately communicated by the service provider
5. Minimal compliance requirements that are lucid, justified and streamlined

Lastly, the duration of contracts should take into account the realistic challenges of the services being provided. For example, Bethesda Project serves the most vulnerable and chronically homeless individuals—those living in the margins of society—and more often than not, it takes longer than the standard one-year funding contract to achieve the most progress in addressing this social problem. Multi-year contracts that track outcomes over time have the most potential to realize true impact.

❖ ***What outcomes should the Commonwealth prioritize in Pay for Success contracts? What types of outcomes should payments be based upon and how should they be measured?***

Under the Governor’s high priority area of health and human services, The Commonwealth should consider outcomes in four areas:

1. Housing First
  - a. Reduction in the number of chronically homeless individuals living on the streets
  - b. The number of formerly homeless individuals remaining in permanent supportive housing for six months or more—an important benchmark for chronically homeless individuals recovering from the trauma of living on the streets
  - c. The number of positive housing moves achieved—this could be moving from a Safe Haven program to a drug treatment program, moving into a more independent living situation or appropriate assisted living setting; the focus should be on moves that promote heightened stability in the long run and prevent vulnerable individuals from ending up back on the streets
2. Re-entry Programs
  - a. Reduction in recidivism
  - b. Increase in access to programs/services that provide opportunity attainment and promote independence—permanent housing for ex-offenders, job training, job placement, counseling, etc.

3. Minimizing Barriers to Housing
  - a. The number of individuals without proper PA identification who successfully get an ID card
  - b. Streamlining coordinated social service delivery to effectively decrease duplication of services in specific industries
  - c. Increase access to social services by achieving a model that is welcoming 24 hours a day, seven days a week
4. Decrease Reliance on Emergency Services
  - a. Reduce the number of individuals who are using emergency services for primary care
  - b. The cost savings per person/per year associated with this decrease

❖ ***Are there opportunities for the Commonwealth to partner with local government entities on Pay for Success contracts that achieve savings and benefits at multiple levels of government?***

*Describe program structure issues that should be taken into account in the development of such contracts.*

Yes, in increasing access to shelter and housing and reducing homelessness, the Office of Supportive Housing and the Philadelphia Housing Authority could play a role in Pay for Success contracts.

❖ ***What lessons can the Commonwealth learn from the experience in other states that have implemented Pay for Success contracts?***

*Are there examples of Pay for Success projects, Requests for Proposals, contracts or other experiences that the Commonwealth should take into consideration in its program development?*

In addition to the Commonwealth of Massachusetts Homelessness SIB, the success of the Utah's Homelessness Task Force as well as the Bud Clark Commons project in Portland, Oregon are worth considering. These two programs provide evidence of the success of housing initiatives and demonstrate that significant cost savings can be generated by providing the homeless with housing before addressing the issues of mental illness, medical conditions and addiction.

❖ ***What other information would be useful to the Commonwealth of Pennsylvania in preparing a formal Request for Proposals for Pay for Success contracts?***

Homelessness is a multi-faceted, complex community challenge, especially when focusing on housing the most chronically homeless individuals. Trust, patience and a commitment to dignified care are vital factors, but they can be difficult to quantify and measure. What makes Bethesda Project unique from other service providers is our tenacious approach to dignified care, valuing each individual and meeting them where they are, working through

challenges and celebrating successes together as one caring family. This philosophy in carrying out our mission, along with our 35+ year history, has helped us identify what the City of Philadelphia needs: a one-stop shop facility to serve those living in the margins of society, dubbed for planning purposes the *Bethesda Project Beacon*. To be successful and maximize impact over time, we feel it is necessary to combine multiple elements presented in this informational proposal into one facility:

- An engagement center that is open 24 hours a day, seven days a week, offering basic necessities and vital amenities, including access to an array of social services offered by Bethesda Project case management staff and community partners
- A medical respite for people recovering from hospitalizations who need professional care in a safe and clean space
- Permanent supportive housing in the form of efficiency apartments

There is no quick fix to ending homelessness. Rather, it will take a dedicated and combined effort of compassionate parties to achieve goals that will benefit our society as a whole. Moreover, we must also be in tune to the importance of advocacy and reversing the stigma of homelessness to advance and expand support from individuals, businesses and other funders and change makers. Pay for Success is a significant stride forward, which we fully support—thank you for this opportunity to submit an informational proposal!

**City of Philadelphia Response**  
**May 8, 2015**

The City of Philadelphia is pleased to offer a response to the Commonwealth of Pennsylvania's Request for Information regarding Pay for Success initiatives. Within the past year, the City of Philadelphia (City) has explored a number of opportunities for developing Pay for Success (PFS) initiatives to effectively address several social challenges with this innovative financing model. The City's efforts include the commissioning of a feasibility study; applications for federally-supported competitive solicitations; and the development of plans and task forces to focus on potential PFS services. Further, the City's studies and proposals do align with several of the Commonwealth's priority areas in early childhood care and education, workforce preparedness, public safety, health and human services, and supportive housing. This memorandum will describe, in turn, each of the City's efforts around PFS initiatives and will conclude with preliminary findings and overall comments pertaining to potential PFS implementation at the City and state level. The City administration appreciates the opportunity to provide this overview of Philadelphia's PFS efforts to date and welcomes further engagement and communication with the Commonwealth toward the development of effective and appropriate initiatives across the state.

**I. Feasibility Study: Public Safety (Reducing Recidivism; Improving Outcomes for System-Involved Youth)**

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**Policy Director**  
**Office of Mayor Michael A. Nutter**  
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[Maia.Jachimowicz@phila.gov](mailto:Maia.Jachimowicz@phila.gov)

This section of the City's response describes the City of Philadelphia's feasibility study and preliminary findings concerning the City's own potential for Pay for Success projects. If the City decides to enter into such a project, the City is interested in partnering with the Commonwealth in order to leverage benefits and savings. Once the final feasibility report is publicly available we plan to submit that report to the Commonwealth for its review as well.

On July 10, 2014, the City of Philadelphia issued a Request for Proposals for a Pay for Success Feasibility Study focused on controlling costs and improving outcomes in order to:

1. Reduce recidivism among returning citizens (also known as the formerly incarcerated); and
2. Reduce the percentage of system-involved Philadelphia youth in out-of-county residential facilities, including truant students, those placed in foster care, or those who have come to the attention of the juvenile justice system.

Through a competitive process, the City entered into a contract with Social Finance, Inc., a Boston-based firm, to conduct the feasibility study. Beginning in January 2015 and ending in May 2015, the feasibility study was structured in two phases.

During Phase 1 (January – March), Social Finance identified target populations affecting the pre-identified outcomes through analysis of government administrative data and expert interviews; identified evidence-based interventions proven to positively impact the pre-identified outcomes; and considered the landscape of available service providers. Social Finance then solicited the City’s guidance in order to review four interventions that are highly aligned with PFS for further analysis.

The four interventions selected for additional review included:

- Workforce reentry for returning citizens through transitional jobs;
- Supportive housing for individuals who frequently cycle in and out of jail;
- Cognitive behavioral –based intervention for high and moderate risk offenders; and
- Functional Family Therapy for dependent and delinquent youth.

During Phase 2 (March – April), Social Finance conducted a cost-benefit analysis for each of the four interventions while conducting additional stakeholder interviews with related city government departments and other interested parties, including philanthropic institutions and impact investors. At no point during the analysis did Social Finance speak directly with service providers.

Two major findings from Philadelphia’s Pay for Success Feasibility Study include:

- The return on investment for any of these proposed interventions would be significantly enhanced if the City conducted a project in partnership with the Commonwealth, given that the Commonwealth realizes substantial cost benefits for these pre-determined outcomes. In other words, both the City and the Commonwealth would realize cost savings through the proposed interventions so the most beneficial project would include both levels of government as payors in a Pay for Success project.
- Previous jurisdictions have struggled to pursue multiple PFS projects at once. Consequently, the City should consider sequencing multiple projects over time, to the extent they appear to be cost-beneficial.

Philadelphia’s Pay for Success Feasibility Study is undergoing final revisions. Once the report is finalized and to the extent it becomes publicly available, we respectfully request the opportunity to attach the document to this submission. We would welcome further discussions concerning the best ways to leverage public and private money to fund effective social programs.

## **II. Plan and Task Force: Early Childhood Care and Education**

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The City is in the process of launching two key initiatives that will advance our efforts toward a PFS project around access to Pre-K. These two initiatives are:

- The launch of *A Running Start Philadelphia*, the citywide early learning plan for children 0-5.
- The formation of a task force to develop legislation on how to implement and fund universal pre-kindergarten (without reducing funding to the K-12 system).

Both efforts, led by the Mayor's Office of Community Empowerment and Opportunity (CEO), are keenly focused on how to expand evidence-based services, in particular high quality center-based pre-kindergarten, for vulnerable youth. Thirty-nine percent of Philadelphia's children under age six live in poverty, nearly twice the statewide average and the largest number in absolute terms. Another 24 percent are considered near-poor, with family incomes of 100-200 percent of poverty. While 68,000 are eligible for Head Start or child care subsidy, there are only about 15,000 slots that meet the state's definition of high quality.

*A Running Start Philadelphia*, Philadelphia's new citywide early learning plan, lays the foundation for a coherent system to provide high-quality early learning for all children from birth to age five. The plan is designed to meet a two-pronged challenge: (1) ensure that the early childhood learning services that currently exist in child care centers and in private homes are of the highest quality, and (2) expand opportunities so the majority of Philadelphia's families with young children are able to participate.

In May 2015, Philadelphia citizens will vote on a ballot question to support the creation of a Philadelphia Task Force on Universal Pre-K. The independent commission would conduct a comprehensive analysis of whether to implement universal pre-kindergarten for 3- and 4-year-olds in Philadelphia, including evaluating proposals for funding that build on current state and federal investments. It is anticipated that PFS will be a significant component of the discussion of this Commission.

With this in mind, the City has put in place several of the necessary components to move forward to dramatically increase pre-k through a PFS approach. Several philanthropic organizations and potential investors have expressed interest in pursuing a PFS approach to expand high quality pre-K. As part of the early learning plan work, CEO has formed an exploratory group to review potential PFS funding opportunities as well as identified high quality providers using evidence-based approaches. It is anticipated that a feasibility analysis for an early childhood education PFS project could begin within six months.

### **III. Health and Human Services: Permanent Supportive Housing for Vulnerable Youth**

**Program Contact:**

**Susan Kretsge**

**Deputy Mayor**

**Health & Opportunity**

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The City believes that young adults between the age of 18 and 24 who are homeless, in foster care, or residing in behavioral health settings for extended periods are a viable population for a permanent supportive housing program. Each of these populations faces well-documented difficulties in attaining and maintaining stable housing as well as significant impediments to employment and education and successful life outcomes. A permanent supportive housing (PSH) program offers an opportunity to prevent negative trajectories for these youth.

Permanent supportive housing is a particularly attractive intervention because of its documented, evidence-based capacity to reduce high-cost services and provide housing stability. An initiative targeted to this vulnerable population would allow the city to build upon its existing, successful PSH program. Of the single individuals housed through our permanent supportive housing initiative launched in 2008, 89 percent were stably housed in Fall 2014.

The City established a Clearinghouse that serves as a single point of housing access for individuals in the Health and Opportunity priority populations who have both a service and housing need. The PSH service access portal resides at Community Behavioral Health (CBH). CBH established a new unit, Community Support Services (CSS), which provides a single point of access to behavioral health services, including core permanent supportive housing services of mental health and substance abuse case management, Assertive Community Treatment (ACT), mobile psychiatric rehabilitation, and peer specialist services.

Based on PSH studies, we would expect the Clearinghouse to reduce criminal justice system involvement, homelessness, and medical and behavioral crisis services. The reductions in the use of emergency services would reduce Medicaid expenditures and a decrease in homelessness and criminal justice system involvement would ease City general fund expenditures.

Importantly, the program would incentivize increased community engagement and involvement for the young adults we house. Isolation in some in these populations is a serious issue and we would hope that increased stability and supports such as peer specialists would assist in addressing this issue. In our current permanent supportive housing program, community engagement is a key feature of the services provided.

In calendar year 2014, there were approximately 1,200 unique young adults (18-24) admitted to higher levels of care including psychiatric acute inpatient, extended acute and sub-acute hospital settings, and residential treatment programs. Per diem rates for Medicaid-funded crisis residence is \$367 per day. Crisis Response Centers (CRCs) cost \$625 for each presentation. Some young adults with behavioral health problems reside in residential treatment programs funded with Medicaid dollars until they transition to other levels of care or are placed in a community setting. The cost of care on a per diem basis ranges from \$303 to \$606. We believe that establishment of a permanent supportive housing

initiative would reduce reliance on these settings and allow these young adults to live more independently.

In Philadelphia, 1,489 youth aged 18-21 aged out of the dependency system from January 1, 2010 to December 24, 2014, averaging 298 youth per year. The circumstances for these youth mirrored trends at the national level with longer lengths of stay, more placement moves, less adoptions, and academic struggles (the citywide dropout rate is 48 percent; for youth in foster care it is 75 percent). Family placements are more difficult to find for older youth in the dependency system, leading to a reliance on congregate care, an expensive and inadequate arrangement. In 2014, there were 146 young adults between the ages of 18 and 21 in a group home or other institutional setting funded by the Department of Human Services. The median length of stay was 361 days. At an average per diem cost of \$140, the annual cost of congregate settings for dependent youth aged 18 - 21 is \$7.4 million (based on the 146 youth in these settings in calendar year 2014). The use of a supportive housing model would reduce both the number of persons in congregate care and the length of time that an individual would remain in care.

The Office of Supportive Housing operates the City's emergency housing system. Young adults in shelter are often former clients of the child welfare system who have aged out of the foster care system, those who have left residential placements, and youth fleeing domestic violence. An assessment of this population showed 71 percent had a prior behavioral health system involvement, making them likely candidates for PSH. In calendar year 2014, there were 1,330 unique adults ages 18 - 24 in the City's emergency housing system. The City spends \$47,000 a day for shelter for this group.

**IV. Health and Human Services: Supportive Housing through Tax Credit Financing**

**Program Contact:**  
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In Philadelphia, the Philadelphia Redevelopment Authority (PRA) is the land development and affordable housing implementation arm of the city, financing more than \$99 million in supportive housing projects over the last 20 years. The PRA is also a partner in the majority of all Low Income Housing Tax Credit (LIHTC) projects in Philadelphia. LIHTC credits are allocated by the Commonwealth.

In 2011, Mayor Nutter created the Philadelphia Re-Entry Coalition to bring together federal, state, county stakeholders to address the needs and challenges facing returning citizens coming back to the City. The PRA serves as co-chair of Philadelphia's Re-entry Coalition Subcommittee on Housing.

The PRA is interested in considering a PFS project, which combines LIHTC and targets supportive housing for formerly incarcerated individuals.

Tax credit financing is a powerful affordable housing tool which has been utilized for the past 30 years. On an annual basis, the Pennsylvania Housing Finance Agency - the Commonwealth's state allocating agency - issues a RFP (aka Qualified Allocation Plan) which outlines the threshold and selection criteria for tax credits. Applications for tax credits are ranked according to a point system and awarded to non-profit and for-profit entities which then sell these credits to investors. Investors offer pricing per credit and equity is raised on that sale. Credits are awarded to developers in a lump sum to raise the necessary equity to construct the building but repaid over a 10-year period.

Unfortunately in today's market, LIHTC financing cannot cover 100 percent of capital costs. Affordable housing deals must find other sources of soft or hard debt to address the gap. The PRA is the primary gap lender for projects within the City. Today, demand for these credits is oversubscribed and less than 20% of all applications received are funded. Furthermore, Federal budget cuts to municipalities have decreased the ability to create affordable housing and the pressure for credits is ever more intense. PFS opens the door to new financing and represents a new way of funding supportive housing.

PFS has not been utilized as a method for institutional investors to achieve the Community Reinvestment Act (CRA) credit. There is some debate as to whether or not specific types of PFS investments could qualify for CRA, and PHFA is the perfect intermediary to spearhead this policy question. If PHFA formalizes with the IRS that certain PFS investments are eligible for CRA credit, this move would also transform the affordable housing industry by opening the door to more institutional investors.

A key component of any PFS project is that the government payer works with existing resources to pay back investors. PHFA is already practicing this model of funding. Under unique circumstances, PHFA has the power to forward allocate LIHTC to projects. Under a PFS scenario, the maneuver would be the same. PHFA would underwrite the deal and upon their satisfaction, forward allocate credits from a future year to a project that is currently underway. This does not require any new funds as PHFA programs and operations are funded primarily by the sale of securities and from fees paid by program users, not by public tax dollars.

Based upon feedback PRA has received from community partners that are currently structuring PFS deals, specific outcomes will be negotiated between investors and end payers and that terms vary per project and investor demands will be unique to each deal.

Broadly speaking, the desired outcomes and qualities necessary in a PFS project should:

1. Exhibit innovation and originality;
2. Build on existing State capacity; and
3. Save taxpayer dollars.

A supportive housing project targeting formerly incarcerated individuals would meet these objectives.

## **V. Preliminary Findings and Overall Comments**

### **What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania?**

In this response, the City has described a range of potential PFS models that represent various levels of investment in feasibility studies, planning, proposal development and consultation with potential providers and partners. To date, the City has not yet decided to pursue, or has not secured the resources and partners necessary, for entering into a PFS contract.

If the City decides to enter into one or more projects, the City is interested in partnering with the Commonwealth in order to leverage benefits and savings. Once the final feasibility report is publicly available we plan to submit that report to the Commonwealth for its review as well.

### **What considerations should the Commonwealth take into account in structuring Pay for Success contracts? This may include the respective roles of intermediaries and service providers, the appropriate duration of contracts, and how to design payment schedules and milestones to provide the greatest value to taxpayers and achieve the most progress in addressing social problems.**

The Commonwealth's proposed areas for PFS are all likely to reap benefits at the local and state level and so the City encourages the Commonwealth to prioritize projects where they can partner with local government. If the Commonwealth determines to engage with localities on a PFS financial model, it will be critical to encourage significant, ongoing, two-way communication regarding determining outcomes, intermediary relationships, provider selection, etc. As PFS is already a complicated financial structure, the inclusion of more than one governmental payor will introduce additional complexity, although the structure also could allow for a more complete, thoughtful, and meaningful project.

While providers, evaluators, and intermediaries are essential to the success of a PFS project, the ongoing relationship between the Commonwealth and the local government will define its success, based in a mutual understanding of the cost benefits and agreement of expected outcomes.

### **Are there opportunities for the Commonwealth to partner with local government entities on Pay for Success contracts that achieve savings and benefits at multiple levels of government? Describe program structure issues that should be taken into account in the development of such contracts.**

The City's studies of PFS models indicate that successful PFS initiatives would benefit from a partnership among multiple levels of government. As the largest city in the Commonwealth, there are likely important benefits/cost savings to partnering with Philadelphia. An important structural consideration for the Commonwealth is whether the State would enter into a sole contract with an intermediary, or whether it will be a joint contract between the State, City and intermediary. Each government may have its own rules regarding contracting, indemnification, maximum contract lengths, and required legislation, all of which must be factored into the organization and timing of an investment initiative.

**What lessons can the Commonwealth learn from the experience in other states that have implemented Pay for Success contracts? Are there examples of Pay for Success projects, Requests for Proposals, contracts or other experiences that the Commonwealth should take into consideration in its program development?**

The City's exploration of PFS initiatives indicates that bringing evidence-based interventions to improving social outcomes would move us toward a more effective use of taxpayer dollars. To the extent that PFS enables governments to align incentives and focus on investing in evidence-based prevention services, the City and Commonwealth should be open to exploring this innovative financing tool.

**What other information would be useful to the Commonwealth of Pennsylvania in preparing a formal Request for Proposals for Pay for Success contracts?**

As the Commonwealth has noted in its Response to RFI questions, there are a few organizations that can provide a high level of technical expertise in the structuring of PFS initiatives, including the Harvard SIB Lab, which will provide technical assistance to the Commonwealth. In addition, the Nonprofit Finance Fund (NFF) has a clearinghouse of PFS contracts, RFPs, feasibility studies and more. These documents and background information have provided a critical foundation for the work in Philadelphia to date.

**Submitted by:  
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# Pay for Success Initiative Commonwealth of Pennsylvania

RFI Response (RFI # OB 2015-1)  
May 2015



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Re: Request for Information #OB 2015-1, Pay for Success Initiative

Dear Ms. Anderson,

Deloitte is pleased to submit our response to the Commonwealth of Pennsylvania's Request for Information re: Pay for Success Initiative.

We are excited about Pennsylvania's interest and venture into the area of Pay for Success and believe it holds potential to effect important social change. Deloitte is uniquely positioned to advise on this request for information based on our:

- Expertise and eminence in Pay for Success;
- 30 years of experience working with the Commonwealth of Pennsylvania, including the Department of Education, the Department of Health, the Department of Corrections, the Department of Labor & Industry, the Department of Human Services, and the Office of the Budget; and
- Commitment to advancing evidence-based programs that provide measurable outcomes.

We very much appreciate the opportunity to share our expertise and look forward to the chance to work with you in the future.

Please do not hesitate to contact me if I can answer any questions for you regarding our response.

Best regards,

A handwritten signature in black ink that reads "Arthur C. Stephens".

Arthur C. Stephens  
Director, Deloitte Consulting LLP

# Contents

<b>1. Background</b>	<b>1</b>
1.1 Our understanding	1
1.2 Our team	1
<b>2. What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania?</b>	<b>4</b>
2.1 Pay for Success frameworks	4
2.2 Existing and emerging policy areas for Pay for Success	5
<b>3. What considerations should the Commonwealth take into account in structuring Pay for Success contracts?</b>	<b>6</b>
3.1 PFS Structures, Transaction Costs, and the Role of “Intermediaries”	6
3.2 Designing the right contract	7
<b>4. What outcomes should the Commonwealth prioritize in Pay for Success contracts?</b>	<b>10</b>
4.1 Defining outcomes	10
4.2 Payment structures and schedules	12
<b>5. Are there opportunities for the Commonwealth to partner with local government entities on Pay for Success contracts that achieve savings and benefits at multiple levels of government?</b>	<b>13</b>
<b>6. What lessons can the Commonwealth learn from the experience in other states that have implemented Pay for Success contracts?</b>	<b>15</b>
6.1 Developing Understanding and Support within Government	15
6.2 Building the right contract and team	16
<b>7. What other information would be useful to the Commonwealth of Pennsylvania in preparing a formal Request for Proposals for Pay for Success contracts?</b>	<b>18</b>
<b>Appendix A: Addendum Number 1</b>	<b>19</b>
<b>Appendix B: Addendum 1 Q and A Responses</b>	<b>21</b>

# 1. Background

## 1.1 Our understanding

Public officials have a responsibility to use scarce resources to deliver the most impactful outcomes. In budget-constrained times, directing limited government funds toward initiatives that deliver tangible results becomes all the more imperative. Pay for Success (PFS) models present an opportunity to do just that. These innovative financing mechanisms enable governments to focus resources on outcomes—not inputs—and to pay only for programs that provide desired results.

However, Pay for Success contracts may not be appropriate for all program areas, as they entail risks and transaction costs that may present challenges throughout the lifecycle of creating and implementing PFS contracts. Experiences in other states that have launched PFS projects have shown that developing the PFS contract is a complex process and may consume considerable energy, given how new the idea is. However, the Commonwealth of Pennsylvania can take several important lessons from others in creating and implementing Pay for Success contracts:

- There is no “one-size-fits-all” Pay for Success structure. States should customize PFS structures to their unique policy areas, required outcomes, and circumstances.
- States must strike a delicate balance between setting requirements for meeting an outcome and affording the external organization the freedom to deliver on that outcome using the means and interventions it sees fit.
- Pricing and payment are complex and difficult, requiring deep analyses and a well-defined baseline.
- States should guard against risks by negotiating mechanisms for an orderly termination of the PFS contract if the external organization is unlikely to achieve results.

## 1.2 Our team

Deloitte has assisted the Commonwealth of Pennsylvania on dozens of projects. Our experience with the Department of Education, the Department of Health, the Department of Labor and Industry, the Department of Human Services, the Department of Corrections, and the Office of the Budget has given us the opportunity to be a leading provider of consulting services for the Commonwealth.



**Figure 1. Representative Commonwealth Clients.**

Deloitte has had the privilege of an extensive working relationship with the Commonwealth of Pennsylvania extending back more than 30 years. The relationship transcends any single transaction. We are proud of the results Deloitte and the Commonwealth have been able to achieve together and our role as a major Pennsylvania employer. Further, Deloitte has a deep understanding of the Commonwealth’s working environment and supports it across a wide spectrum of services.

We have deep experience in potential PFS programs areas including human services, early childhood development and education, and workforce development. For the Pennsylvania Department of Human Services, Deloitte provides support across most major health and human services programs, including early learning, child welfare, child care, child support, and Medicaid (physical health, behavioral health, long-term care, and developmental disabilities). Many of these programs include private (non-profit and for-profit) service delivery partners as well as county governments. As such, we have worked with the Department to engage a diverse stakeholder group including citizens, consumers, providers, advocates,

**Did you know?**

**Deloitte brings a deep commitment to serving the Commonwealth:**

- **5,000** Employees in Pennsylvania, **1,500** of which are in our Camp Hill Public Sector Delivery Center
- **36** Awards for innovation and cost savings in Deloitte’s Pennsylvania projects
- **2,100** Pennsylvania College graduates employed by Deloitte nationally
- **\$1.5 million** annual United Way contributions in Pennsylvania

county governments, and other interested parties.

Deloitte also developed the Pennsylvania Information Management System (PIMS), in conjunction with the PA Department of Education. One of the key goals of PIMS was to deliver timely, quality data to educators, students, parents, policy makers, and other stakeholders. The core of PIMS is the data warehouse. The data warehouse holds detailed information for student and staff demographics, staff assignments and certifications, courses and course enrollments, program participation, career and technical education, special education, and enrollment. This statewide solution allows management staff, policy makers, and educators to view high-quality student information that is empirical, accurate, and timely.

Additionally, the Allegheny County Department of Human Services (ACDHS) has engaged Deloitte for over 10 years to provide ongoing system development, deployment and information management support. As a result of our work with Allegheny County, we have had a “front-line” view to the realities of health and human services delivery systems and challenges in Pennsylvania.

Deloitte also provides significant support to Pennsylvania’s workforce development programs, through the design and maintenance of Pennsylvania’s workforce development (reemployment) and job matching programs. This project, along with our support of programs in Temporary Assistance for Needy Families (TANF), provides us with a unique perspective to workforce development programs in Pennsylvania.

Our local advisory team is led by Art Stephens, Lindsay Hough, and John Rampulla. Art has over 28 years of experience as a consulting principal and director, state CIO, Governor’s Deputy Chief of Staff, and Vice Chancellor of a higher education system. He has been working with the Pennsylvania state government since 1994. Lindsay Hough leads our strategy and operations practice and has experience in finance transformation, corrections, and human services programs including long-term care, early learning, and developmental disabilities. John Rampulla leads our local analytics practice and has strong understanding of the human services, corrections, revenue, and finance areas.

**Kennedy Consulting Research & Advisory named Deloitte the largest global consulting provider, based on revenue and market share in 2012, our experience includes:**

- Serving Pennsylvania for more than 30 years
- Deloitte ranked the #1 global consulting company by Kennedy and Gartner
- Deloitte Health Practice rated #1 in the industry by Kennedy
- Serving Health and Human Services initiatives in 46 states
- 40 years leading and overseeing government health and finance transformation
- Significant capabilities in technology, data analytics, and advisory services across all levels

In addition to our Pennsylvania team, we have deep subject matter expertise in Pay for Success programs. Jitinder Kohli is a recognized expert focused on how improved evidence, evaluation, and performance can help government agencies and non-profit organizations improve impact and outcomes. Jitinder leads Deloitte’s work on Pay for Success and is a Senior Fellow at the Center for American Progress, where he has published numerous articles and reports on creating and implementing PFS projects. He has advised a wide range of agencies in the United States and abroad on Pay for Success financing—including at local, state, national, and international level. Some of his select publications include, “Inside a Social Impact Bond Agreement,” “Defining Terms in a Social Impact Bond Agreement,” and “Social Impact Bonds and Government Contracting: How to Choose the Best External Organization to Achieve Your Outcome.”

## 2. What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania?

### 2.1 Pay for Success frameworks

Pay for Success (PFS) initiatives hold the promise of a range of benefits for society and for the stakeholders who participate in them. However, Pay for Success programs are not appropriate in all policy areas, and given the risks and transaction costs entailed in creating PFS contracts, policy makers and leaders should proceed with caution. The most promising policy areas for Pay for Success contracts are areas where:

#### **Outcomes are well-defined, observable, and measurable within three to eight years.**

Outcomes should be observable and objectively measurable within a few years of initiating a PFS contract so that government agencies can make payments, and investors need not tie up funds for too long.<sup>1</sup> Pay for Success programs also require rigorous data analysis over time to measure results, making policy areas for which ample administrative data are available the most ripe for PFS contracts. If the project cannot generate accurate, comprehensive, and preferably quantitative data to measure change, it will be challenging to determine if success has been achieved. Given that Pennsylvania does not have an integrated data environment across Departments, any measures or outcomes that are envisioned should be carefully and thoroughly discussed with all stakeholders, including the Office for Information Technology and the Office of the Budget, to ensure that there is data that can effectively measure the outcome.

#### **The policy area has proven, cost-effective solutions.**

Practically, investors will be more likely to risk their money if the interventions are evidence-based and cost-effective with a high likelihood of delivering the outcome. The larger the evidence base for these interventions, the better. PFS contracts may also be useful when proven interventions exist but they have failed to successfully scale.

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<sup>1</sup> Jitinder Kohli, Douglas J. Besharov, Kristina Costa, "What are Social Impact Bonds?" Center for American Progress Issue Brief, March 22, 2012. Available at [https://cdn.americanprogress.org/wp-content/uploads/issues/2012/03/pdf/social\\_impact\\_bonds\\_brief.pdf](https://cdn.americanprogress.org/wp-content/uploads/issues/2012/03/pdf/social_impact_bonds_brief.pdf)

**The policy area should matter to the government and have engaged supporters.**

Political capital and support can make or break a PFS arrangement. The experiences of state, county, and city leaders designing and implementing PFS initiatives have shown that the social issue a PFS contract addresses should be a high priority for the government and one that state, county, or city officials will support. Support from the Governor and his cabinet, the state legislature, and relevant associations, such as the County Commissioners Association, will be critical for success. Ironically, policy issues for which funding can be difficult to marshal or sustain, such as recidivism, are areas that would benefit most from PFS contracts because PFS contracts enable the government to pay only once the outcome is achieved, rather than funding costly activities (inputs) that have little support over long periods of time and may not be effective at achieving the outcome.

**2.2 Existing and emerging policy areas for Pay for Success**

Several governments around the world have begun to explore Pay for Success initiatives in the following policy areas: prison recidivism, early childhood education, homelessness, juvenile justice, health (asthma prevention), and workforce development. The figure below reflects some recent Pay for Success contracts in the United States.

Policy area	Locality	Example outcome
Prison recidivism	Massachusetts, New York State	Reduced days in incarceration, increased job readiness, increased employment
Juvenile justice	New York City	Reduced days in incarceration, increased job readiness, increased employment
Homelessness	Massachusetts, Cuyahoga County	Increased days in stable housing; reduced length of stay in out-of-home foster care placement for children whose caregivers are homeless
Early childhood education	Salt Lake County, Chicago	Reduced special education enrollment through the provision of early childhood education

**Figure 2. Pay for Success contracts in the United States**

Although states and cities have tended to focus on policy areas in which PFS contracts have already been implemented, the Commonwealth of Pennsylvania need not be limited to these areas. Other social areas under consideration for PFS contracts may include special education, workforce development, veterans’ services, energy efficiency, and public health. A handful of these emerging areas, namely special education, human services, and healthcare, overlap with Governor Wolf’s “Schools That Teach, Jobs That Pay, and Government That Works” agenda and may serve as promising policy areas for Pennsylvania’s own Pay for Success programs.

### 3. What considerations should the Commonwealth take into account in structuring Pay for Success contracts?

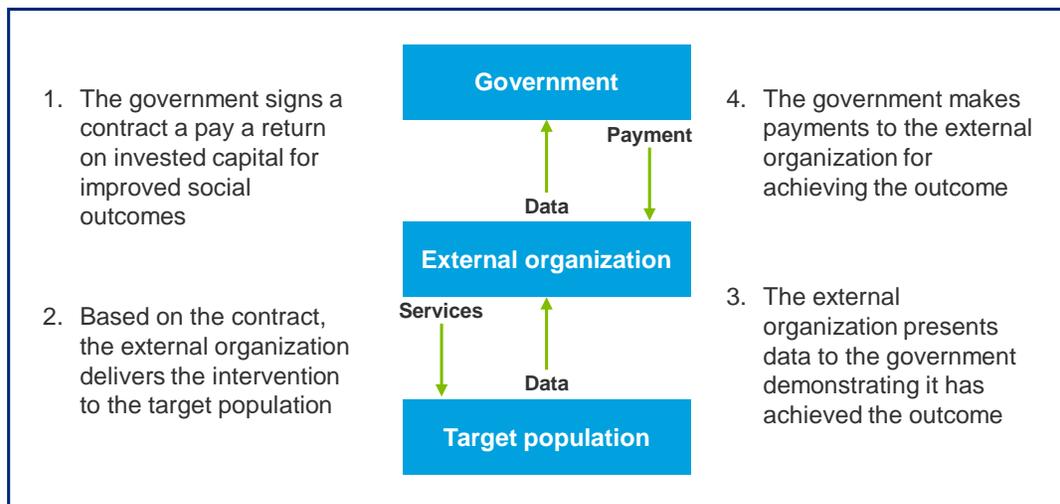
#### 3.1 PFS Structures, Transaction Costs, and the Role of “Intermediaries”

##### No “one-size-fits-all” structure exists for Pay for Success contracts

Given the relatively new nature of Pay for Success contracts, there is no standard structure that has emerged as a best practice. Pay for Success contracts are flexible tools that government agencies can use across many different types of programs. As such, the tools must fit the needs of the policy areas and objectives, so there is no “one-size-fits-all” model.

Key to a PFS arrangement is a relationship between a government agency and an external organization – where the government identifies an outcome that it wants to see achieved and promises to make a payment to an external organization when it is achieved. While many PFS arrangements have involved other entities, they are not essential to the concept.

As described in the diagram below, the process starts with the government establishing an outcome it wishes to purchase and selecting an external organization that is committed and equipped to achieve that outcome. The external organization’s job is to work with the target population to achieve the outcome – and it needs significant freedom on the “how” in terms of interventions.



**Figure 3. Pay for Success structure**

In many cases, the model has proven more complex. Some external organizations have found that they are not in the business of delivering the specific services to the target population, and so have hired service providers to deliver the intervention. The external organization’s role then would be to oversee the PFS contract and interact with the government and other parties to the contract.

Oftentimes, external organizations have needed to raise operating capital to deliver services to the target population, and have chosen to raise capital from investors for the specific PFS arrangement.

Another component is the evaluator. When administrative data is not sufficient for measuring outcomes, or if parties to the PFS contract wish to have an independent, third party assess the outcomes and payments, they may hire an evaluator.

In the first PFS arrangement in the world, in Peterborough in the UK, this is the model that applied. The external organization raised finance from investors and delivered services through other organizations. This model is often described as an “intermediary” model. And while administrative data quality was high, there was still an evaluator to help establish whether the outcome was achieved.

### **“Intermediary” organizations can be helpful in managing the successful implementation of Pay for Success contracts but are not essential**

Since Peterborough, many Pay for Success projects have featured “intermediary” organizations. Intermediaries play the role of the external organization but don’t deliver services themselves and rely on investors to bring in capital.

Intermediaries can add tremendous value. In many cases, they insulate service providers from risk – by grant funding services. They also have expertise in how to structure PFS arrangements and understand how to raise funds from investors. But intermediaries are not an essential part of a PFS arrangement. For instance, Massachusetts’ Chronic Individual Homelessness PFS Initiative presents a case where a separate intermediary was not used. In this example, there was a dedicated consortium of service providers, some of whom were also willing to serve as investors.

## **3.2 Designing the right contract**

### **Developing payment structures and schedules requires a careful analysis of social benefits**

The most important factor in determining a PFS contract payment schedule is accurately determining the worth of the outcome to the government and society. Rather than attempting to develop a deal size based on what is viewed as an acceptable return for investors or the cost of the intervention, governments should focus on developing a robust analysis of an intervention’s value. Many PFS projects have tried to establish a price for the outcome by calculating the “cashable savings” to government – i.e., a calculation of the reduction in future non-discretionary service costs as a result of the outcome being achieved. In recidivism, for example, cashable savings are calculated by looking at the savings to the prison and policing system associated with a reduction in recidivism rates. This is a valuable approach but in many cases, this method undervalues outcomes to government and unnecessarily narrows the circumstances in which PFS contracts can effect meaningful change.

In many cases, the outcome will be worth a great deal to society but may not lead to cashable savings. For example, a reduction in domestic violence is something that governments may want to support, not because it reduces the costs of domestic violence shelters or the prison system, but because there is intrinsic value to society associated with a reduction in domestic violence. If a PFS arrangement can deliver greater impact than

current programs, and payment is only released when domestic violence rates come down, then it may merit a PFS arrangement – where payment is calculated by reference to the value that society places on the outcome.

In a recent Salt Lake County Request for Proposal for a PFS program, SLC stated it would prefer that a PFS project demonstrate some county-level savings during the lifetime of the project but would consider paying for outcomes as proxies of the broader community benefit that will be derived from the desired outcome.

### **Government must strike a delicate balance between setting requirements for the external organization and exerting undue control over the intervention or day-to-day operations**

Though government should take the lead role in defining desired outcomes and accompanying payment for those outcomes, it should refrain from prescribing the process by which the external organization reaches the outcomes.<sup>2</sup> The value of PFS contracts is that they allow for innovative approaches to solving social challenges, enabling evidenced-based service providers to test and prove the worth of their programs. By focusing on process, rather than outcomes, government would limit the flexibility of an intervention. If the government designs a due diligence process that carefully evaluates external organizations, it should have enough confidence to allow day-to-day program management decisions to be handled by the external organization.

### **PFS contracts necessitate guarding against risk by negotiating mechanisms for an orderly termination of the arrangement**

PFS contracts should define clear exit points in the event that outcomes are not being met, and the external organization has a strong incentive to walk away from its efforts. This can be orchestrated through a phased approach for payments or through agreements about meeting specific milestones. If government does not realize termination is a real possibility, there is a risk it will be tempted to “bail out” service providers by renegotiating agreements.<sup>3</sup>

Government may legitimately want to end a PFS contract, for example, if it reasonably believes that the external organization is harming the beneficiary population.<sup>4</sup> The government may also want to maintain the ability to terminate an agreement “for convenience,” that is, at will, but the investors and external organizations may require compensation for their efforts.

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<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Jitinder Kohli, Douglas J. Besharov, Kristina Costa, “Inside a Social Impact Bond Agreement,” Center for American Progress, May 3, 2012. Available at [https://cdn.americanprogress.org/wp-content/uploads/issues/2012/05/pdf/sib\\_agreement\\_brief.pdf](https://cdn.americanprogress.org/wp-content/uploads/issues/2012/05/pdf/sib_agreement_brief.pdf)

**Government agencies should minimize, to the greatest extent possible, any consequences if the external organization cannot achieve the outcome and discontinues its services**

Government will need to ensure that in the event of termination of a PFS contract, the target population receiving services are no worse off than they would have been without the services.<sup>5</sup> For instance, in one prison recidivism project, the services provided under the PFS contract were new and not typically offered to inmates in other prisons. If the services were to be discontinued, the inmates would be treated equally as those from other prisons.

**Pay for Success legislation may be necessary for governments to secure and ensure funding for multi-year contracts**

In some states, it has been necessary to pass legislation to give sufficient assurances to external organizations that payments will be released by appropriators. The issue arises when government is not permitted to make future funding commitments in the absence of appropriations covering future years. In Massachusetts, the state legislature passed a law to create a trust for Social Innovation Financing. The legislature funded the trust using annual appropriations, and they based the level of funds on the payment schedule for a successful outcome. Annual appropriations are essentially held in escrow until the external organization achieves the outcome and triggers the payment from the trust.

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<sup>5</sup> Jitinder Kohli, Douglas J. Besharov, and Kristina Costa, "Social Impact Bonds," Center for American Progress Fact Sheet, April 2012. Available at [https://cdn.americanprogress.org/wp-content/uploads/issues/2012/04/pdf/sib\\_fact\\_sheet.pdf](https://cdn.americanprogress.org/wp-content/uploads/issues/2012/04/pdf/sib_fact_sheet.pdf)

## 4. What outcomes should the Commonwealth prioritize in Pay for Success contracts?

One of the most challenging yet important aspects of developing a Pay for Success contract is setting the outcome. The heart of any PFS contract is the explicit outcome that the government wishes to pay for and achieve. The outcome must be clearly defined, observable, and measurable; and it should be ambitious—one that would not occur absent the external organization's intervention. Yet, the outcome must also be achievable in a certain time frame (we suggest three to eight years), or else no organization would take on the challenge.

### 4.1 Defining outcomes

#### **Outcomes should be observable and measurable**

Outcomes must be observable and measurable. Observable simply means that changes—in behaviors, conditions, or infrastructure—can be seen, heard, or otherwise perceived by the parties to the PFS contract. Measurement is more complex but equally essential. The relevant parties, namely the government, the external organization, and the third-party evaluator (if one is included in the PFS contract), must be able to agree upon quantitative data or indicators that highly correlate with a program's comprehensive social net benefits.

In setting observable and measurable outcomes, the government and the external organizations should agree on the evaluation/measurement methodology, including determining the unit(s) of analysis, proxy measures, and processes for collecting data, prior to entering into an agreement. Moreover, where possible, outcomes should be measured using data sources that already exist or are inexpensive to generate in order to streamline the evaluation process and save on transaction costs.

#### **Outcomes should be achieved and measurable within an agreed upon timeframe**

The duration of PFS programs will vary across programs, depending on the type of intervention, the level of the evaluation, and the data required to demonstrate attributable outcomes. An additional consideration is the willingness of investors to wait to see a return on their investment. Based on a survey of existing projects and the requirements for data evaluation, contracts could reasonably specify a project timeline of three to eight years.<sup>6</sup> This duration allows enough time to collect, evaluate, and validate results for most programs while providing service providers with a steady stream of funding that will allow them to focus on the intervention. It also provides a reasonable time horizon for investors to receive a return. However, given the long duration of these contracts, it is essential that funding promises be seen as credible by investors. Government agencies

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<sup>6</sup> Ibid.

will need to find ways to offer external organizations firm guarantees that payments will be made if outcomes are accomplished.

### **Government agencies should avoid defining outcomes that the external organization could achieve by sheer chance**

Specified outcomes should be ambitious—ones that would likely not happen absent the intervention of the external organization. Thus, government should avoid defining outcomes that could be achieved by sheer chance. For example, the government should avoid setting a workforce development or re-employment outcome that is dependent or highly influenced by the strength of the state's recovery from a recession. Similarly, external organizations will want to protect themselves against the risk that factors beyond their control will make it increasingly hard for them to achieve outcomes.

To make it easier to determine whether an outcome is achieved by the intervention or by chance, payers and external organizations need to ensure that the sample sizes are sufficiently large and that the number of people served is ample enough to reduce the chances of attributing results to coincidence or chance. One can also mitigate against risks by using control and comparison groups.<sup>7</sup> This is what the Peterborough prison did. The government set an outcome of 7.5 percent reduction in the rate of recidivism amongst the target population, relative to a comparison group of similar prisoners discharged from other prisons.

### **Government agencies should structure outcomes to reduce the incentive for perverse behavior**

It is imperative for government to think carefully about the implications of reaching an outcome and to structure outcomes so as to reduce the incentive for perverse behavior. All parties need to be aware that poorly aligned or articulated outcomes can result in incentives that lead service providers to do harm to the population they are intended to serve. Therefore, government must be careful to set outcomes that do not lead to perverse incentives, such as service providers feeling pressured to keep people in dangerous situations.

PFS contract should also include rules and guidelines that would dissuade the external organization from engaging in acts that help it “cream skim,” or meet the easiest measures in the contracts but not advance outcomes (or worse, undermine the spirit and goal of the PFS contract).<sup>8</sup> If, for example, the outcome were to be for people to be employed at the time of measurement, the PFS arrangement should include a requirement for a minimum period of employment so that the external organization does not hire a person just for the time of measurement. Payers should take a pragmatic approach to this problem by guarding against such practices as

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<sup>7</sup> For more, see Jitinder Kohli, Douglas J. Besharov, Kristina Costa, “Inside a Social Impact Bond Agreement,” Center for American Progress, May 3, 2012. Available at [https://cdn.americanprogress.org/wp-content/uploads/issues/2012/05/pdf/sib\\_agreement\\_brief.pdf](https://cdn.americanprogress.org/wp-content/uploads/issues/2012/05/pdf/sib_agreement_brief.pdf)

<sup>8</sup> Jeffrey Liebman and Alina Sellman, “Social Impact Bonds: A Guide for State and Local Governments,” Harvard Kennedy School, June 2013. Available at <http://payforsuccess.org/sites/default/files/social-impact-bonds-a-guide-for-state-and-local-governments1.pdf>

they become apparent, rather than trying to eliminate all risks, as that would be a cumbersome and too complex process.

On its end, government should create PFS contracts in good faith – that is, it should proceed under the expectation and hope that it will eventually pay the external organization upon successful achievement of the outcomes, and that it will be supportive, cooperative, and willing to help the external organization succeed.

#### 4.2 Payment structures and schedules

Outcome-based payment schedules generally fall in one of two groups: 1) payment triggered by the achievement of an aggregate outcome, or 2) payment per individual case. In the former, the payment schedule often involves comparison between two groups. If the cohort receiving the intervention performs significantly better than the control group, the outcome is then achieved and the government pays the external organization. But if the intervention cohort's performance is similar to the control group, or the difference does not meet the threshold level defined, outcome payments are not triggered. The other payment option is for the government to make a payment per individual in an intervention cohort who meets a specific goal.

#### **Payments should increase for better performance once an outcome is achieved in order to encourage the best results<sup>9</sup>**

In aggregate outcome-based payments, the government should incentivize continued and better performance by increasing payments beyond the minimum threshold of achievement. In the Massachusetts's homelessness project, investors receive a 3.33 percent return for achieving the outcome. If the intervention outperforms expectations, and all tenants stay in stable housing for a year or more, investors receive the maximum return of 5.33 percent.

#### **In per-individual payment schedules, the government should set payments to account for cases that would have likely resulted in a successful outcome without intervention**

Although simpler to administer, an individual-based payment schedule means that the government will likely make some payments for individuals who would have achieved the outcome even if the intervention did not exist, so government agencies may wish to set less generous payments to account for this. Relatedly, the payment schedule means that the external organization assumes greater risk for factors outside its control that affect how hard it is to achieve the outcome (e.g., a recession making it more difficult for a program participant to find a job).

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<sup>9</sup> Kohli, Besharov, Costa, "Inside a Social Impact Bond Agreement."

## 5. Are there opportunities for the Commonwealth to partner with local government entities on Pay for Success contracts that achieve savings and benefits at multiple levels of government?

PFS contracts can involve multiple forms of support and participation spanning different levels of government, although doing so increases the complexity associated with developing the contract. Before deciding to structure a PFS contract across multiple levels of government, it is important to consider the benefits and challenges associated with that decision. Below are a few suggestions to keep in mind when considering involving multiple levels of government.

### **Involve multiple levels of government in ways that lead to the achievement of greater societal benefits and cashable savings in a scalable, replicable manner**

Since the scope of a PFS contract depends entirely on the value government places on the benefits associated with achieving the established outcomes, involving multiple levels of government opens the contract's potential beyond the capacity of one agency or one level of government. Multiple levels of government may be willing to pay for the benefits they each accrue. Another benefit to involving multiple layers of government is that it allows the state to be directly involved in identifying successful interventions in one city or locality and scaling them to other areas across the state. In essence, state governments can pilot interventions on a smaller scale and then scale as appropriate, especially where the interventions benefit the localities.

Pennsylvania is the sixth-most populous state in the country with 67 counties, approximately 500 school districts, and thousands of cities, townships, municipalities and authorities. Many of these entities play a front-line role in the delivery of the programs likely to be considered for a PFS program. For example, relative to early learning, county human services offices typically provide early intervention services for children ages zero to three, intermediate units (operating thru mutually-agreed upon written arrangements or MAWAs) provide early intervention services for children three years-old to school age, and county-connected Child Care Information Services (CCIS) Agencies serve as the primary "hub" for child care programs. Additionally all three of these entities contract with for-profit and nonprofit providers of direct services (e.g., educators, therapists, child care providers, and preschool programs). As such, any sustainable PFS program relative to early learning would benefit from the active engagement of this existing delivery system.

### **Understand that involving multiple levels of government may delay contract development and make the PFS contract subject to each level's bureaucratic and regulatory restrictions**

However, as soon as multiple levels of government are involved in a PFS contract, it is likely to take longer than originally anticipated, simply because of the necessity to align each level's interests, resources, and capabilities. Each level independently, as well as the group collectively, must commit to overcoming the bureaucratic and/or regulatory restrictions that are destined to come up along the way. A significant amount of time and energy must also be allocated to ensuring the appropriate data-sharing and data-reporting

agreements are in place; doing so enables greater possibilities by pulling from many data sources in an integrated manner, but it is difficult to get there.

For example, when Pennsylvania implemented its Early Learning Network - an effort to connect many of the delivery and technology systems involved in providing early childhood education services – it was met with significant challenges. A 2009 report by the National Council of State Legislators documented challenges in the areas of governance; vertical and horizontal links; data access, reporting and use and privacy. While such challenges are clearly addressable in a PFS model, they must be factored into the approach for a successful effort.

Pennsylvania's system of government and its approach to delivering social services to different populations make the state a good candidate for multi-level partnerships. Like early learning programs, a majority of the services that are provided across the Commonwealth have a state government and county or local government component. For example, relative to corrections programs, the Commonwealth incarcerates inmates with longer sentences who typically have committed more serious crimes, while county jails typically incarcerate inmates who have committed lesser offenses or who may be in a transitory period in their sentencing or incarceration. The Commonwealth has worked together to develop an integrated justice network (J-Net) that allows law enforcement and other related identity information to be securely shared across agencies and across levels of government. J-Net is a connector allowing those who are authorized to access information the ability to do so in an environment that does not require a significant data extract and storage process. Leveraging tools like J-Net may help speed implementation of a PFS contract by connecting involved entities.

Another example is behavioral health services in that treatment programs for drug and alcohol and mental health vary across the state and local level. Outcomes for program measures must understand these intertwined but separately run systems.

Similarly, homelessness programs are almost entirely delivered at a local level with some state funding provided. Some human service programs are run by both the state and the county governments. Examples of this include home- and community-based services and child welfare. Finally, other services are coordinated and delivered almost entirely by the state including the Supplemental Nutrition Assistance Program and Medicaid – physical health. Any human services related PFS would need to understand the delivery system of that service and ensure the outcome measures are reflective of that structure.

## 6. What lessons can the Commonwealth learn from the experience in other states that have implemented Pay for Success contracts?

As highlighted earlier, states, counties, and cities that have used Pay for Success contracts have learned several lessons concerning how to design and implement PFS contracts effectively. While the full range of lessons to be learned from these experiences will be available once the impact of completed contracts can be fully evaluated and measured, government leaders including those from the Commonwealth of Pennsylvania can take advantage of what the industry has learned so far.

### 6.1 Developing Understanding and Support within Government

#### **Take the time to thoroughly educate key stakeholders about PFS contracts and their potential**

Those individuals and/or agencies most interested in PFS will need to put in substantial efforts educating other government leaders and agencies about PFS contracting and convincing them that PFS is the right idea for the relevant policy area. Those who have successfully created and implemented a PFS contract have consistently stated that educating and making the case for PFS takes time. Since the different individuals and organizations that need to learn about and buy into PFS contracts have different interests and information needs, it is important for anyone attempting to carry out these education efforts to customize the presentations to each audience. These audiences could vary from a city council charged with allocating funding to a PFS project to other government agencies that would see benefits from achieving a certain outcome and thus, have an incentive to pay for a portion of what those outcomes are worth.

#### **Identify the right champions to help see the PFS contract development process through to the finish line**

A successful PFS contract requires champions in the government. As mentioned above, PFS contracts are most appropriate for policy areas that have the government's and the public's support; thus, someone who can champion the policy area and serve as an advocate for PFS arrangements is incredibly helpful for securing the funding and the support needed to launch the process of designing a PFS contract. More importantly, PFS contracts require an administrative champion—one who can drive the contract process through the bureaucracy and manage the project, with its many moving parts, through implementation. This is a critical role, as creating PFS arrangements are pioneering, complex, and time-consuming.

#### **Develop an understanding of the target populations a PFS contract might best serve**

Before considering the different policy areas and outcomes that should be a part of a PFS contract, government organizations need to carefully identify the various target populations it seeks to aid and develop a deep understanding of those populations—who they are, what interventions work to effect change for them, and why—through rigorous data analysis.

Below are a few steps to keep in mind when assessing the target populations:

- Identify to which programs and populations the government is allocating its resources
- Identify deficiencies or lack of performance in existing government programs designed to serve key populations
- Reach out to service providers through an RFI process such as this one to get a feel for their understanding of the potential target populations and their specific needs
- Establish data-sharing agreements with other government organizations or levels of government in order to get a full picture of those citizens or areas that are most vulnerable.

## 6.2 Building the right contract and team

Once government stakeholders understand and support PFS contracts, the focus shifts to building the right team to be part of the actual PFS contract. Performing due diligence early and thoroughly is important to selecting a good team, but it is also crucial to recognize that the unexpected will come up, regardless of how much due diligence or planning is done.

Outlined below are lessons learned from other PFS contracts regarding selecting and working with other groups that are part of the contract.

### **Don't feel pressured to conform to what other states have done**

An advantage of PFS contracting is that it can be uniquely customized to fit the specific needs of a government agency and the people that agency strives to serve, but the difficulty associated with PFS contracts is that there is no “cookie-cutter” recipe for developing the perfect contract. Instead of feeling a need to stick to the same policy areas and contract structures that other states have used, don't be afraid to deviate from the norm in order to better customize the PFS contract to Pennsylvania-specific needs.

### **Select an external organization that has the capabilities and capacity needed to raise capital, manage service providers, facilitate reporting, and ensure outcome achievement**

The most important relationship in a Pay for Success contract is the relationship between the government and the external organization whose responsibility it is to achieve the outcome. Based on conversations the Deloitte team has had with intermediaries in PFS projects in the United States, the role of the external organization involves a very heavy lift—one the organization may not expect or have experienced before.

As government organizations look to select the right project coordinator to deliver the interventions and outcome, a few core capabilities include the:

- Ability to work closely with government throughout the PFS contract, as both sides learn how to execute on the contract effectively
- Ability to present to and negotiate with potential investors, especially as the type of organization that is likely to be the project coordinator may function very differently than the type of organization that may serve as an investor
- Ability to serve as an interlocutor between the government and investors

- Ability to work with government in identifying and selecting the right service provider(s) to deliver the social services
- Ability to collect and analyze vast amounts of real-time data in order to monitor progress relative to specific outcomes
- Ability to intervene with service providers when program data indicates that the intervention is not achieving outcomes (i.e., course correct); to provide technical assistance as needed; and to respond when unexpected events transpire
- Ability to report key metrics to other stakeholder groups involved.

### **Keep in mind what information potential investor(s) might need when considering to support the external organization**

In cases where there are investors, the investor's role is to provide the working capital needed by service providers to carry out an intervention. As government agencies look to work with the right investor(s), here are a few things to keep in mind:

- Investors care about the intervention and its historical track record in demonstrating positive impact that has been observed in a fair, objective way
- Investors often take a more straight-forward, cost-benefit approach to decision making. For example, investors may calculate the rate of success that needs to be achieved in order to recoup the original investment and then stack that percentage up against the intervention's perceived ability to achieve or exceed that rate
- Investors may not expect much of a return on their investment because they desire to use their resources to support causes with a positive social impact
- Investors want to ensure that service providers and intermediaries have the capacity to implement the chosen intervention with fidelity and high quality, and in ways where the effort is scalable and replicable
- Investors want to see real-time data along the way that provides early indication of success or failure.

### **Provide flexibility to the external organizations to select the best service providers for the PFS contract**

PFS contract should place some restrictions on the government in order to preserve flexibility for the external organization to achieve the outcome. In most contracts, these restrictions will include clauses prohibiting the government from exerting control over the external organization's strategy or day-to-day operations. The contract should also prevent the government from intervening in the external organization's selection of subcontractors and investors, though subcontractors will be held to the same standards as the external organization. The contract should also include provisions that encourage the government to cooperate with the external organization so that it is able to take the actions necessary to achieve the outcome, for example, by ensuring access to relevant data.

## 7. What other information would be useful to the Commonwealth of Pennsylvania in preparing a formal Request for Proposals for Pay for Success contracts?

Deloitte has provided information in the other sections but is very willing to meet with you to share more specific experiences and observations from our work across the country.

## Appendix A: Addendum Number 1



**SOLICITATION ADDENDUM**

Date: **April 13, 2015**  
Subject: **Pay for Success Initiative**  
Solicitation Number: **OB 2015-1**  
Due Date/Time: **May 8, 2015**  
Addendum Number: **1**

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To All Suppliers:

The Commonwealth of Pennsylvania defines a solicitation "Addendum" as an addition to or amendment of the original terms, conditions, specifications, or instructions of a procurement solicitation (e.g., Invitation for Bids or Request for Proposals).

*List any and all changes:*

**The Official Questions and Answers are attached to this Addendum 1 and are made part of the RFP.**

Type of Solicitation: **Hard Copy (Paper) Bid** - If you have already submitted a response to the original solicitation, you may either submit a new response, or return this Addendum with a statement that your original response remains firm, by the due date.

Except as clarified and amended by this Addendum, the terms, conditions, specifications, and instructions of the solicitation and any previous solicitation addenda, remain as originally written.

Respectfully,

Name: **Traci Anderson**  
Title: **Assistant Counsel**  
Phone: **717-787-5311**  
Email: **RA-PayForSuccess@pa.gov**

## Appendix B: Addendum 1 Q and A Responses

### Pay for Success: Response to RFI Questions

**1. Is there a client served minimum to be able to submit a response?**

There is no client served minimum to submit a response to the RFI or a proposal to the proposed upcoming RFP. However, the number of clients served could potentially be a factor in considering the strength of proposals -- in terms of the impact of the proposed services, the feasibility of designing a rigorous methodology for estimating the impact of the services, and the financial viability of the proposal.

**2. Can you clarify/confirm that this RFI is only seeking information and NOT actual bids? The language included in the notice seems to indicate the acceptance of formal bids, but it isn't clear.**

This RFI is strictly for gathering information useful in program development. Pending legislative approval, an RFP will be issued to receive actual bids.

**3. It appears that this solicitation is not looking for local governments to propose specific pay for success projects with which they might want to engage the Commonwealth. Rather this appears to be a solicitation that might lead to the Commonwealth asking for specific projects that a local government might propose once the Commonwealth has explored the model and determined it wants to proceed, partly based on the results of this solicitation. Is this understanding correct?**

In response to the RFI, the Commonwealth welcomes ideas for specific Pay for Success projects that could be entered into by the Commonwealth and local governments.

**4. [Company Redacted] is potentially interested in responding to this RFI. As we prepare our response, we would like to obtain further clarification on several items in the RFI:**

**A.) A March 11, 2015 news release**

([http://www.governor.pa.gov/Pages/Pressroom\\_details.aspx?newsid=1599#.VSKOn2OpKSv](http://www.governor.pa.gov/Pages/Pressroom_details.aspx?newsid=1599#.VSKOn2OpKSv))

from the governor's office states that the Commonwealth is a recipient of a Harvard grant to help develop its Pay for Success initiative.

**1) How does this announcement impact the objective or scope of the RFI?**

The objective and scope are generally stated as the five priority topic areas in the RFI, but we are considering all proposals. The Technical Assistance grant will help the Commonwealth develop its Pay for Success program.

**2) Will the Commonwealth be following the Social Impact Bond Technical Assistance Lab's SIB Development Process?**

The Commonwealth is drawing on the SIB Lab's Development Process as well as other examples and best practices from across the country. Decisions are ultimately made by the Commonwealth.

**3) If the Harvard Lab's SIB Development Process is adopted, are there specific elements of the development process or RFI that should be emphasized in the response?**

Responses to the RFI should be based on the information and questions in the Commonwealth's RFI.

**B.) The RFI states on pages 1 and 2: "payment would only occur after rigorous evaluation and validation by an independent, third-party evaluator." What entity do you envision (e.g., the Commonwealth government, the intermediary) would pay for this third party? Or would this function be overseen and paid for via a joint governance committee comprised of representatives of all the Pay for Success stakeholders?**

This issue is determined in the contract negotiation process. RFI responses may include recommendations and considerations that should be taken into account in structuring the third-party evaluator function.

**C.) Is it envisioned that the outcomes criteria for payment will be established by the Commonwealth or developed collaboratively with the intermediary and services provider?**

The RFI response may include a discussion of outcome criteria, and may contain recommendations and other suggestions regarding the criteria for the Commonwealth's consideration. Outcome criteria will be decided collaboratively, and agreed upon by all parties, as part of the contract negotiations.

**5. The RFI notes the five high priority areas for the possible PFS initiatives. Will the Governor's office consider possible initiatives for other agencies such as Department of Revenue, and Department of Labor and Industries which would generate additional revenue for the Commonwealth and directly or indirectly fund the intended cause?**

The Commonwealth will consider all possible initiatives. Ideas beyond the five areas noted may be submitted in response to the RFI.

**6. Is it mandatory to have an Intermediary or can the service provider directly fund the necessary upfront capital until the benefits are achieved?**

Program structures that do not involve an intermediary may be suggested in response to the RFI, and potential roles and possibilities should be described in detail. The RFP will define specific roles and requirements.

**7. Under Solicitation Information section on the eMarketplace, it notes that the responses will not be accepted electronically and recommends referencing the instructions to the solicitation which in turn on page 3 asks to submit the responses electronically. Please clarify whether the response should be submitted electronically or in print form (hard copy) at the address noted in the RFI. Also, if the response has to be submitted in hard copy, please indicate the number of copies and if electronic version of the response should also be included in digital media.**

Responses can be submitted either in hard copy or electronically.

**8. I am writing because [Organization Redacted] is interested in providing a response to Governor Wolf's proposed legislation on entering into Pay for Success contracts. This is the first such response that we would be submitting and I just wanted to verify if there is a specific format that is required, and if so, where it can be found.**

Responses do not need to be in any specific format, and can be submitted in hard copy or electronically.

**9. Provide the following details before we buy the document:**

- 1) List of Items, Schedule of Requirements, Scope of Work, Terms of Reference, Bill of Materials required.**
- 2) Soft Copy of the Tender Document through email.**
- 3) Names of countries that will be eligible to participate in this tender.**
- 4) Information about the Tendering Procedure and Guidelines**
- 5) Estimated Budget for this Purchase**
- 6) Any Extension of Bidding Deadline?**
- 7) Any Addendum or Pre Bid meeting Minutes?**

This initiative is for services provided to Pennsylvania citizens living in the Commonwealth of Pennsylvania.

**10. Are there limits/restrictions on the types of organizations that can submit a Pay for Success initiative?**

No there are no limits or restrictions; we will review all submitted proposals.

**11. The figure on page 2 states, "Non-profit provides evidence-based services". Are there limits/restrictions on the types of organizations that can participate in this initiative? Can a for-profit entity deliver the Pay for Success services?**

The Commonwealth seeks to work with whatever organizations can deliver the best results for Pennsylvania and its citizens. We are interested in receiving feedback on this topic as part of the RFI process.

**12. Does PA have a specific set of policy goals that they are trying to achieve within the 5-6 year period in which PFS contracts usually operate? These goals could come from the executive or legislative branch. Is there a multi-year PA Strategic Plan from which these might be derived?**

We listed the Commonwealth's five targeted high-priority areas in the RFI, but responses are not restricted to those issue areas. The actual PFS contracts must inherently provide benefits to the Commonwealth and its citizens.

**13. The intermediary in the Financing Plan part of one of these deals is very often one of the big three national organizations: Social Finance, Third Sector Capital Partners, or the Nonprofit Finance Fund.**

**Does the State of PA already have a working relationship with one of these three national Pay for Success intermediary organizations? Does the State of PA conceive of some other business, bank or other instate organizations that it believes might serve as the Financing Plan Intermediary?**

The Commonwealth does not have a commitment to any specific intermediary organization or organization type. We would be interested in receiving feedback on this topic as part of the RFI process.

**14. Has the State of PA and its agencies, or some other jurisdiction (i.e., county or municipality) begun the outcomes analytic process and, perhaps, launched Feasibility Study work already? If this information is public, will it be available to respondents to the RFI?**

The Commonwealth has not yet begun the analysis described in this question. Feasibility analysis on specific potential projects will begin once we have received and considered the RFI responses.

**15. Two PA non-state jurisdictions applications were submitted to the Institute for Child Success's SIF PFS application process this winter. Neither scored high enough to make it into the top six or seven, but they were interesting in their construction.**

**Is the State of PA aware of these and does it support them to proceed with other PFS applications?**

The Commonwealth does not want to limit the proposals to review as part of the PFS process. We encourage all applications and ideas.

**16. What is the governmental structure that has or will be established to facilitate regular, reciprocal information exchange between PA and projects already funded in other states?**

This will be determined once it is clear what policy areas we are moving forward with. The Commonwealth is working with the Harvard Kennedy School SIB Technical Assistance Lab, and this relationship gives us connections to the work being done in other states. We would be interested in receiving feedback on this topic as part of the RFI process.

Diplomas Now:  
Keeping Philadelphia Students on the Path to High School Graduation and College Readiness

May 8, 2015

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❖ **What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania?**

This may include description of programs and service providers, their evidence base, and the results they have been able to achieve for their target population(s).

**Overview**

In the 2012 school year, the State of Pennsylvania had 38 “dropout factories” (high schools with promoting power at or below 60%).<sup>1</sup> Diplomas Now, a partnership between City Year, Communities In Schools and Johns Hopkins University’s Talent Development Secondary, offers an evidence-based way to significantly reduce high school dropout rates and achieve other important outcomes in failing Pennsylvania school systems.

Diplomas Now provides a proven performance-based intervention model that will help to serve Pennsylvania State in educating children, youth, and young adults. We currently operate in 33 schools, serving 26,000 students in 13 cities across the country.

Diplomas Now currently operates in middle schools in Pennsylvania, but seeks to expand to high schools. We propose a PFS project that would over a 8-year period:

- Provide interventions to 4 dropout factories treating over 9000 entering 9<sup>th</sup> graders
- Prevent over 1,600 school dropouts
- Lead to \$11m of savings for Medicaid, \$7m to juvenile justice, and \$13m in lifetime tax payments
- Raise \$12m of upfront private capital to fund the intervention



We believe that a Social Impact Bond (SIB) program involving Pennsylvania, Diplomas Now, and a potential intermediary such as Third Sector Capital Partners will bring a promising opportunity for Pennsylvania investors seeking to reallocate impact towards a sustainable, effective and cost-savings educational system.

<sup>1</sup>Balfanz, R., Bridgeland, J., Bruce, M., & Fox, J. (2014). *Building a grad nation: Progress and challenge in ending the high school dropout epidemic 2014 annual update*. Retrieved from: [http://gradnation.org/sites/default/files/17548\\_BGN\\_Report\\_FinalFULL\\_5.2.14.pdf](http://gradnation.org/sites/default/files/17548_BGN_Report_FinalFULL_5.2.14.pdf)

## About Diplomas Now

Founded in 2008, Diplomas Now is an innovative school turnaround collaboration leveraging over 65 years of combined experience working in and with low-performing, under-resourced schools. The Diplomas Now model was developed in response to research findings identifying the early warning indicators of eventual high school dropouts. This unique partnership model unites three organizations which all have proven track records of improving school success and student achievement – Johns Hopkins Talent Development Secondary, City Year, and Communities In Schools (CIS) - to create an innovative secondary school partnership focused on meeting the holistic needs of all students in grades 6 through 12.

- Talent Development Secondary provides comprehensive, on-site support focused on building a strong and safe school environment, creating and refining effective professional learning communities, and ensuring effective teaching and learning in every classroom. Talent Development also helps create and manage an Early Warning Indicator data tool and multi-tiered student support process.
- City Year places diverse teams of 8 to 20 talented young adults in Diplomas Now partner schools to provide school-wide and targeted supports, which include attendance and behavior monitoring and coaching, tutoring, mentoring, homework support, and extended day activities.
- CIS provides an on-site coordinator to provide school-wide prevention and climate support as well as case-management and high intensity supports for the most challenged students in order to address the underlying issues hindering their success.

In August 2010, the U.S. Department of Education awarded Diplomas Now a prestigious Investing in Innovation (i3) grant to validate the model's early promising results. Diplomas Now, the only national secondary school transformation model to receive an i3 grant is implementing the nation's largest randomized control trial (RCT) of comprehensive school turnaround across eleven markets. Through this RCT, Diplomas Now is partnering with MDRC, a leading research organization, to study the impact of the model on school attendance, behavior, course performance, and graduation rates in some of the nation's highest-need schools and will evaluate the effectiveness of Diplomas Now compared to other reforms.

### **Diplomas Now could solve a major problem in Pennsylvanian Schools.**

***The High School Dropout Crisis is a Large-Scale Problem.*** Just 1,345 of America's high schools produce half of all the nation's dropouts.<sup>2</sup> These schools, found in every state, produce two-thirds of its minority dropouts. As of the 2012 school year, Pennsylvania was home to 38 "dropout factories".<sup>2</sup>

***Dropout Behaviors can be Predicted Early.*** At least half of future dropouts in high-poverty schools begin signaling that they are disengaging from school as early as sixth grade.<sup>3</sup> By ninth grade, up to 80% have struggled with the early warning indicators (EWIs): attendance, behavior-effort and course performance. Studies have shown that lagging EWIs in middle school strongly correlate with high school dropout rates. Additionally, recent research has found that high school grades are the strongest predictors of college graduation and middle school grades are the strongest predictors of high school grades.<sup>4</sup>

***Dropouts are a Fiscal Burden.*** Once a student drops out of high school, it is estimated they cost taxpayers over

<sup>2</sup>Balfanz, R., Bridgeland, J., Bruce, M., & Fox, J. (2014). *Building a grad nation: Progress and challenge in ending the high school dropout epidemic 2014 annual update*. Retrieved from: [http://gradnation.org/sites/default/files/17548\\_BGN\\_Report\\_FinalFULL\\_5.2.14.pdf](http://gradnation.org/sites/default/files/17548_BGN_Report_FinalFULL_5.2.14.pdf)

<sup>3</sup>Balfanz, R., Herzog, L., & Mac Iver, D. J. (2007). Preventing student disengagement and keeping students on the graduation path in urban middle-grades schools: Early identification and effective interventions. *Educational Psychologist*, 42(4), 223–235.

<sup>4</sup>Allensworth, Elaine M., et al. "Middle Grade Indicators of Readiness in Chicago Public Schools." (2014).

\$292,000 in higher spending for social costs and in lost earnings (and therefore lower tax revenue).<sup>5</sup> More than 20,000 students in Pennsylvania did not graduate from high school in 2012.<sup>6</sup>

***Dropouts Drive Juvenile Justice Expenses.*** In the U.S., on any given day, 54,000 youth are incarcerated in juvenile detention centers, costing state governments approximately \$9 billion annually.<sup>7</sup> According to the America’s Promise Alliance, dropouts are eight times more likely to be incarcerated than those who graduate high school. At an average cost of \$146,302 per youth per year<sup>8</sup>, the implications of high school dropouts for the justice system are astronomical, as it costs more than 10 times more to incarcerate a youth for one year than to educate them in school.<sup>9</sup>

***Dropouts are Linked to the Cycle of Teen Pregnancy.*** Thirty percent of all female teenage dropouts cited pregnancy or parenthood as a reason for dropping out of high school, and the rate is higher for minority students: 36 percent of Hispanic girls and 38 percent of African American girls cite pregnancy or parenthood as a reason they dropped out.<sup>10</sup> Teen mothers can place increased strain on social safety net programs such as Women, Infants, and Children (WIC) and Temporary Assistance to Needy Families (TANF), and children born to teen mothers begin kindergarten with lower levels of school readiness (including lower math and reading scores, language and communication skills, social skills, and physical and social well-being), compared to children born to women in their twenties. Diplomas Now focuses on the students who start to show disengagement from school through one or more of the EWIs as early as the 6<sup>th</sup> grade, therefore keeping them more engaged in school and decreasing the likelihood of these students dropping out of school due to teenage pregnancy.

***Many Pennsylvania Schools are Not Yet Served by Turnaround Initiatives.*** There are currently students in Pennsylvania’s 38 “dropout factories” and the middle schools that feed into them who we believe could benefit from increased investments in turnaround programs that are proven to increase graduation rates while reducing teen pregnancy and rates of juvenile incarceration. Initiatives like Diplomas Now use integrated, whole-school and targeted interventions to improve attendance, behavior and course performance to get middle and high school students engaged in education and on track to graduation.

***A Growing Body of Evidence Suggests That School Turnaround Initiatives are Able to Move Schools’ Metrics.*** The Talent Development Secondary (TDS) model has demonstrated strong results in Philadelphia. MDRC used a comparative interrupted time series analysis to estimate the model’s effects on student performance in Philadelphia’s high schools<sup>11</sup> and middle schools<sup>12,13</sup> with TDS.

According to these studies, TDS produced significant, substantial and pervasive impacts on credits earned, promotion rates, and attendance rates during the first year of high school. For example, TDS increased the attendance rate by 5 percentage points; increased the core academic curriculum completion rate – the percentage of students earning at least 5 credits during ninth grade and at least one each in math, English and science -- by 8 percentage points; raised the promotion to 10th grade rate by 8 percentage points; and increased the proportion of students who earned a credit in algebra by 25 percentage points.

<sup>5</sup> Northeastern University, October 2009, “The Consequences of Dropping Out of High School”.

<sup>6</sup> Alliance for Excellent Education, “The Economic Benefits of Increasing the High School Graduation Rate for Public School Students,” [http://all4ed.org/wp-content/uploads/2014/01/Pennsylvania\\_econ.pdf](http://all4ed.org/wp-content/uploads/2014/01/Pennsylvania_econ.pdf)

<sup>7</sup> Office of Juvenile Justice and Delinquency Prevention, <http://ojjdp.gov/ojstatbb/corrections/qa08201.asp?qaDate=2013>

<sup>8</sup> Justice Policy Institute, “FACTSHEET: The tip of the iceberg: What taxpayers pay to incarcerate youth,”

[http://www.justicepolicy.org/uploads/justicepolicy/documents/factsheet\\_costs\\_of\\_confinement.pdf](http://www.justicepolicy.org/uploads/justicepolicy/documents/factsheet_costs_of_confinement.pdf)

<sup>9</sup> National Center for Education Statistics, Table 236.55, “Total and current expenditures per pupil in public elementary and secondary schools: Selected years, 1919-20 through 2010-11,” [https://nces.ed.gov/programs/digest/d13/tables/dt13\\_236.55.asp](https://nces.ed.gov/programs/digest/d13/tables/dt13_236.55.asp)

<sup>10</sup> The National Center for Educational Statistics: Washington, DC. Retrieved July 2010, from <http://nces.ed.gov/edat/>

<sup>11</sup> Kemple, J. J., Herlihy, C. M., & Smith, T.J. (2005). Making progress toward graduation: Evidence from the Talent Development High School model. Pennsylvania: MDRC.

<sup>12</sup> Kemple, J.J., & Herlihy, C.M. (2004). The Talent Development High School Model: Context, components, and initial impacts on ninth-grade students’ engagement and performance. Pennsylvania: MDRC.

<sup>13</sup> Herlihy, C. M. & Kemple, J. (2004). The Talent Development Middle School Model: Context, components, and initial impacts on students’ performance and attendance. Illinois: MDRC.

Diplomas Now enhances the Talent Development Secondary model by adding two additional service providers—City Year and Communities In Schools—which helps to accelerate the impact that the TDS model can achieve alone.

The Diplomas Now model consists of an early warning system that alerts teachers as soon as students begin to demonstrate off-track behavior, an additional team of adults to provide targeted and intensive supports, and a whole school reform strategy that includes instructional programs that are linked to college readiness standards, extensive professional development for administrators and teachers, and comprehensive programs for family and community involvement, among others.

<b>Diplomas Now Turnaround Design</b>
<p><b>1. Effective Research-Validated Whole School Reform</b></p> <ul style="list-style-type: none"> <li>•Personalized learning environment with teams of teachers working with the same 75-90 students</li> <li>•Challenging research-based instructional programs linked to college readiness standards</li> <li>•Career academies in the upper grades to link school learning to skills needed for adult success</li> <li>•Extensive professional development for administrators and teachers, including instructional coaching and professional learning communities</li> <li>•Accelerated learning courses for students below grade level</li> <li>•Comprehensive programs for family and community involvement - direct ongoing support from Johns Hopkins’ National Network of Partnership Schools</li> </ul> <p><b>2. Early Warning System with Tiered Responses</b></p> <ul style="list-style-type: none"> <li>•Coordinated early warning system alerts teachers as soon as students begin to demonstrate off-track indicators (primary indicators: Attendance, Behavior, Course Performance)</li> <li>•Early warning system linked to three-tiered prevention &amp; intervention system is tightly integrated into day-to-day school practice (Tier 1: School-wide prevention, Tier 2: Targeted interventions of moderate intensity for small groups, Tier 3: Higher intensity one-on-one interventions)</li> </ul> <p><b>3. Second Team of Adults to Provide Targeted and Intensive Supports at Required Scale and Intensity</b></p> <ul style="list-style-type: none"> <li>•Teams of City Year corps members working as “near -peer” mentors and role models and extend the day, provide targeted interventions, and teacher supports               <ul style="list-style-type: none"> <li>–Extended Day: Enables schools to offer after-school and community service opportunities ;</li> <li>–Targeted Interventions: Tutoring/mentoring, attendance monitoring, and homework support to hundreds of students in need of extra academic and socio-emotional support;</li> <li>–Teacher Support: Assist teachers with early warning data systems, enable more differentiated instruction in the classroom</li> </ul> </li> <li>•Site Coordinator from Communities In Schools connects community resources</li> </ul>

with academic and social service needs of students. Case management for the highest needs students.

**4. Team-based Organizational Structure to Make Job Manageable**

- Emphasis on mission-building to establish shared purpose among teachers and administrators for ensuring students stay on path to graduation
- Organize school day and week so teachers have significant collaborative time at inter-disciplinary (core teachers who share students) and subject level (e.g., all math teachers)
- On-site reform and student supports staff (TDS, CY,CIS ) integrated into school leadership team

The Diplomas Now model is organized around the four pillars of school reform, designed to provide schools with the organizational structure and resources that they need to achieve. These pillars are supported by the full-time, school-based Diplomas Now team, comprised of the Talent Development Secondary school transformation facilitator, team of City Year corps members, City Year program manager, and Communities In Schools site coordinator, and are enhanced through monthly implementation review meetings between district leadership and the Diplomas Now local executive team.

Diplomas Now partners with schools to implement the following required elements in addition to additional support based on individual school needs assessments:

*Pillar I: Teacher Teams and Small Learning Communities*

- Staffing model that supports interdisciplinary teacher teams with common, collaborative planning time during the professional day (both in interdisciplinary team and vertical subject-area professional learning communities)
- 4x4 block schedule in high schools (Four extended learning periods or four periods and one enrichment, elective period)
- Small learning communities with dedicated administrators and counselors
  - 9<sup>th</sup> Grade Academy
  - 2 or more thematic academies for grades 10-12
- Shared cohort of manageable number of students (75-90) in which each City Year corps member follows one cohort through ELA and math courses and has a focus list of students within that cohort
- At least bi-weekly Early Warning Indicator Meetings attended by teacher teams, Diplomas Now partners and other student support staff
- Access to real-time early warning indicator data and appropriate student information systems
- Diplomas Now partners’ participation on school leadership team, sign off on school schedule

*Pillar II: Curriculum, Instruction and Professional Development*

- College preparatory evidence-based core academic curricula in math, language arts, science, and social studies
- Evidence-based accelerated learning extra-help classes in math and English for all students who need them
- Implementation of Mastering Middle Grades or Freshman Seminar, a foundational school success courses
- Integration of Diplomas Now professional development priorities into school’s professional development plan and calendar
- Full-time, school-based Math and ELA instructional coaches

- Professional learning community

### *Pillar III: Tiered Student Supports*

- School-wide attendance and positive behavior programs
- Extended learning time and after-school programs
- Programs to strengthen parent and community involvement
- Coordination of all partners working within the school
- Case management for the highest need students

### *Pillar IV: Can-Do Culture and Climate*

- Supportive school environment with high expectations for students and clear pathways to success
- School-wide climate and culture building programs
- Highly engaging and relevant learning experiences for all students
- Formal vehicles for student and teacher voice
- School-wide college-going culture
- Initiatives to recognize student progress and teacher accomplishments

## **Diplomas Now has shown promising results**

During the 2013-2014 school year, the Diplomas Now model was implemented in 29 schools as part of the U.S. Department of Education’s Investing in Innovation (i3) program. The following promising results were seen for students that were identified as off-track at any point during the year:

- 41% reduction in the number of students with less than 85% attendance<sup>14</sup>
- 62% reduction in the number of suspended students<sup>15</sup>
- 58% reduction in the number of students failing English<sup>16</sup>
- 54% reduction in the number of students failing math<sup>17</sup>

Additionally, through strong prevention work DN was able to provide more than 90% of all students that began the year with no early warning indicators the supports that they needed to stay on track for the remainder of the year, ensuring that those students had a successful year from the first day to the last.

Diplomas Now is committed to the continuous development and improvement of the Diplomas Now model. We actively seek partnerships that will advance the goals of the collaborative and improve student achievement. We have recently partnered with College Summit and Restorative Practices in order to strengthen the model and provide additional services to high-need schools and students.

## **Diplomas Now knows the local context**

Diplomas Now was first piloted in Philadelphia in 2008, and has since grown to a national network of schools spanning 13 cities and states. In Philadelphia, Diplomas Now is currently partnering with four middle schools – Dimmer Beeber, E. Washington Rhodes, Grover Washington and Woodrow Wilson – and seeks to expand this work into high schools, particularly the high schools that these existing partner schools feed student into. With a

<sup>14</sup> n=3596

<sup>15</sup> n=2218

<sup>16</sup> n=2850

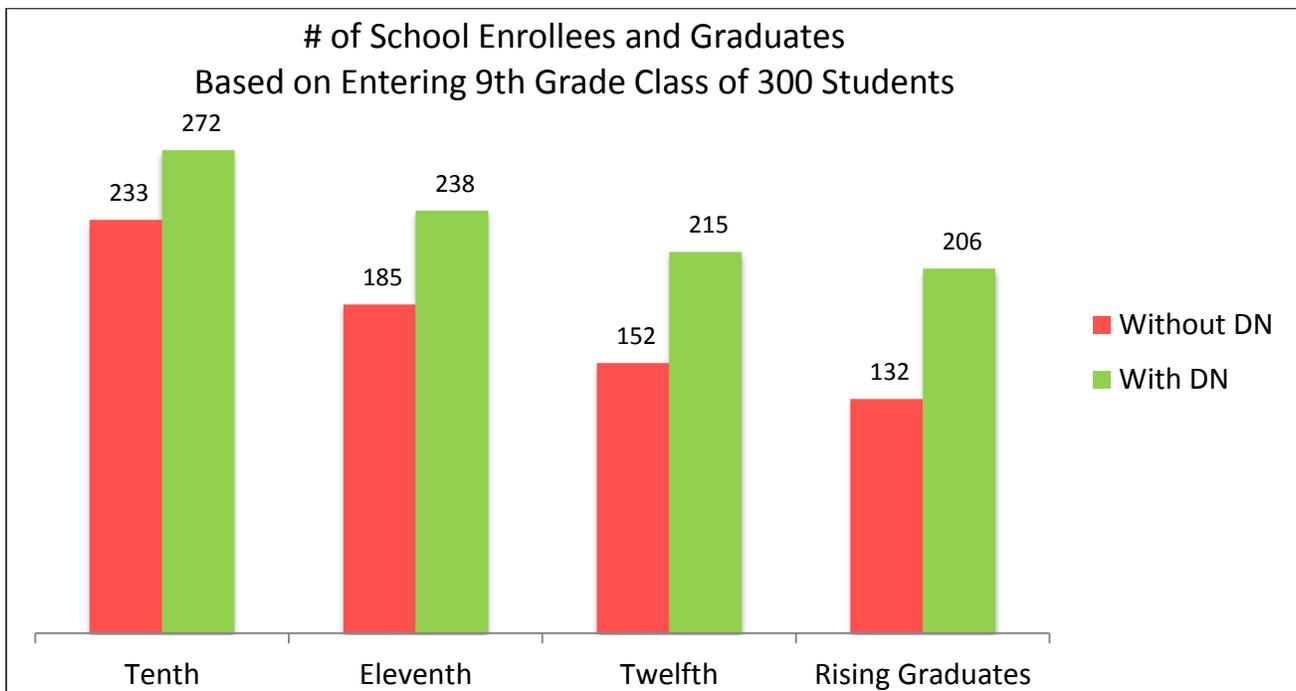
<sup>17</sup> n=3136

track record of success scaling up and expanding to districts across the country, Diplomas Now has the ability to replicate that expansion within Philadelphia by expanding to all of the city’s highest need middle and high schools.

Diplomas Now has shortlisted at least four high schools which would be excellent candidates for this expansion. Within partner schools, Diplomas Now establishes a continuum of support for students as they matriculate through the grades, ensuring that struggling students receive the instruction, interventions and personalized support they need to graduate prepared for college and a career. Building a continuum of support for students across schools in the same neighborhood provides consistent resources that students, families and communities can feel confident in, ensuring that student needs are being identified and met in a strategic way as students graduate from middle school and move on to high school. Over time, this continuous support leads to increased impact for students and school. By working in feeder patterns of middle and high schools, Diplomas Now has the potential to transform entire communities within the city by ensuring that students are receiving a quality education, regardless of their zip code, and that neighborhood schools once again become linchpins of the community.

**Diplomas Now could increase graduation rates by 25 percentage points in these schools.**

The current average 4 year graduation rate amongst these potential target schools is about 44%, with an entering class of around 300 students. The illustrative chart below shows a depiction of school enrollment and graduation in a single school before (red) vs. after (green) a Diplomas Now implementation. Ninth-grade graduation rates are targeted to grow from 44% up to 69%.



***Increased graduation rates translate into large fiscal gains.***

Once a student drops out of high school, it is estimated they cost taxpayers over \$292,000 in higher spending for

social costs and in lost earnings, and therefore lower tax revenue.<sup>18</sup> A separate study places the estimate at \$209,000.<sup>19</sup> Factoring in the impact shown in the chart above of increasing a school’s annual number of graduates by 74 (from 132 to 206), and using these two estimates, we arrive at a total fiscal benefit per school **per year of \$15 to \$21 million.**

Using the lower of these two estimates (\$209,000) as a basis for a conservative estimate, we can then further discount the total savings to estimate the savings per avoided dropout that are realized in the short-term. We estimate that 10% of lifetime tax payments, 30% of public health expenditures, 30% of justice system expenses, and 10% from TANF, SNAP, and housing assistance costs will be saved in the near future, which equates to just 16% of the total estimated savings over the long term. This discounting results in \$34,340 per avoided dropout in near-term fiscal benefits per avoided dropout, or \$2.5 million per school.

Fiscal Savings per Avoided Dropout			
	Total Long Term Savings <sup>14</sup>	% Counted as near term savings	\$ Counted as near term savings
Lifetime Tax Payments	\$139,100	10%	\$ 13,910
Public Health	\$40,500	30%	\$ 12,150
Justice System	\$26,600	30%	\$ 7,980
TANF/SNAP/Housing Assist.	\$3,000	10%	\$ 300
<b>Total Savings</b>	<b>\$ 209,200</b>	<b>16%</b>	<b>\$ 34,340</b>

**Diplomas Now is a solid cost-benefit proposition in both the long and short run.**

Given that the cost of Diplomas Now is approximately \$450,000 per school for the first year, trending downwards to a long-term cost of approximately \$320,000 per year per school (e.g., a middle school with 750 sixth-eighth graders or a high school with 300 ninth graders and 1,000 students overall). Using the conservative startup figure, this means that the benefit of a Diplomas Now Intervention **per year is \$15 to \$21 million, which is 33- to 46-times the \$450,000 program cost.**

**Diplomas Now is an attractive intervention to funders.**

The Diplomas Now collaboration has a highly diversified funding model, with support from the federal government, corporations, foundations and public sector entities, such as school districts and city governments. In Philadelphia, the following funding sources have been committed:

Committed Funding Sources

Federal/State Funding Sources

- AmeriCorps/PennSERVE: The Governor's Office of Citizen Service
- U.S. Department of Education

National Private Sector Funding Sources

- PepsiCo Foundation

<sup>18</sup> Sum, Andrew, Ishwar Khatiwada, and Joseph McLaughlin. "The consequences of dropping out of high school: Joblessness and jailing for high school dropouts and the high cost for taxpayers." (2009).

<sup>19</sup> Levin et al, "The Costs and Benefits of an Excellent Education for All of America’s Children", 2007

Philadelphia Local Public Sector Funding Sources:

- City of Philadelphia
- School District of Philadelphia
- Universal Companies

Philadelphia Local Private Sector Funding Sources:

- Ballard Spahr
- Cigna
- Comcast/NBC10
- CSX
- Deloitte
- Drinker Biddle
- Duane Morris
- Eagles Youth Partnership
- EY
- Firsttrust Bank
- Glenmede
- Lincoln Financial Foundation
- Morgan Lewis
- Pricewaterhouse Coopers
- SAP
- SunocoSAP and City Year Service
- Teva Pharmaceuticals
- Wells Fargo

### Illustrative SIB Structure

The feasibility of any Pay for Success initiative/Social Impact Bond program depends vitally upon the specifics. For illustrative purposes, we would tentatively recommend a SIB structure with the following specific features:

- *Independent evaluation firm.* The intermediary would pay for a mutually agreed upon evaluation firm that would be responsible for (a) designing methods used for impact measurement, (b) working with government officials to implement the methodology and (c) playing an independent auditor role in assuring that metrics are properly obtained and interpreted.
- *Up-front financing from philanthropists.* For example, philanthropists might invest \$5 million of up-front moneys into the intermediary’s capital structure for use in contracting with service providers and for covering SIB administrative expense over a several year period.
- *Contingent payments to the intermediary by GOMB.* In effect, GOMB would agree to pay out a cash reward as targeted outcome metrics are achieved. A large range of metrics is possible, and we would recommend that several be factored together to provide a balanced portrait of impact. Possible metrics: on-time grade progression, attendance, test scores, drop-outs, graduates, involvement with justice system, consumption of TANF and Medicaid resources.
- *Non-contingent payments to the intermediary by school districts upon provision of services.* The schools’ promise to pay is intended to build commitment (“skin in the game”), and to provide a measure of

downside protection to philanthropic investors. For example, as the program is implemented, school districts would pay 20% of program expenses.

- *Contingent payments to the intermediary by school districts.* For example, enrollment, attendance, grade advancement and test scores could be tracked for a cohort of 9<sup>th</sup> graders as they advance into future years. Goals for each metric could be pre-stated at the time of the investment, along with a weighting scheme that ties the attainment of any specific goal to an overall financial reward. Contingent payments could range from 0% to 30% of program expenses based on achievement of impact metrics.
- *Contingent payments to school districts by the Pennsylvania Department of Education.* The purpose of these payments would be (a) to create an initial incentive for school districts to participate in SIB structures and (b) to incentivize ongoing serious involvement by the Pennsylvania Department of Education (“skin in the game”). Contingent payments could range from 0% to 10% of program expenses based on achievement of impact metrics.
- *Requirement that 100% of philanthropist’s returns to be reinvested towards future school turnaround program execution.* The goals of this provision are (a) to eliminate perceptions of philanthropists’ becoming further enriched by taxpayers’ money while (b) still permitting philanthropists to document the returns on investment associated with their outlays. Alternatively, if philanthropists require cash returns, then maximum return caps could be established, after which all payments into the intermediary could be directed towards future program execution.

Under these assumptions, a SIB arrangement appears to have feasible economics. The chart below depicts how costs and benefits might ramp up for a single school.

Single School Ramp-Up Profile (300 Ninth-Graders)								
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Program Expense	\$(450,000)	\$(425,000)	\$(400,000)	\$(375,000)	\$(350,000)	\$(350,000)	\$(350,000)	\$(350,000)
Benefit Ramp-Up	10%	30%	50%	70%	90%	100%	100%	100%
Fiscal Benefit (near term)	\$186,363	\$528,029	\$828,281	\$1,087,119	\$1,304,542	\$1,449,491	\$1,449,491	\$1,449,491
New Graduates	7	22	37	52	66	74	74	74
New Enrollees	15	45	75	105	135	150	150	150
New Attendees	20	61	101	141	182	202	202	202

If we were to scale this across just 4 schools, the project will help a total of 1,620 students graduate that would not otherwise have done so. This will generate \$33m of short-term benefits for the Commonwealth, at a total program expense of \$12m.

Project Metrics Overview in 4 School Illustrative Project								
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Program Expense	\$(1,800,000)	\$(1,700,000)	\$(1,600,000)	\$(1,500,000)	\$(1,400,000)	\$(1,400,000)	\$(1,400,000)	\$(1,400,000)
Fiscal Benefit	\$745,453	\$2,112,116	\$3,313,123	\$4,348,474	\$5,218,169	\$5,797,966	\$5,797,966	\$5,797,966
New Graduates	29	88	147	206	265	294	294	294
New Enrollees	60	180	301	421	541	601	601	601
New Attendees	81	242	404	566	727	808	808	808

	Total
Program Expense	\$(12,200,000)
Fiscal Benefit	\$33,131,233
New Graduates	1,620
New Enrollees	3,308
New Attendees	4,445

Diplomas Now will receive funding, deal construction, and economic modeling advice from a potential intermediary such as Third Sector Capital Partners. Third Sector Capital Partners, Inc. (Third Sector) is a nonprofit advisory firm that led construction of PFS projects in Massachusetts (juvenile justice), Cuyahoga County, OH (child welfare/homelessness), and currently has 35 other engagements underway, including 9 projects as part of a grant from the federal Social Innovation Fund. Should the Commonwealth select Education, workforce preparedness and employment as an issue area for a PFS project, Diplomas Now would look forward to the opportunity to work with Third Sector.

❖ **What considerations should the Commonwealth take into account in structuring Pay for Success contracts?**

This may include the respective roles of intermediaries and service providers, the appropriate duration of contracts, and how to design payment schedules and milestones to provide the greatest value to taxpayers and achieve the most progress in addressing social problems.

❖ **What outcomes should the Commonwealth prioritize in Pay for Success contracts?**

What types of outcomes should payments be based upon and how should they be measured?

*Impact metrics that are clear, valid and auditable*

MDRC, a leading evaluation firm, is currently conducting a rigorous evaluation of Diplomas Now and its impact as a part of the i3 project. Through the implementation of the SIB program within the Philadelphia Diplomas Now schools that are part of this randomized control trial (Dimmer Beeber, E. Washington Rhodes, Grover Washington and Woodrow Wilson Middle Schools implementing the Diplomas Now model matched with Theodore Roosevelt, Warren G. Harding and William Tilden Middle Schools as non-Diplomas Now comparison schools), the SIB program in Pennsylvania has the ability to utilize an already existing evaluation to measure, at the highest level of rigor possible, the true impact of Diplomas Now in increasing educational attainment for students.

*Random Control Trials are Essential.* We recommend that randomized controlled trials (RCTs) be employed as a critical input into SIB program assessment, and that third party expert evaluators such as MDRC be involved. In the absence of careful scientific assessment, outcome assessments can be highly misleading. Thus, to function properly, any impact measurement approach *must* take counterfactuals into account.

*A Randomized Comparative Interrupted Time Series is a Promising Methodology.* For evaluation purposes, we would provisionally recommend that a comparative interrupted time series methodology, which is the methodology employed in the UK social impact bond trial focused on recidivism, combined with randomization

be used to measure impact. Essentially, this methodology compares cohorts of students in randomly selected schools that are served by turnaround programs against cohorts of students in matched schools that are not served by the same program, with observations taken both before and after the intervention is implemented in the schools. We suggest that the comparative interrupted time series be combined with randomization in order to make a stronger evaluation design than the comparative interrupted time series alone.

*Existing Administrative Data Can Be Used to Undergird a RCT.* Districts’ administrative data systems should be able to serve as the backbone of an RCT impact assessment methodology. Unlike expensive custom survey methodologies, administrative systems have the virtues of (a) already capturing vital information in the normal course of running schools, (b) employing similar methods across all schools, regardless of the differing service model program designs that might be employed from school to school and (c) persisting over time, so that measures of impact can be performed for every cohort of students, not just those tied to an initial demonstration project.

*Metrics Should Include Juvenile Justice, TANF and Medicaid Data.* A large number of school system metrics may be of interest to government officials. These include: cohort graduation rates, enrollment growth, improvements in attendance, reductions in grade retention, reductions in behavioral problems, and improvements in educational achievement. Additionally, it would be of great value to track justice system involvement, TANF and Medicaid consumption as it relates to the enrollees of each school. (Privacy protection and data sharing agreements between government agencies will be essential.)

*The metrics could be aligned to Pennsylvania and Philadelphia metrics and priorities.*

Pennsylvania has a state-wide Early Warning System, which was designed, in consultation with Diplomas Now founder Dr. Robert Balfanz, to use attendance, behavior and course performance data to identify students at risk of dropping out of school. These are already the primary metrics used by Diplomas Now, meaning that integration with the state system and its outcomes should be fairly seamless.

The School District of Philadelphia uses a school progress report (SPR) for each school, which includes broad metrics to support, respond to, and improve schools.<sup>20</sup> The metrics included contain data on student attendance, in-school and out of school suspensions, performance on the state Keystone Exams, and graduation rates. Diplomas Now could further align outcome metrics to those included in the SPR, which will reduce the administrative burden of data collection and help to improve the Diplomas Now intervention over time. This will also allow the School District of Philadelphia to make significant progress on its anchor goal of ensuring that 100% of students graduate ready for college and career.

❖ ***Are there opportunities for the Commonwealth to partner with local government entities on Pay for Success contracts that achieve savings and benefits at multiple levels of government?***

Describe program structure issues that should be taken into account in the development of such contracts.

A number of city and state level departments will directly and indirectly benefit from a Diplomas Now Pay For Success contract.

City of Philadelphia departments:

- Department of Public Health (PDPH) – reduced healthcare and Medicaid costs
- Department of Human Services (DHS) - reduced TANF, juvenile justice, welfare/public assistance

<sup>20</sup> <http://webgui.phila.k12.pa.us/offices/s/strategic-analytics/annual-reports/school-progress-reports>

costs

- Office of Supportive Housing (OSH) – decreased reliance on subsidized housing

State of Pennsylvania departments:

- Department of Community and Economic Development (DCED) – increased employment, greater job skills
- Department of Corrections (DOC) – reduced incarceration and recidivism rates
- Department of Education (PDE) – increased graduation rates and college enrollment, reduced grade-level retention
- Department of Health – reduced healthcare and Medicaid costs
- Department of Human Services (DHS) – reduced TANF, juvenile justice, welfare/public assistance costs
- Department of Labor & Industry (L&I) – reduced unemployment costs
- Pennsylvania Housing Finance Agency (PHFA) – decreased reliance on subsidized housing
- Pennsylvania State System of Higher Education – increased college enrollment and attainment rates

❖ ***What lessons can the Commonwealth learn from the experience in other states that have implemented Pay for Success contracts?***

Are there examples of Pay for Success projects, Requests for Proposals, contracts or other experiences that the Commonwealth should take into consideration in its program development?

❖ ***What other information would be useful to the Commonwealth of Pennsylvania in preparing a formal Request for Proposals for Pay for Success contracts?***



# **PAY FOR SUCCESS INITIATIVE COMMONWEALTH OF PENNSYLVANIA**

**Presented to:**

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May 8, 2015

## **EDSI Responses to the Pay for Success Initiative Request for Information**

**Question: What promising policy areas, service providers and interventions could be candidates for *Pay for Success* contracts in Pennsylvania? This may include description of programs and service providers, their evidence base, and the results they have been able to achieve for their target population(s).**

In considering the opportunities presented by Pay for Success contracting for the Commonwealth of Pennsylvania and the citizens thereof, Public Safety and Recidivism should be considered for funding. A model that could be replicated is the current New Employment Opportunities for Non-Custodial Parents (NEON) program that has been serving unemployed Non-Custodial Parents (NCP), many of whom are ex-offenders, for 10 years. Since this program began in Pennsylvania in 2005, over 40 million dollars has been collected from wage attachments alone.

The proposed NEON partnership would include the Bureau of Child Support Enforcement, Department of Human Services (DHS), Probation and Parole, Family Court, Networking for Jobs and Educational Data Systems, Inc. (EDSI). Based on quantitative data, this partnership has demonstrated over the years that an employment placement and retention program can be extremely cost effective and provide a substantial return on investment, as prescribed by the Pay for Success model.

Over the past 10 years, the NEON program has enrolled over 10,000 unemployed individuals with an average entered employment rate of 74%. One key requirement of the program is to ensure consistent child support is paid through wage attachments from non-custodial parents who are unemployed and have an inconsistent history of paying child support. The more than 40 million dollars collected for the children of Pennsylvania in wage attachments is a significant amount of money, considering the individuals were deemed unemployable by many people.

This paradigm shift from non- or under-supporting, non-custodianship, to working, productive taxpayers reduces the state support dollars needed by the custodial parent who may be collecting public assistance. A program such as this could not only save the state millions of dollars through the collection of child support payments, but also realize additional monies from the paying of taxes, reduction of medical expenditures for the NCPs' and ex-offenders' children, but also reduce recidivism. Numerous studies over the years have identified the number one reason individuals return to incarceration is because they are unemployed. The Commonwealth could save millions of dollars each year in costs associated with incarceration, which is at a minimum, \$25,000 per inmate.

If additional funding is made available through the Pay for Success program, we suggest expanding the caseload of the program to include not only non-custodial parents facing incarceration due to non-payment of child support, but also unemployed NCP ex-offenders who will most likely be rearrested if they don't begin working, and veterans who have current child support orders they are not able to pay due to unemployment. If you consider the economy of scale for social service programs—the

more you serve, the lower the program cost per individual—this program has an even higher return on investment.

**Question: What considerations should the Commonwealth take into account in structuring *Pay for Success* contracts? This may include respective roles of intermediaries and service providers, the appropriate duration of contracts, and how to design payment schedules and milestones to provide the greatest value to taxpayers and achieve the most progress in addressing social problems.**

In structuring Pay for Success contracts, the following roles, activities and design for payment should be considered:

### Role of the Intermediary

Since the role of the intermediary is to raise capital and contract with mutually-agreed-upon service providers, it is advisable for the intermediary to not only have a role in selecting the service providers, but assist in developing the required contract benchmarks that will yield the highest Return on Investment (ROI) for the citizens of Pennsylvania and ensure private sector investors get reimbursed. It is also recommended that intermediaries hold monthly progress meetings with the stakeholders, in this case, Bureau of Child Support Enforcement, Probation and Parole, DHS, Family Court and EDSI.

### Role of the Service Provider

The role of the service provider is to recruit, assess, enhance the life skills and work readiness of individuals, then place and support these individuals in employment. An assessment will be conducted for each client. Assessment is critical to placing clients, so it should identify the marketable skills each individual currently possesses and skills that must be learned for successful employment.

EDSI's assessment tool is the proprietary Skilldex system. Skilldex is a web-based, skills evaluation tool that surveys individual skills and identifies and catalogs the skill needs of employers, especially employers with a shortage of workers or a high demand for specific skills. Skilldex gets everybody "speaking the same language" by developing task-based job profiles and evaluating applicants against specific skills, responsibilities and tasks. Skilldex matches employees or jobseekers to employment opportunities, producing individual skills balance sheets, job match reports and skills gap reports, identifying training and skill development needs. Individual data can be combined and a report generated on the skills of all the workers at a particular location, or even within a region. Using Skilldex delivers training at half the time and half the cost, and reduces skill gaps based on need. A separate assessment, such as the Test of Adult Basic Education (TABE), could also be utilized to identify both math and reading skills.

The service provider should be an organization that has a solid performance record in not only enrolling the identified population, but also in placing individuals in unsubsidized employment and ensuring they retain their jobs. In many cases, you will

hear the term “assist” in job placement. Assisting does not always equate to an actual job placement. To ensure direct placements, we propose a portion of the contract be performance-based. The service provider will only be able to invoice when a placement is made.

A comprehensive criminal record check should be conducted by the service provider. Individuals often do not know what their criminal records include. In many cases, clients tell employers they were arrested for numerous crimes, but not convicted. The criminal record check will clarify information, which is important to understand during the job placement phase of the program. Some industries do not allow individuals with certain convictions.

Another responsibility of the service provider is to ensure that clients attend job readiness workshops in order to practice appropriate workplace behaviors, develop a quality resume and learn how to answer questions regarding a criminal record when filling out a job application and interviewing. Following are descriptions of EDSI’s job readiness workshops:

#### Job Readiness and Life Skills Training Program – Four Weeks

During the pre-employment phase of the program, clients will be engaged in EDSI’s four-week job readiness and life skills curriculum. The workshops in the curriculum allow clients to work in teams, evaluate each other’s performance, participate in role-play activities and learn how to manage time and family obligations by utilizing a daily planner. Through the use of activity-based teaching methods, in conjunction with the latest instructional technology, the Instructor serves as a facilitator as the groups work together to complete tasks. This highly interactive training is designed to ensure that clients take ownership of their successes. Because many clients are interacting with each other on a daily basis, supportive friendships are formed within the group and workplace communication skills are practiced. This commitment to the group results in better attendance and a higher program completion percentage.

**Weeks 1 and 2:** The first two weeks of training include orientation and workshops on self-assessment, Skilldex, criminal backgrounds and completion of job applications, resume development and interviewing skills. These workshops help clients gain an understanding of program opportunities, along with providing the necessary tools and training to develop a resume and assess their personal and professional lives. Utilizing their resumes and brief, personal introduction “elevator speeches,” the clients practice marketing themselves. The Instructor and Job Developer videotape mock interviews with every client and evaluate their techniques. Workshops also include discussions on dressing for success and proper workplace etiquette. The Job Application workshop addresses the importance of properly and honestly completing applications.

**Weeks 3 and 4:** The third and fourth weeks of training include the following workshops: Computer Skills, Attitude and Anger Management, Conflict Resolution, Money Management and Budgeting, Time Management, Communication, Job Retention and

Diversity. Among the key learning points of the week are: the difference between passive, aggressive and assertive behaviors, developing strategies for effective listening and overall concepts of team building and goal setting.

The Attitude and Anger Management workshop discusses coping strategies, stress relief techniques and appropriate ways to express anger. The Diversity workshop helps clients gain an understanding of the challenges and benefits of working in diverse teams where personality type, race and religious beliefs often vary. The Budgeting class is designed to teach clients the basics of personal financial management, such as: 1) the importance of good credit; when and how to use credit, 2) how to open a checking account and balance it, 3) how to prepare a personal budget and 4) the process for obtaining home-ownership financing. By teaching individuals how to develop control over their total financial pictures, the class helps to reduce stress related to these financial issues. The Time Management class consists of practical techniques for effective time management, which is a critical element in achieving success in today's multi-faceted world. This workshop reviews simple strategies for prioritizing, organizing, and responding to employer expectations. During this workshop, all clients receive a planner as a tool for time management. The seminars are available to our clients both electronically and in text format, in English and Spanish.

#### Additional Workshops

EDSI partners with Parole and Probation offices, the courts, Child Support Enforcement, and other organizations to provide seminars focusing on issues related to ex-offender barriers. EDSI introduces guest speakers who are specialists in their areas such as parenting, finance and law. We have a former attorney on staff, Paul Cohen, who conducts workshops regarding criminal backgrounds, recording expungements and modifying orders. Other guest speakers, in addition to the Career Counselor, will coach the jobseekers on how to handle difficult questions about a criminal background during interviews. Some of the holistic approaches offered by community partners will include:

- **Employment Concerns Regarding Criminal Background Issues:** This workshop is designed to identify the issues that can arise in obtaining employment when there are prior criminal arrests. Appropriate responses to questions on job applications and in interviews are discussed.
- **Financial Literacy:** Through an exploration of alternatives and strategies, participants learn to interpret financial data and make informed decisions when prioritizing and planning for financial success. Essential knowledge regarding credit issues, managing debt, planning for the future and establishing financial goals is shared. Presentations from local banks allow for the sharing of budgeting and banking best-practice ideas. Time for brief individual contact with representatives is scheduled.

- **Child Custody/Housing/Eviction Issues:** This workshop reviews the specific issues and concerns brought to the Instructor by individual customers; the focus is on situations involving child custody conflicts or eviction issues.

Once an individual is placed in unsubsidized employment, job retention services need to be provided to ensure the individual remains on the job. Part of job retention should include Tiered Employment, a job advancement program that enables individuals to progress to self-sustaining wages one job at a time.

Payment Structure

In order to get the best ROI for the taxpayers of Pennsylvania, we recommend “pay for performance” for the Pay for Success program. All direct and administrative costs in the delivery of the program would be cost reimbursed. All negotiated benchmark goals such as wage attachment collections, placement into unsubsidized employment, retention of the job for six months and an average wage rate would have performance-based payments negotiated with the provider and designed by the intermediary and the state. In other words, if people are not placed into unsubsidized employment, the provider does not receive any performance payments.

Duration of Contracts

For the best return on investment, we suggest five-year contracts. Based on current successful program evidence, the longer the program is in place, the greater the wage attachment collections. As you can see in the data below, collections rise through each succeeding year of the program.

<b>Yearly Collections from Wage Attachments 2006 - 2013</b>				
	<b>Philadelphia</b>	<b>Allegheny County</b>	<b>Montgomery County</b>	<b>Delaware County</b>
2006	976,910.91	435,679.16	\$195,334.50	\$118,762.97
2007	1,551,068.79	486,666.12	\$434,944.99	\$327,683.36
2008	2,420,649.06	580,852.08	\$568,523.13	\$511,419.22
2009	2,842,231.34	1,027,667.54	\$756,995.79	\$675,119.61
2010	3,259,463.68	1,060,515.54	\$779,765.67	\$805,234.33
2011	3,335,475.22	958,251.08	\$877,284.35	\$830,743.04
2012	3,401,726.96	1,055,278.40	\$974,880.60	\$828,369.91
2013	3,392,552.56	1,178,825.17	Program ended Mid 2013	\$854,402.91

Value to Taxpayers and Progress in Decreasing Social Problems

- **Reduced Recidivism**

Over recent decades, the number of incarcerated men has been staggering. Changing the lives of ex-offenders by reducing the likelihood of recidivism, and assisting them in becoming wage-earning members of society will impact public safety. There are a number of academic studies that support the necessity of employment in the reduction

of recidivism. One such study, Current Strategies For Reducing Recidivism, Lise McKean, Ph.D. and Charles Ransford, 2004, notes:

*... Released prisoners need employment to attain self-sufficiency and be better able to avoid involvement in criminal activity. Without income from employment, released prisoners are more likely to turn to crime for economic support. ... Employment also provides a stabilizing routine, occupies time that might otherwise be used for illegal activity, keeps individuals responsive to an employer's behavioral demands, and provides a non-stigmatized social role ... Studies of (some) federal programs have shown limited reductions in recidivism and cite a variety of reasons for this. One important reason is the lack of job placement assistance, case management, and other follow-up services. Success for employment programs that place released inmates into jobs as soon as they leave prison is often dependent on the prison developing strong relationships with employers who are willing to hire individuals with criminal backgrounds. Follow-up employment services with released inmates allow potential employers to be more comfortable hiring people with a criminal record, knowing that third-party intermediaries are available to assist these employees address and avert problems...*

Moving from criminal activity to becoming tax-paying citizens benefits the entire community. Employment and training programs provide the link between jobseekers with criminal background issues and employers.

- Cooperation with Bureau of Child Support Enforcement and Family Court

By earning livable wages through the assistance of job readiness programming, those repaying arrearages are more likely to retain their employment when the wages earned are enough to satisfy the BCSE and Family Court system, and adequately sustain the needs of the working client. In attaining some degree of self-sufficiency and fulfillment, an individual is more likely to maintain agreements to cooperate with BCSE and Family Court.

- Reduced dependence on public assistance by custodial parents
- Reduced medical costs
- Higher retention of students in schools

**Question: What outcomes should the Commonwealth prioritize in Pay for Success contracts? What types of outcomes should payments be based upon and how should they be measured?**

Program performance should be pre-determined and all goals should be negotiated prior to contract issue. Outcomes should be based on the best return on investment for the people of Pennsylvania. Possible outcomes that could be measured include:

- Recidivism – Performance-based payment determined by how many individuals involved in the program do not return to jail
- Wage Attachments – Performance-based payment determined by how much money is collected in wage attachments

- Entered Employment Rate – Performance-based payment determined by the number of people placed into unsubsidized employment
- Post-Program Job Retention Rate – Performance-based payment determined by the number of people who are still employed after six months

**Question: Are there opportunities for the Commonwealth to partner with local government entities on *Pay for Success* contracts that achieve savings and benefits at multiple levels of government? Describe program structure issues that should be taken into account in the development of such contracts.**

In this model, the state will partner with DHS and county entities such as, child support offices, local family courts, veteran offices and county probation and parole. The structure includes referrals from the DHS, family court, probation and parole and local Veterans Administration offices. Since the structure of the program is already in place, very little ramp-up time is required.

**Question: What lessons can the Commonwealth learn from the experience in other states that have implemented *Pay for Success* contracts? Are there examples of *Pay for Success* projects, Requests for Proposals, contracts or other experiences that the Commonwealth should take into consideration in its program development?**

Some examples of *Pay for Success* programs developed in other states are as follows:

- In 2014, Merrill Lynch and US Trust reached out to some high-powered clients to invest in a social-impact bonds whose proceeds finance a program to lower recidivism rates among ex-convicts in New York. Job training programs administered by the Center for Employment Opportunities (CEO) made close to 1200 job placements for probationers and those under parole supervision last year.
- The CEO has programs in other New York cities; a California *Pay for Success* initiative where they partner with non-profit REDF on programs in San Diego and San Bernadino; and programs in Tulsa and Oklahoma City. During the past decade, the CEO has placed over 17,000 formerly incarcerated individuals in full-time employment nationwide.

**Question: What other information would be useful to the Commonwealth of Pennsylvania in preparing a formal Request for Proposals for *Pay for Success* contracts?**

### Transportation Assistance

Transportation support is essential to ensure the required level of participation in job search programs. A structure of 12 weeks availability of pre-placement transportation assistance

for jobseekers attending work activities, job readiness classes or job search activities, and 12 weeks availability of post-placement transportation will increase the number of jobseekers' possible employment locations. Transportation support should include bus tickets/passes or gas cards to ensure that clients can fully participate in the activities that will lead to successful employment.

### Possible Assistance in Retaining Driver's Licenses

As of 01/30/14, the National Conference of State Legislatures reported that in Pennsylvania, a licensed driver who falls into three months or more of child support arrears will be liable for a license restriction, suspension or revocation. An obligor (child support payer) has 30 days after the date of mailing the notice to pay arrears in full, establish a periodic payment schedule, or be excused from failure to comply with the warrant or subpoena.

There is no method of obtaining an Occupational Limited License (OLL) or a Probationary License (PL) once a driver's license has been restricted, suspended or revoked because of not paying child support. An automatic reinstatement of a valid driver's license would be extremely beneficial once an individual is enrolled in the program.

### For-Profit Organization as Service Provider

Ideally, a public/private partnership includes the consideration of viable for-profit organizations. Such an organization will hold a successful record of providing services directly associated with employment and job retention. EDSI has always taken a business-driven approach in employment programming. This has allowed us to develop a profound understanding and a unique perspective on employer needs. The collection of skills and established processes that enable an organization to provide successful employability expertise, while maintaining an aggressive, expansive business, is very likely to lead to achieving the desired rate of success required by a PFS contract. For-profit service providers understand: development of healthy profit margins, quality assurance, continuous improvement, employer expectations, the competitive job market, the importance of meeting deadlines, customer satisfaction, quality service and the potential impact of a change-agent in the lives of customers.

### **Additional Return on Investment Information**

Following is Return on Investment information from the first year of the NEON program based on the wage attachment collections for that year. We have added in the cost to incarcerate an individual and the total funding of the program for the first year to show the return on investment. This data does not include tax benefits for Federal and State Income tax that working individuals are required to pay.

## Return on Investment

Pittsburgh 1st Year Collections		Philadelphia 1st Year Collections		Delaware County 1st Year Collections		Montgomery County 1st Year Collections	
January	\$2,049.57		\$56,542.28		\$16,477.50		\$9,372.12
February	\$4,487.39		\$56,377.67		\$16,720.51		\$17,571.01
March	\$5,948.11		\$94,345.55		\$24,945.31		\$17,642.58
April	\$14,177.15		\$71,932.79		\$27,302.04		\$9,262.98
May	\$13,050.23		\$89,813.48		\$34,072.99		\$15,258.43
June	\$7,996.67		\$92,567.68		\$31,644.28		\$13,018.93
July	\$13,900.26		\$75,788.45		\$24,251.83		\$9,786.70
August	\$10,194.42		\$85,608.54		\$33,861.94		\$13,605.56
September	\$11,165.54		\$84,694.40		\$26,098.76		\$18,706.94
October	\$14,875.43		\$92,684.73		\$33,352.96		\$19,897.05
November	\$13,353.07		\$88,140.10		\$29,574.02		\$24,432.84
December	\$15,795.32		\$88,415.24		\$29,381.22		\$26,779.36
<b>Total Collections</b>	<b>\$126,993.16</b>	<b>Total Collections</b>	<b>\$976,910.91</b>	<b>Total Collections</b>	<b>\$327,683.36</b>	<b>Total Collections</b>	<b>\$195,334.50</b>
<b>Cost of Incarceration</b>	<b>\$4,062,500.00</b>	<b>Cost of Incarceration</b>	<b>\$8,125,000.00</b>	<b>Cost of Incarceration</b>	<b>\$1,218,750.00</b>	<b>Cost of Incarceration</b>	<b>\$1,218,750.00</b>
<b>Total Funding</b>	<b>\$657,447.00</b>	<b>Total Funding</b>	<b>\$1,245,165.00</b>	<b>Total Funding</b>	<b>\$223,694.00</b>	<b>Total Funding</b>	<b>\$223,694.00</b>
Cost of Incarceration per year per inmate \$25,000							
<b>Total Collections</b>	<b>\$1,626,921.93</b>	One year of wage attachments					
<b>Cost of Incarceration</b>	<b>\$14,625,000.00</b>	900 program enrollments at 65% (585 enrollments) at \$25,000 each					
<b>Total Benefit</b>	<b>\$16,251,921.93</b>						
<b>Total Funding/Cost of Program</b>	<b>\$2,350,000.00</b>						
<b>Return on Investment</b>	<b>\$13,901,921.93</b>						
<b>Return on Investment Percentage</b>	<b>692%</b>						

**A Response to the Commonwealth of  
Pennsylvania RFI #0B 2015-1:  
“Pay for Success Contracts and  
Social Impact Bonds”**

*Submitted by*

*Evidence-Based Associates (EBA)  
Dan Edwards, President*



*Submitted: May 7, 2015*

## A Response to the Commonwealth of Pennsylvania RFI #0B 2015-1: “Pay for Success Contracts and Social Impact Bonds”

### ***I. What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania?***

Within the proposed broader category of “Public Safety,” a very promising area for Pay for Success contracts in the Commonwealth of Pennsylvania is that of the juvenile justice system, specifically the practice of court-ordered residential placements. In no other domain of public policy are the cost-savings so readily identifiable, the alternatives so evidence-based, or the systemic components so ‘shovel-ready.’ With appropriate leadership, administrative support and investment, interventions in juvenile justice have the potential to have both immediate and long-term impacts on Public Safety and the lives of its residents.

Before discussing potential programs and service providers (and results of programs delivered thus far) in this policy area, however, it is important to highlight a few key facts about Pennsylvania’s juvenile justice system as it is today.

Americans utilize incarceration, especially juvenile incarceration, more than any other country. In a recent report, *No Place for Kids (2010)*, Richard Mendel of the Annie E. Casey Foundation wrote:

*“America’s heavy reliance on juvenile incarceration is unique among the world’s advanced nations. Though juvenile violent crime arrest rates are only marginally higher in the United States than in many other nations, a recently published international comparison found that America’s youth custody rate (including youth in both detention and correctional custody) was 336 of every 100,000 youth in 2002—nearly five times the rate of the next highest nation (69 per 100,000 in South Africa). A number of nations essentially don’t incarcerate minors at all. **In other words, the mass incarceration of troubled and troublemaking adolescents is neither inevitable nor necessary in a modern society**” (page 2, emphasis added).*

The Commonwealth of Pennsylvania prides itself in its leadership nationally on issues of justice, public innovation, and reform, yet as juvenile justice reforms have spread in the past decade, **the Commonwealth lags behind the rest of the country** on the issue of reducing reliance on incarceration of juveniles (see Table 1, next page), according to the latest national figures available.

**Table 1. Changes in Daily Census of Juveniles in Residential Placement**

***Among the 10 most populated states, Pennsylvania saw the smallest decrease in the daily census of juveniles in residential placement from 2001-11<sup>1</sup>***

State	Daily Census 2001	Daily Census 2011	% Change (2001-11)
1. California	18,144	9,810	-46.0%
2. Texas	8,523	4,671	-45.2%
3. New York	4,593	2,139	-53.5%
4. Florida	6,777	3,744	-44.8%
5. Illinois	3,561	2,106	-40.9%
<b>6. Pennsylvania</b>	<b>4,065</b>	<b>3,075</b>	<b>-24.4%</b>
7. Ohio	4,554	2,490	-45.4%
8. Michigan	3,504	2,085	-40.5%
9. Georgia	2,943	1,788	-39.3%
10. North Carolina	1,317	567	-37.0%
<b>Nationwide</b>	<b>104,219 (2001)</b>	<b>61,423 (2011)</b>	<b>-41.1%</b>

In fact, among the ten most populated states nationwide, the Commonwealth *leads the nation in court-ordered residential placements of juveniles per capita* (see Table 2).

**Table 2. Daily Census Per Capita: Juveniles in Residential Placement**

***Despite declines in the daily census among the ten most populated states, Pennsylvania maintains the highest rate of juveniles in placement per capita.<sup>2</sup>***

10 Most Populated States	2010 Rate & Rank/100,000 population	2011 Rate & Rank/100,000 population
1. California	271 (2)	230 (2)
2. Texas	204 (7)	177 (7)
3. New York	179 (8)	146 (9)
4. Florida	261 (3)	203 (4)
5. Illinois	178 (9)	169 (8)
<b>6. Pennsylvania</b>	<b>316 (1)</b>	<b>235 (1)</b>
7. Ohio	227 (4)	198 (5)
8. Michigan	208 (6)	217 (3)
9. Georgia	220 (5)	185 (6)
10. North Carolina	112 (10)	75 (10)

<sup>1</sup> U.S. Department of Justice, Office of Juvenile Justice and Delinquency Prevention, *EZAccess to Daily Census of Juveniles in Residential Placement, 2011*

<sup>2</sup> Ibid

It is important to note that ***a high proportion (70%) of these confined youth are minority.*** Pennsylvania’s rate of minority confinement is higher than the national rate, where 60% of confined youth are African-American or Hispanic.

And as the rate of court-ordered placement in Pennsylvania remains disproportionately high, ***court-ordered placement costs continue to account for a significant proportion of the Commonwealth’s Department of Human Services budget*** (See Table 3).

**Table 3. Estimated Daily and Annual Cost of Placement**

***In 2010-11, Pennsylvania spent more than \$1 million/day to maintain juvenile offenders in residential placement. In 2012-13, this figure was only slightly less.***

Year	Estimated Per Diem	Certified Annual Statewide Institutional Cost <sup>3</sup>
<b>2010-11</b>	<b>\$1,023,290</b>	<b>\$373,500,886</b>
<b>2012-13</b>	<b>\$956,164</b>	<b>\$349,000,000</b>

The incarceration of juveniles is wasteful, ineffective, obsolete, dangerous, unnecessary and inadequate. Mendel (2010) continues:

“We now have overwhelming evidence showing that wholesale incarceration of juvenile offenders is a counterproductive public policy. While a small number of youthful offenders pose a serious threat to the public and must be confined, **incarcerating a broader swath of the juvenile offender population provides no benefit for public safety. It wastes vast sums of taxpayer dollars.** And more often than not, it harms the well-being and dampens the future prospects of the troubled and law-breaking youth who get locked up. Other approaches usually produce equal or better results—sometimes *far* better—at a fraction of the cost.” (p. 4)

<sup>3</sup> Pennsylvania Department of Public Welfare, ‘*Certified FY 2011-12 County Child Welfare Expenditures*’

The high rate of incarceration of juveniles persists in the Commonwealth **despite the fact that a range of lower cost, proven, community-based alternatives exist**. These include:

- **Brief Strategic Family Therapy (BSFT)** is a short-term, structured, problem-focused, and practical approach to the treatment of adolescent conduct problems, associations with antisocial peers, drug use and their accompanying maladaptive family interactions. BSFT is conducted in 12 to 16 weekly sessions, depending on the severity of the problems. The BSFT model provides specialized outreach strategies for bringing families into therapy and engaging them in the process of change.
  - **Expected benefits based on previous clinical trials:** 30-40% reduction in repeated delinquent or criminal offending
  
- **Functional Family Therapy (FFT)** is a short-term, high quality intervention with an average of 12 to 14 sessions over 3-5 months. FFT works primarily with youth who have been referred for behavioral problems by the juvenile justice, mental health, school, or child welfare systems. Services are conducted in home settings, clinics, schools, probation offices, aftercare or mental health facilities. FFT is a strength-based model built on a foundation of acceptance and respect.
  - **Expected benefits based on previous clinical trials:** 35-50% reduction in repeated delinquent or criminal offending
  
- **Multisystemic Therapy (MST)** is an intensive family- and community-based treatment program that focuses on addressing all environmental systems that impact chronic and violent juvenile offenders -- their homes and families, schools and teachers, neighborhoods and friends. MST recognizes that each system plays a critical role in a youth's world and each system requires attention when effective change is needed to improve the quality of life for youth and their families.
  - **Expected benefits based on previous clinical trials:** 30-70% reduction in repeated delinquent or criminal offending

Providing such evidence-based programs for juveniles is not only a wise investment in youth, but may also constitute the most effective long-term solution to adult criminality, prison overcrowding, and inefficient use of precious state resources available today. A longitudinal study of over 800 serious juvenile offenders in Florida found that youth who received an evidence-based intervention (such as those described above) demonstrated a 21% decrease in subsequent juvenile or adult commitments when compared to statistically matched controls.

Ironically, the Commonwealth currently funds, in part, a number of these programs across the Commonwealth (currently over 40 licensed MST teams and nine licensed FFT teams). And in the counties where they have been utilized, placement rates have decreased (see <http://www.episcenter.psu.edu/sites/default/files/ebp/Placement%20Data%205-2012.pdf>; esp. slide 14). But **these programs have not been focused specifically on targeting reductions in the rate of court-ordered residential placement within a Pay for Success framework**. The counties with the highest rates of court-ordered placements do not utilize evidence-based programs to fullest and some do not utilize them at all. As such, the Commonwealth is paying for both the alternatives to placement AND the placements themselves, as stated earlier, at a rate higher than any other state in the country.

## **II. *What considerations should the Commonwealth take into account in structuring Pay for Success contracts?***

The data presented in Section One paint a disturbing image of the current state of affairs. However, the high rates of incarceration, high costs, and avoidance of effective alternatives is not new in the Commonwealth – many of these concerns are decades old, as Pennsylvania was an ‘early-starter’ in the conversations about evidence-based programs in the 1990’s. Therefore, **a strong change of practice and tradition will not be easy**. Resistance will likely come from those who benefit from the current system including private residential providers and their employees. (Note: Some of these provider agencies also provide some community-based programs, but the lion’s share of their revenue comes from the residential placements.)

In our view, what is needed to change the status quo is both a) ***leadership*** on the issue of juvenile justice reform to set a new course for the Commonwealth and b) ***an effective management mechanism*** for holding providers, funders, and other key stakeholders accountable for outcomes. In partnership with the Governor’s office and with widespread support of key stakeholders, the catalyst for change must be an agent with local knowledge, experience, expertise, and relationships, as well as national visibility and credibility.

In most Pay for Success arrangements to date, a single agency has played the Intermediary role and – for a project with the scale and impact of the one being proposed here – **we would propose that the Commonwealth consider issuing Requests for Qualifications (RFQs) or Requests for Proposals (RFPs) that demonstrate a preference for expertise in two domains rather than one** (and allow for two agencies or organizations to partner to meet these requirements):

- the first partner would manage the more typical fiduciary role, taking the lead on developing the investment strategy, recruiting investors, raising capital, etc.
- the second partner would bring content knowledge and experience in Juvenile Justice, developing the evidence-based programs that will provide low-cost alternatives to placement; recruiting provider agencies; develop training and quality assurance monitoring strategies; monitor and manage provider performance; and deliver positive outcomes and a net overall savings to the Commonwealth

This managing entity partnership would not only allow the fiduciary agent to focus on areas of their own expertise, but also bring insulation and accountability to the culture and to the relationships that exist currently between funders and local providers.

As an example of this partnership, Evidence-Based Associates (EBA) has been engaged in conversations with Third Sector Capital Partners, Inc. (Third Sector), a nonprofit advisory firm that is leading the development and launch of Pay for Success projects across the United States. Third Sector led construction of PFS projects in Massachusetts (juvenile justice) and Cuyahoga County, OH (child welfare/homelessness) and currently has 37 engagements underway, including nine projects as part of a grant from the federal Social Innovation Fund. Third Sector brings extensive experience in developing innovative financing and contracting across the

public and private sectors and is highly versed in managing projects with diverse groups of stakeholders, economic modeling, fundraising, and evaluation/data analysis.

In two previous statewide Juvenile Justice projects, EBA managed operations (i.e., acted as a General Contractor to oversee implementation) and supported high clinical performance as it oversaw implementation of top-tier evidence-based programs with high fidelity. EBA's achievements in Florida included:

- successfully managing four evidence-based treatment models and 11 community-based provider agencies statewide
- creating high demand for services – statewide programs averaged 165 cases 'referred or pending' for evidence-based programs on a daily basis
- enabling the state of Florida to safely reduce its reliance on court-ordered residential placement by over 55% over in a decade
- reducing criminal offending:
  - o 20% fewer re-arrests
  - o 31% fewer felony reconvictions
  - o 21% decrease in subsequent adult commitments in adulthood
- saving the state nearly \$253 million by providing effective, safer and lower cost alternatives to commitment that local courts would utilize

Last year in Georgia, EBA helped nine counties and six community-based provider agencies deliver four evidence-based programs in fourteen judicial districts statewide. In the first year of the project, EBA teams in partnering counties led the state by reducing overall commitments to juvenile facilities by 65%.

Finally, it may be interesting to note that while the primary focus of the model evidence-based programs we propose to employ is juvenile justice, it is possible that these same behavioral health technologies may be applied to youth with other at-risk behaviors or with other system involvement in areas such as Health and Human Services or child welfare (i.e., child abuse and neglect/maltreatment); Behavioral Health or substance abuse; mental health/psychiatric involvement/serious emotional disturbance of children and youth; and problem sexual behavior. In Education, many of these programs are associated with reductions in truancy and improvements in school performance and may positively impact graduation rates.

### ***III. What outcomes should the Commonwealth prioritize in Pay for Success contracts?***

In a juvenile justice reform initiative, contracted performance measures (outputs and outcomes) are relatively easily defined and collected. The primary outcome that should be prioritized is the one that leads to cost-savings: the number of contracted residential beds for which the Commonwealth is able to safely discontinue funding. However, the decision to terminate private provider contracts (over 70% of residential placements in Pennsylvania are privately managed) is outside of the hands of the Intermediary and rests solely with the Commonwealth. Thus, in our view, payments to investors should be based upon **the number of youth diverted safely back to the community who would otherwise have received a court-ordered placement.**

Other types of outcomes that should be explored and possibly utilized as the basis for intermittent success payments include:

- Capacity, enrollment, and utilization targets, i.e., outputs such as:
  - treatment capacity; i.e., number of EBP slots available
  - youth enrolled on a daily basis (census data) or per quarter
- Successful completion rates based on Model Program guidelines
- Avoidance of police contact during treatment (i.e., offenses during supervision or longer-term outcomes such as re-arrest or reconviction)
- Placement/commitment rates in the juvenile system
  - must include transfer or commitment to the adult corrections system

These outputs and outcomes provide possible benchmarks that contribute to the achievement of the reduction in days of placement. We would partner with the Commonwealth to come to an agreement on the baseline for each data element as part of the data analytic strategy – and then monitor such benchmarks throughout the implementation of the PFS project.

#### ***IV. Are there opportunities for the Commonwealth to partner with local government entities on Pay for Success contracts that achieve savings and benefits at multiple levels of government?***

Without question, the Commonwealth can and will achieve success via strong partnerships with local government entities. In fact, current expenditures are typically handled via inter-agency agreements that involve cost-sharing across county, state and federal entities. For court-ordered residential placement of juveniles, counties pay 100% of placement costs and then are reimbursed by the Commonwealth for 60% of the cost. The Commonwealth then seeks federal cost-sharing by way of Medicaid (or in some cases, Title IV-E) funds as appropriate and available. In addition, established Commonwealth reimbursement rates to counties is are significantly higher for community-based services, typically 80-90%, thereby creating even greater savings to both state and county taxpayers

For this project to succeed, all levels of government must be engaged and motivated by the desire to improve outcomes for individual youth and their families, improve public safety, and reduce the burden on taxpayers.

Examples of multiple levels of government partnering to develop PFS projects are emerging across the country. Third Sector Capital Partners, Inc. is working with the State of Nevada, Clark County, and the City of Las Vegas, NV to explore PFS in the area of early childhood education. In addition, Third Sector is working with a partnership between Multnomah and Marion Counties in Oregon to explore PFS.

**V. What lessons can the Commonwealth learn from the experience in other states that have implemented Pay for Success contracts?**

As a demonstration project but not a proper Pay for Success contract, the Florida-based “Redirection” Project represented an innovative solution that consistently produced positive results (i.e., reduced felony adjudications and reduced commitment in the adult system) while at the same time demonstrating cost-savings to the state (e.g., over \$51 million in the first four years of operation). The program was evaluated annually by the Office of Program Policy Analysis and Government Accountability (OPPAGA) and received legislative re-authorization annually based on its results (<http://www.oppaga.state.fl.us/MonitorDocs/Reports/pdf/1038rpt.pdf>). Under EBA’s leadership, the Redirection Project grew in capacity each year to ultimately serve nearly 1,400 youth per year. Over the ten years of operation under EBA, Redirection served over 10,000 youth. Over the final six years of the project, Redirection helped achieve over \$124 million in savings for Florida due to lower operating costs compared to residential delinquency programs (See Table 5).

**Table 5. Redirection Project Cost Savings (2005-2011)<sup>4</sup>**

Redirection Project Cost Savings by Fiscal Year					
Fiscal Year	Completions	Cost Per Completion			Total Saved Utilizing Redirection
		Residential	Redirection	Difference	
FY 05-06	305	\$34,774	\$7,715	\$27,059	\$8,252,995
FY 06-07	392	\$39,471	\$10,854	\$28,617	\$11,217,864
FY 07-08	905	\$40,235	\$9,296	\$30,939	\$27,999,982
FY 08-09	858	\$41,969	\$10,550	\$31,419	\$26,957,652
FY 09-10	858	\$35,332	\$12,697	\$22,635	\$19,420,517
FY 10-11	1,106	\$36,743	\$9,429	\$27,314	\$30,209,284
<b>Six Year Total</b>	<b>4,424</b>				<b>\$124,058,294</b>

One other theme in other projects is the length of time needed to bring a project plan to fruition. Many PFS and SIB projects have taken nearly a year to bid and two years to bring to execution. Given Third Sector’s and EBA’s experience (as Intermediary and Managing Entity, respectively), we would expect to shorten the time to execution by at least a year if not more.

<sup>4</sup> The Justice Research Center, ‘Redirection Services: Cost-Effective Alternatives to Juvenile Incarceration,’ February 2013

**VI. What other information would be useful to the Commonwealth of Pennsylvania in preparing a formal Request for Proposals for Pay for Success contracts?**

As noted earlier, for a project with the scale and impact of the one being proposed here, we would propose that the Commonwealth consider the Intermediary role as having two distinct roles or functions. The first is the more traditional fiduciary role, leading on the development of the investment strategy, the recruitment of investors, the raising of capital, etc. The second is a Subject Matter Expert (SME) role bringing content knowledge and experience in Juvenile Justice and with the evidence-based programs that will provide low-cost alternatives to placement. The SME would lead the recruitment of community-based provider agencies; develop training and quality assurance monitoring strategies; monitor and manage provider performance; and deliver positive outcomes and a net overall savings to the Commonwealth

Adopting this approach would lead the Commonwealth and the Governor’s Office to issuing Requests for Qualifications (RFQs) that demonstrate a preference for expertise in two domains rather than one (and allow for two agencies or organizations to partner to meet these requirements). This managing entity partnership would not only allow the fiduciary agent to focus on areas of their own expertise, but also bring insulation and accountability to the culture and to the relationships that exist currently between funders and local providers.

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**“Imagine a future that uses the Juvenile Justice system less.**

**This means diverting youth from the system entirely. It means less frequent use of institutional care – through diversion from placement and enhanced reentry policies that reduce length of stay and recidivism – and it involves having fewer life consequences for youth who are involved with the system.”**

- Bob Schwartz, Exec. Dir. of the Juvenile Law Center (Philadelphia), from his written testimony at the Congressional Briefing “House Crime Prevention and Youth Development Caucus” September 17, 2014

**Amachi Pittsburgh**  
**Pay for Success Request for Information**



**1. What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania?**

The purpose of the Request for Information (RFI) is to gain understanding about initiatives that would be appropriate to fund through a Pay for Success (PFS) state contract. Governor Tom Wolf has identified five priority areas for which a PFS model may be developed, including public safety and reduced recidivism and health and human services—two areas that are directly linked to **Amachi Pittsburgh’s commitment to reducing the prison population by empowering youth people with incarcerated parents and their families to break the cycles of poverty, crime, and imprisonment.**

**Promising policy areas** that could be candidates for Pay for Success contracts in Pennsylvania should be specific and should be interrelated such that they implicate other systems. For example, addressing the criminal justice system has subsequent impacts on lagging indicators such as education. Policy areas of interest include:

1. Child welfare;
2. Health and human services;
3. Financial and social burdens absorbed by families of the incarcerated; and
4. Sentencing practices. Specifically, in order to reduce the prison population, it is critical to address policies that blur the lines between mental health, drug and alcohol policies, and the criminal justice system, incarcerating individuals for their behavior rather than providing crucial aid. Also, it is necessary to examine prisoner placement policies that often times separate children from their incarcerated parents, and investigate new opportunities through community-based service delivery.

It is critical to address **criminal justice policies** in PFS contracts because of **potential cost savings** and because Pennsylvania is in the minority of states with increasing juvenile justice costs—demonstrating an **opportunity for improvement**. The cost of the criminal justice system is a major investment for the Commonwealth of Pennsylvania, and is growing at an exorbitant pace. As evidence of escalating Department of Corrections (DOC) costs, Governor Wolf’s proposed FY 2015-16 budget would fund the DOC at \$2.264 Billion. This is an increase of nearly \$147 Million (7%) over the current fiscal year. Additionally, the DOC is requesting a \$56 Million supplemental appropriation for the current fiscal year to support unbudgeted contract costs. Thus, reducing the recidivism rate and keeping at-risk youth out of the criminal justice system from an early age not only produces qualitative benefits for children, families, and communities, but it is also critical because it has the potential to save millions in state dollars.

Across the United States, the rate of juvenile incarcerations has been declining steadily since 1995, primarily as a result of utilizing less-costly community-based alternatives. **Pennsylvania is one of only six states where the rate of youth confinement has increased** during this time frame.<sup>1</sup> According to

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<sup>1</sup> The Annie E. Casey Foundation

research conducted by VOX, shifting to alternative interventions for juveniles would save states such as Pennsylvania money immediately and would reduce future crime and subsequent criminal justice costs in the long run.<sup>2</sup>

**Promising service providers** should:

1. Have a **tenure** of at least 5—but ideally 10—years, demonstrating their ability to survive, thrive, and be held accountable.

 Amachi Pittsburgh was established in 2003 to meet the needs of a growing population of children and families impacted by parental incarceration. **We empower young people to overcome the challenges of parental incarceration and to reach their full potential through one-on-one mentoring, family strengthening and reunification support, and youth leadership development.**

2. Be connected to **national and regional networks**.

 Amachi Pittsburgh utilizes the national Amachi mentoring model, supplemented by critical family support services. The **Amachi model** was launched by Rev. Dr. Wilson Goode (former mayor of Philadelphia), endorsed by President Obama and former President Bush, and developed into a nationally recognized and award-winning program model, which Amachi Pittsburgh employs along with **intensive case management and support for mentors, children, and families**. Additionally, Amachi Pittsburgh is connected nationally and regionally to organizational partners including MENTOR, the Mentoring Partnership of Southwestern PA and Mid-Atlantic Network for Youth and Families.

3. **Address the full day of the client system** being served, including the school and home, and understand the home environment of the client. Also, service providers should implement an initial intervention moment, but should also serve clients beyond that time to ensure that impacts are long-lasting.

 Amachi Pittsburgh's program incorporates **intensive case management and support for mentors, children, and families** to ensure programmatic success. Consistent with national mentoring guidelines outlined by MENTOR, our volunteers receive specialized training related to families impacted by poverty, crime and familial incarceration while mentees and parents/guardians receive intensive case management to address complex family issues so as to establish and sustain high-quality, long-term mentoring relationships.

With the particular population of youth and families served by Amachi Pittsburgh, we recognize that **our work must incorporate family strengthening** and case management as family crises can often impede healthy development of children and their relationships with others. Our experience has taught us—and research bears out—that mentoring is most effective when approached holistically because children cannot be served in isolation. Children belong to various forms of family and support units that, while broken by parental

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<sup>2</sup> Aizer, A., & Doyle, J. What is the long-term impact of incarcerating juveniles?

incarceration, are essential to allowing other supports such as mentoring to be meaningful. For Amachi Pittsburgh, this means that issues related to a child's family, school and community are taken into consideration during both the matching process and throughout the duration of the mentoring experience. It also means when family issues impact the quality of mentoring relationships or vice versa, our staff provides adequate intervention, which may include linkages to other agencies for additional specialized services.

4. Be **integrated into the community** and should leverage community-based free and low-cost resources and assets.

-  Amachi Pittsburgh's expertise focuses on galvanizing a unique network of faith-based and secular partners working strategically to provide encouragement, guidance, and additional support—such as much-needed back-to-school supplies—to these vulnerable children and their families, both during the time of incarceration and through the transition period following the parents' release.

Amachi Pittsburgh mentors are thoroughly screened and trained to walk children along a path of discovery that helps them recognize and build their own strengths while **exploring new and enriching opportunities—cultural, educational and recreational—throughout the Pittsburgh area that otherwise have been inaccessible to them**, such as workplace shadowing, live theatre, and visits to the science museum. These opportunities are provided to mentors, mentees, and parent/guardians through in-kind donations from organizational partners such as Tickets for Kids Charities and individual and corporate donors.

5. Demonstrate a **return on investment** from their program in less than 3 years.

-  Research has found that effective programs for juvenile offenders can have a particularly high net benefit, from \$1,900 to \$31,200 per youth in 2004, compared to other programs for youth.<sup>3</sup> Although this finding was not focused exclusively on mentoring programs for juvenile offenders or for children impacted by the justice system, it demonstrates **the capacity for effective youth crime reduction interventions to yield high returns**.

Amachi Pittsburgh has proven that it can **produce positive outcomes for youth and cost savings** as a return on investment. Amachi Pittsburgh has a **92% success rate** to keep at-risk youth out of the criminal justice system as juveniles and in adulthood, demonstrating our capacity to involve children, families, and community volunteers in programming that elicits significant, long-term positive outcomes for individuals, families, and communities. By comparing the rate of incarceration between Amachi youth (i.e., 8%) and youth with incarcerated parents nationwide (i.e., estimated at 70%), we can show that **the savings produced by investing in Amachi Pittsburgh to serve 100 individuals could be as much as \$2.3mm**.

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<sup>3</sup> Lieb, R., Mayfield, J., Miller, M., & Pennucci, A. (2004). *Benefits and costs of prevention and early intervention programs for youth* (No. 04-07, p. 3901). Olympia, WA: Washington State Institute for Public Policy.

A major investment is not necessary to generate these positive outcomes—keeping at-risk youth out of the criminal justice system and cost savings. Amachi Pittsburgh costs approximately \$7,500 to serve one individual and their family for three years, including the ongoing intensive case management required to ensure fidelity to national standards and long-lasting impacts. In the same period of time, it would cost \$120K to incarcerate one individual, not including costs incurred for prisoners in need of physical or mental health services or additional costs that may occur such as re-arrest fees or lost wages.<sup>4</sup> Thus, it **only costs 6% of what it would cost the state to incarcerate one adult for Amachi Pittsburgh to address the complex needs of one child and their family.**

**Promising interventions** that could be successful candidates for a Pennsylvania PFS model should be measurable and should have the capacity, not only to address current challenges faced by the client system, but also to **prevent future problems** and **transform systems** that perpetuate cycles of poverty and crime. Promising interventions include:

1. Programs that address the individual as the focus for intervention, such as one-on-one mentoring; and
  2. Programs—such as family strengthening and reunification services and youth leadership development—that support families, communities, and systems as groups and bolster interventions focused on individual client systems.
-  Amachi Pittsburgh galvanizes a unique collaborative of faith-based and secular partners to provide encouragement, guidance, and support to vulnerable children and their families, both during the time of incarceration and through the transition period following the parents' release. We address the needs of these at-risk youth and families through three complementary interventions:
- **One-on-one mentoring** to help break the generational cycle of incarceration;
  - **Family strengthening and reunification support** to bolster family ties that help reduce trauma for children and recidivism when parents are reentering society; and
  - **Amachi Ambassadors youth leadership/advocacy development** to empower constituents to raise awareness and advocate for change through the use of their powerful voices and compelling stories.

In addition, in structuring PFS contracts, the Commonwealth of Pennsylvania should prioritize interventions that a) encompass an initial moment of intervention as well as a long-term plan to ensure client success, b) feel familiar and local to clients, c) utilize an effective client-group size, d) are age-appropriate, e) address issues cross-generationally, f) include direct programming, and g) empower clients.

-  Amachi Pittsburgh's family-strengthening program is structured to address the problem we tackle as part of our mission, and through one-on-one mentoring, but through a **family lens**: the personal, family and community deficits that perpetuate inter-generational cycles of poverty, crime, violence and incarceration. Amachi Pittsburgh's **cross-generational approach**

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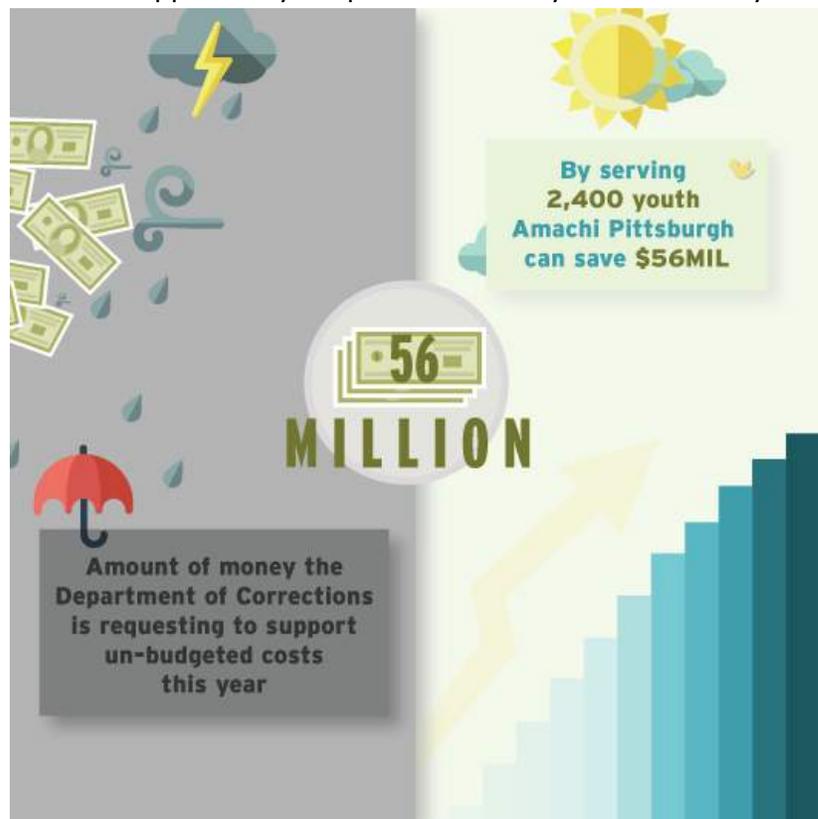
<sup>4</sup> The average cost to incarcerate one adult in Pennsylvania for one year is \$40,000. The annual cost to provide one-on-one Amachi mentoring is \$2,500 per child.

connects families and provides critical skills (i.e., resiliency, adult-child communication) that have been linked to decreases in recidivism. Our programming engages children with their parents on the inside as well as caregivers on the outside in order to promote family reunification and ultimately reduce recidivism.

Promising interventions should also **address the most expensive costs to society.**

- Children with incarcerated parents are at increased risk for a variety of challenges and are faced by a myriad of difficulties. Specifically, these youth are at a particularly high risk for **juvenile justice system involvement**, which exacerbates the link between parental incarceration and adult incarceration and reduces the probability of high school completion.<sup>5</sup> In the Pennsylvania Department of Human Services, juvenile placements are included within the budget line-item for “Youth Development Institutions and Forestry Camps.” That line is currently funded at \$63.3 Million, but the Governor’s proposed FY15-16 budget calls for a 6.5% increase. **The average annual cost per adjudicated youth is \$131,000 in Pennsylvania<sup>6</sup>**, or more than \$350 per day, which could be leveraged for tutoring or enriching activities for youth were we to subject fewer youth to the system. Amachi Pittsburgh has the capacity to reduce costs associated with the juvenile justice system by helping youth find alternative pathways and coping mechanisms to overcome obstacles.

In sum, the Pennsylvania DOC is requesting \$56 Million to support unbudgeted contract costs this year, but imagine if the State had an opportunity to spend this money in another way that would provide benefits to individuals and communities while also preventing future spending. For example, **if Amachi Pittsburgh served 2,400 youth, we could save the Commonwealth of Pennsylvania \$56 Million** per year and defuse the need for overages. Given that there are **81,000 children impacted by parental incarceration in the state**, including 8,500 in Allegheny County, Amachi Pittsburgh could certainly reach this target point if the opportunity to scale and expand services was presented.



<sup>5</sup> Aizer & Doyle.

<sup>6</sup> Penn State University EPISCenter

## 2. What considerations should the Commonwealth take into account in structuring Pay for Success contracts?

A. The Commonwealth should structure Pay for Success (PFS) contracts to **address the needs of populations most at-risk** for current and future challenges, based on geographic and demographic factors. Also, contracts should be structured to **impact the five pillars of economic and social development**: housing, health, education, employment, and mentorship/modeling. Each of these pillars plays a critical role in the success of families and communities and are interrelated.

 Amachi Pittsburgh serves the children and families of incarcerated parents in Allegheny County, the majority (85%) of whom are African-American. Additionally, almost 100% of the population served is in the lowest 25% of the population on income level. African-American youth and families are grossly impacted by racial and economic disparities present in every aspect of society and particularly in the criminal justice system. **An investment in Amachi Pittsburgh reaches the communities most at-need for additional resources.** In fact, we target communities with the highest rates of crime and incarceration to ensure that our services are benefitting children and families most in need. We also address a significant and critical gap in community services by reaching young people not served through other organizations. Our approach to mentoring helps to ensure that children of *prisoners promise* grow to realize their potential by identifying and building upon their own strengths and resiliency while developing self-assurance in the four areas key to leading healthy, successful lives:

- **Competence**: being able to do something well;
- **Usefulness**: having something to contribute;
- **Belonging**: being part of a community and having meaningful relationships with caring adults; and
- **Power**: having control over one's future.

Research indicates that **parental incarceration** is not only predictive of **negative health and quality of life outcomes**, but that these impacts are long-lasting. In fact, Gjelsvik and colleagues (2014) found that, compared to adults with otherwise similar backgrounds, adults that experienced the incarceration of a household member during their childhood were at greater risk for poor health-related quality of life (HRQOL)—the primary measure of physical and mental health that has been utilized to assess quality of life for over a decade.<sup>7</sup>

B. In structuring PFS contacts, the Commonwealth should also consider **time-bound cost savings and revenue potential**: how quickly will the investment produce successful outcomes, save money, and yield income for Pennsylvania? Financial outcome potential can be assessed for its short-term (i.e., 1 year), mid-term (i.e., 2-4 years), and long-term (i.e., 5+ years) implications.

 The results of existing cost-benefit analyses of mentoring initiatives nationwide—regardless of target population—demonstrate that **mentoring is less costly than the social problems (such**

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<sup>7</sup> Gjelsvik, A., Dumont, D. M., Nunn, A., & Rosen, D. L. (2014). Adverse childhood events: Incarceration of household members and health-related quality of life in adulthood. *Journal of health care for the poor and underserved*, 25(3), 1169-1182.

**as delinquency and school dropout) that research shows it can prevent.**<sup>8</sup> Return-on-investment studies examining the costs and benefits of mentoring have focused on national mentoring programs and results varied from only \$1.01<sup>9</sup> to \$18 for every \$1 invested.<sup>10</sup> The variable nature of these studies demonstrate the difficulty in determining costs and benefits of programs that utilize in-kind resources and volunteer time and yield psychosocial results (i.e., reduced feelings of shame) that are not quantifiable in dollars, but also demonstrate that **mentoring programs such as Amachi Pittsburgh have great potential to save money and provide revenue for the community.**

Although public high school graduation rates are at a high across the country (79%) and in Pennsylvania (83%), the population of youth targeted by Amachi Pittsburgh are particularly at-risk for not graduating and for unemployment as a result of racial or socioeconomic characteristics. African-American students are significantly less likely to graduate than their White counterparts nationwide and in Pennsylvania (i.e., 65% compared to 88%), and low-income students are also less likely to graduate (71%) than other students.<sup>11</sup> This **academic disparity** has significant financial implications. If students who dropped out of the class of 2011 had instead graduated, the nation would likely benefit from nearly \$154 Billion in additional income over the course of those students' lifetimes.<sup>12</sup> Research has shown how these benefits could specifically impact the state as well<sup>13</sup>: if half of Pennsylvania's high school dropouts were to graduate, the state would see:

- 1,050 new jobs created,
- \$13 Million in increased state revenue,
- \$129 Million in increased earnings, and
- \$100 Million in increased spending.

By empowering youth and families to overcome the challenges of parental incarceration and reach their potential, despite risks, **Amachi Pittsburgh can help to close the academic achievement gap between racial and socioeconomic groups.** This is important because high school graduates provide economic and social benefits to society beyond higher wages. Graduates 1) live longer, 2) are less likely to become teenage parents, 3) raise healthier, better-educated children, 4) commit fewer crimes, 5) rely less on government health care and other public services such as food stamps and housing assistance, and 6) engage in more frequent civic activity such as voting and volunteering than their counterparts who did not graduate high school on time. Characteristics such as gender may exacerbate the link between dropping out and negative outcomes; for example, an increase of 5% in the male graduation rate would **amount to \$4.9 Billion in annual crime-related costs saved nationwide.**<sup>14</sup>

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<sup>8</sup> DuBois, D. (2013, February 18). Evidence corner: Is mentoring worth the investment? The jury is out. *The Chronicle of Evidence-Based Mentoring*. Retrieved from <http://chronicle.umbmentoring.org/evidence-corner-is-mentoring-worth-the-investment-the-jury-is-out/>

<sup>9</sup> Aos et al., 2004

<sup>10</sup> The Boston Consulting Group (2013). BBBS social return on investment study: Discussion document [PowerPoint slides]. Retrieved from YouthMentoring ListServ: <https://listserv.uic.edu/>

<sup>11</sup> The Washington Post (2015).

<sup>12</sup> The High Cost of High School Dropouts.

<sup>13</sup> Danger of a Poor Education: Education and the Economy.

<sup>14</sup> Danger of a Poor Education: Education and the Economy.

### 3. What outcomes should the Commonwealth prioritize in Pay for Success contracts?

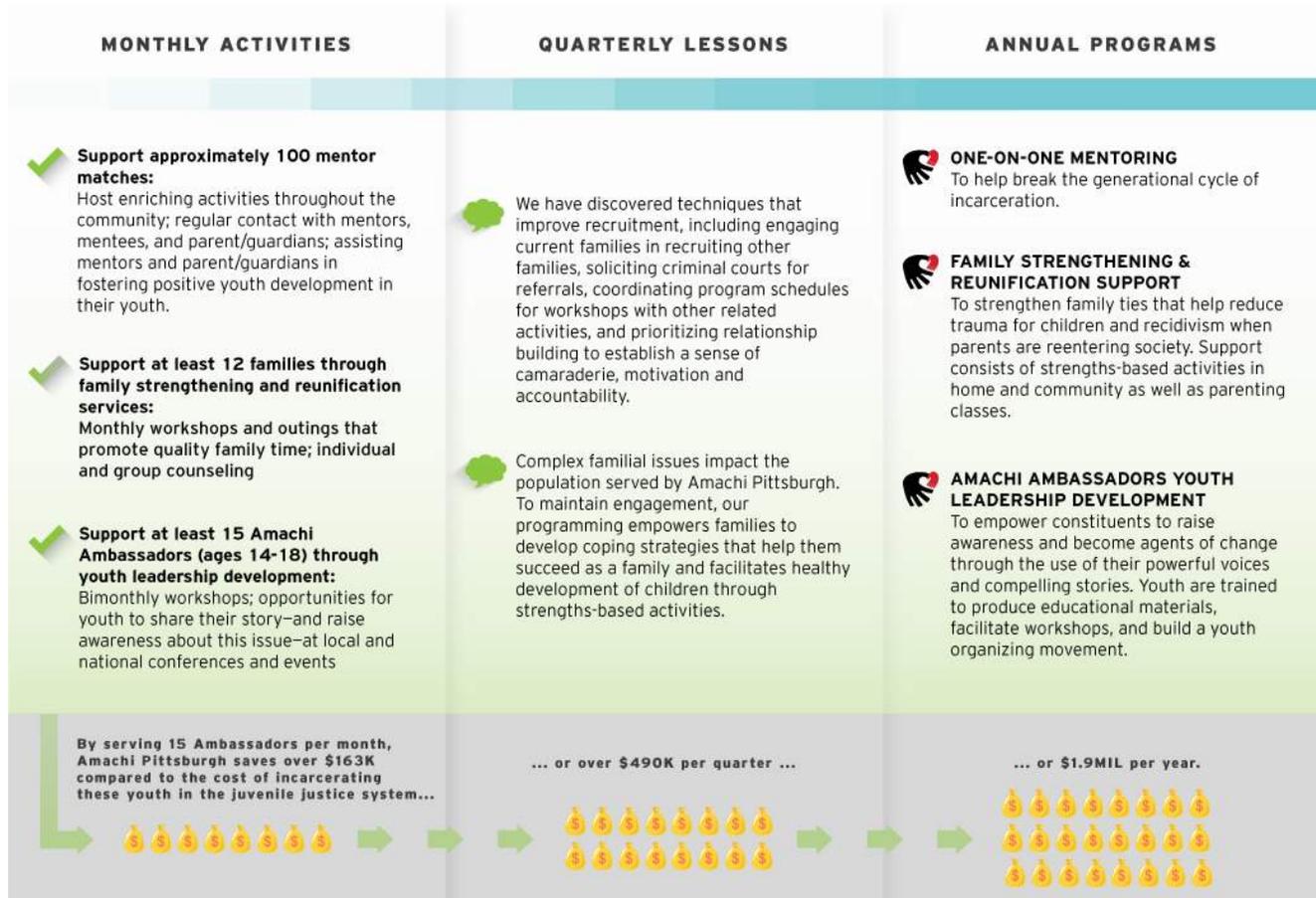
The Commonwealth of Pennsylvania should prioritize interventions with the capacity to produce **positive outcomes for the most at-risk populations**. For example, especially in the current political climate, it is critical to focus on **addressing and impacting racial disparities** in criminal justice, education, and other systems. Also, interventions should produce outcomes **that impact the five pillars of economic and social development** (i.e., housing, health, education, employment, and mentorship/modeling) and have the capacity to **prove their cost-savings and revenue potential**.

- 👉 Amachi Pittsburgh was founded to address complex challenges confronting children of incarcerated parents—a population identified by the US Department of Justice as the “**most at-risk for future delinquency and/or adult incarceration**”—through one-on-one mentoring, family strengthening and reunification, and leadership development. Amachi Pittsburgh organically became involved in family strengthening work driven by the unique needs of our program participants across multiple domains (i.e., education, mental health) and at the individual, family, and system levels of intervention. **Family strengthening and reunification support** services are geared toward strengthening family ties that reduce trauma for children and recidivism when parents are reentering society. The synergistic relationship between engaging youth independently and in conjunction with parents/caregivers is key to improving youth outcomes and creating new intergenerational cycles of pro-social, healthy and effective youth and family functioning. This unique approach sets Amachi Pittsburgh apart from other agencies in our region.

It should be the **obligation of the service provider, rather than the Commonwealth, to measure and assess their outcomes** on a monthly, quarterly, and annual basis, as well as to make that data available to stakeholders. On a monthly basis, outcomes should be analyzed related to **direct impacts of programming**. On a quarterly basis, outcomes should be analyzed for areas in need of **process improvement**, to ensure that high-quality services are provided to clients as the environment changes. Annually, evaluation should demonstrate that **programs are repeatable and scalable**. In other words, annual evaluation activities should highlight how programming can meet the needs of other populations (i.e., geographically or demographically) besides the one currently being served.

- 👉 Amachi Pittsburgh uses **quantitative and qualitative assessment strategies** to demonstrate the success of reaching our mission. Since Amachi Pittsburgh’s inception, the University of Pittsburgh Collaborative for Evaluation and Assessment Capacity (CEAC) and Amachi worked together to employ routine assessments that analyze program effectiveness in several areas. Our primary evaluation tool has been the Behavior Checklist, which is administered to mentees’ parents/caregivers pre-mentoring and 1-year post-match. The checklist assesses the mentee’s status in key areas including school performance, school/social behavior, emotional stability, self-confidence, self-control and high-risk behaviors (e.g., early sexual activity, drug use). Our evaluation activities include 1) tracking program enrollment, attendance, and engagement, 2) collecting and compiling assessments from parent/guardians, youth, and mentors, and 3) recording and analyzing data to assess parent/guardian and youth perceptions and behaviors, family dynamics, and youth outcomes. At each stage of evaluation

(i.e., monthly, quarterly, annually), our findings demonstrate continuous quality improvement and successful, scalable programming, as well as great potential for cost savings.



The Commonwealth should structure PFS contracts to prioritize service providers that engage in competitive audits, evaluating themselves against other organizations to ensure **continuous process improvement**.

- 👤 Amachi Pittsburgh has identified strengths in comparable service providers that we view as opportunities for Amachi Pittsburgh to continuously improve our services, such as enhancing peer-to-peer relationships among youth and among families, leveraging these relationships as recruitment tools, and implementing new innovative strategies to engage volunteers.

Finally, outcomes should also be **captured in rich media** formats such as pictures and audio/video, and should be disseminated to stakeholders on social media channels. Amachi Pittsburgh utilizes its website, social media, and smart phone App to share qualitative representations of its outcomes. Recent photos of Amachi Pittsburgh programming are available on the following page, or refer to our website ([www.AmachiPgh.org](http://www.AmachiPgh.org)) for more information including interviews with Amachi participants.



The Amachi Ambassadors proudly display their jackets at a public hearing in Harrisburg, PA. Ambassadors shared their stories and testimony with legislators at the Capitol.

Amachi Pittsburgh match, Conor and Elijah (age 9), like to enjoy quality time outside together. Elijah is one of 81 mentees of color: a target population for Amachi Pittsburgh.



Naomi and Theyalah (age 6) were all smiles at their very first mentor-mentee meeting! They have been matched for 7 months. Theyalah is one of 51 current female mentees.



Mentor-mentee pair Stephanie and Kenay (age 10) have been matched for over two years. Kenay attended Stephanie's graduation to help her celebrate, and often shadows her at her job.



Amachi mentee and Ambassador, D'Angelo (age 17) proudly accepts a NEED scholarship award with his mom (pictured), mentor, and Amachi staff there to cheer him on.



A family spends quality time together, with the child's mentor, at Amachi Pittsburgh's annual Holiday Celebration, attended by over 250 guests each year.

**4. Are there opportunities for the Commonwealth to partner with local government entities on Pay for Success contracts that achieve savings and benefits at multiple levels of government?**

Opportunities for partnership are available at multiple levels of government. At the **state** level, the Commonwealth of Pennsylvania could partner with the Department of Corrections and the prison system, the Department of Human Services, the Department of Labor Industry, and the Department of Education. At the **county** level, the Commonwealth could partner with juvenile justice systems such as the Allegheny County Juvenile Probation office, Child Welfare, Health Departments, county courts and probation offices, and housing entities such as the Allegheny County Housing Authority. At the **city** level, the Commonwealth could partner with the police bureau (i.e., City of Pittsburgh Bureau of Police) and city housing office (i.e., Housing Authority of the City of Pittsburgh).

## **5. What lessons can the Commonwealth learn from the experience in other states that have implemented Pay for Success contracts?**

Goldman Sachs has been successful in implementing a Pay for Success (PFS) model in New York and other communities throughout the country, focused on a diverse range of social justice issues such as affordable housing and preschool education. Of particular interest to Amachi Pittsburgh, Goldman Sachs implemented a PFS model in Massachusetts aimed at **reducing recidivism and improving outcomes for young men with a high risk of further criminal justice system involvement** (i.e., in the probation or juvenile justice system) in partnership with Roca, Inc., a community organization. Roca, Inc. is implementing a four-year program model including two years of “intensive engagement” with young men in need and two years of follow-up. This provider has demonstrated positive results in its existing programming including a 92% success rate for participants to avoid arrest and an 89% success rate of maintaining employment.

For Amachi Pittsburgh and for the Commonwealth of Pennsylvania, a key lesson derived from this Massachusetts initiative is that **achieving positive results required a multi-year approach**. It is critical that Pennsylvania’s PFS model also enable service providers with ample time to identify risks and strengths, and promote and track behavior change. Additionally, Goldman Sachs and Roca, Inc. collaborated not only with the state of Massachusetts and with an intermediary (i.e., Third Sector Capital Partners) but also with a host of additional funding partners including foundations. Most people now recognize that **collaboration is key** to ensuring that community organizations are addressing clients’ most-pressing needs. Collaboration is likely also critical for PFS models to succeed. The Commonwealth of Pennsylvania should consider PFS models that enable and encourage collaboration between types of funders (i.e., corporate and philanthropic foundations) and between organizations.

**6. What other information would be useful to the Commonwealth of Pennsylvania in preparing a formal Request for Proposals for Pay for Success contracts?**

The Commonwealth of Pennsylvania should consider a variety of interrelated factors when preparing Pay for Success (PFS) contracts, including 1) an assessment of **which policy areas, service providers and interventions are most likely to be successful**, 2) the ability of organizations to **reach the most at-need populations** and address issues associated with the five pillars of economic and social development, 3) **time-bound cost savings and revenue potential**, 4) the capacity to demonstrate **outcomes** in each of these areas, and 5) **partnership opportunities** that foster success at multiple levels of government.

 **Amachi Pittsburgh— an organization that addresses the complex challenges faced by youth and families of the incarcerated—is an ideal candidate for a PFS contract because it has demonstrated success in each of these critical areas.**

We have included a blank version of this worksheet on the following page, which can be used to assess other potential PFS service providers for these same critical considerations.

AMACHI PITTSBURGH			
A SUCCESSFUL CANDIDATE FOR PAY FOR SUCCESS CONTRACTS SHOULD...			
Address policy areas:	<input checked="" type="checkbox"/> CHILD WELFARE	<input checked="" type="checkbox"/> HEALTH & HUMAN RESOURCES	<input checked="" type="checkbox"/> SENTENCING PRACTICES
Be held accountable:	<input type="checkbox"/> 1 YEAR	<input type="checkbox"/> 5 YEARS	<input checked="" type="checkbox"/> 10+ YEARS
Connect at local, state & national level:	<input checked="" type="checkbox"/> LOCAL	<input checked="" type="checkbox"/> STATE	<input checked="" type="checkbox"/> NATIONAL
Produce annual cost savings:	<input checked="" type="checkbox"/> SAVE \$23,000 PER YOUTH SERVED	<input checked="" type="checkbox"/> SAVE \$2.3MIL PER 100 YOUTH SERVED	<input checked="" type="checkbox"/> SAVE \$56MIL PER 2,400 YOUTH SERVED
Address the needs of at-risk communities:	<input checked="" type="checkbox"/> YES	<input type="checkbox"/> NO	
Provide opportunities for partnership at multiple levels of government:	<input checked="" type="checkbox"/> YES	<input type="checkbox"/> NO	
Create & implement scalable programs:	<input checked="" type="checkbox"/> YES	<input type="checkbox"/> NO	
Produce revenue opportunities:	<input checked="" type="checkbox"/> YES	<input type="checkbox"/> NO	



**A SUCCESSFUL CANDIDATE FOR PAY FOR SUCCESS CONTRACTS SHOULD...**

<p><b>Address policy areas:</b></p>	<p><input type="checkbox"/> CHILD WELFARE</p>	<p><input type="checkbox"/> HEALTH &amp; HUMAN RESOURCES</p>	<p><input type="checkbox"/> SENTENCING PRACTICES</p>
<p><b>Be held accountable:</b></p>	<p><input type="checkbox"/> 1 YEAR</p>	<p><input type="checkbox"/> 5 YEARS</p>	<p><input type="checkbox"/> 10+ YEARS</p>
<p><b>Connect at local, state &amp; national level:</b></p>	<p><input type="checkbox"/> LOCAL</p>	<p><input type="checkbox"/> STATE</p>	<p><input type="checkbox"/> NATIONAL</p>
<p><b>Produce annual cost savings:</b></p>	<p><input type="checkbox"/> SAVE \$23,000 PER YOUTH SERVED</p>	<p><input type="checkbox"/> SAVE \$2.3MIL PER 100 YOUTH SERVED</p>	<p><input type="checkbox"/> SAVE \$6MIL PER 2,400 YOUTH SERVED</p>
<p><b>Address the needs of at-risk communities:</b></p>	<p><input type="checkbox"/> YES <input type="checkbox"/> NO</p>		
<p><b>Provide opportunities for partnership at multiple levels of government:</b></p>	<p><input type="checkbox"/> YES <input type="checkbox"/> NO</p>		
<p><b>Create &amp; implement scalable programs:</b></p>	<p><input type="checkbox"/> YES <input type="checkbox"/> NO</p>		
<p><b>Produce revenue opportunities:</b></p>	<p><input type="checkbox"/> YES <input type="checkbox"/> NO</p>		



RE: Request for Information # OB 2015-1  
Pay for Success Initiative

May 5, 2015

Honorable Governor Tom Wolf,

On behalf of The Forbes Funds, a supporting organization of the Pittsburgh Foundation, and the Greater Pittsburgh Nonprofit Partnership we applaud your efforts to support innovative evidence-based financing models such as Pay for Success (PFS) partnerships.

During the last two years, not only have we have invested more than \$1 million to design a strong and research-based foundation for a high-impact Pay for Success pilot in Southwestern PA, but we have also successfully launched the first flexible impact investing platform in Southwestern PA focused on securing both financial returns as well as measured social impact.

We believe our research and existing investor and philanthropic partnerships, coupled with our extensive collaboration with more than 40 service providers to design this project, provides the Wolf Administration a unique opportunity to pilot the PFS financial model in Pennsylvania on an issue that affects every community.

Please accept the enclosed information which we believe illuminates an immediate, viable, and highly effective PFS project proven to reduce one of the largest and fastest growing costs in Pennsylvania's state budget. Included herein:

- Executive Summary
- Summary response to RFI questions
- Pay for Success analysis report [Appendix A]

We look forward to working with you throughout the next year as we launch this pilot, complete our initial impact investments in July 2015, and continue to build the market for investing in research-based social interventions in Pennsylvania.

Sincerely,

Kate Dewey  
President

## Executive Summary

Beginning in June of 2013, The Forbes Funds has led a team of 25 of Allegheny County's primary care, behavioral health, and human service providers to design a safety net Accountable Care Organization (ACO) focused on improving care and reducing costs of care for "super-utilizer" patients. This multi-year effort, titled iCount, has been collaboratively funded by six Pittsburgh based philanthropies, with the Jewish Healthcare Foundation providing the lead support. "Super-utilizers" are those with five or more hospital admissions in a 12-month period. The Pennsylvania Health Care Cost Containment Council (PHC4) recently reported super-utilizers account for only three percent of the Commonwealth of Pennsylvania's hospitalized patients, but more than 10 percent of its Medicare and Medicaid payments totaling \$545 million and \$216 million respectively. There are a number of highly successful and reproducible intervention strategies that dramatically reduce these costs while helping to get these vulnerable individuals more effective and consistent care.

In early 2014, based on our learning from early super-utilizer intervention pilots in other states, we determined that a Pay for Success model held potential as a viable financing model for our safety net design. Due to the relatively low-cost of interventions which have been proven to dramatically reduce the enormous costs born by the Commonwealth, hospital systems, and insurers, iCount is an a Pay for Success model.

Throughout the last year we have completed an analysis of the Pay for Success model, as well as continued the administrative build out of the now 40 organizations committed to participating in the iCount care delivery network.

The iCount design work that we've completed to date includes:

- Convened senior agency leadership to develop the iCount design
- Conducted deep research on best practices models and projects
- Selected and hired an experienced senior leadership team
- Completed full business planning, process design, and technical analysis
- Completed pay for success financial model analysis
- Released public RFP to select the 40 iCount partner organizations with sufficient capacity and experience to assume the risk associated with this financing mechanism.
- Selected of three communities and lead partners that will make up the iCount pilot

Along with more than two years of detailed design work and partnership development that has gone into creating iCount, we have strategically worked to advance the impact investment market in Southwestern Pennsylvania through three discrete strategies we believe are relevant to this RFI.

- **Education:** We launched an ongoing series of educational sessions bringing in national impact investing and Pay for Success leaders such as the Kresge Foundation, Pew

Charitable Trusts, Ford Foundation, and the Nurse Family Partnership. This was done in partnership with the Grantmakers of Western PA and the Philanthropy Forum of the University of Pittsburgh's Graduate School of Public and International Affairs (GSPIA).

- **Action:** We have partnered with BNY Mellon and ImpactAssets (a long-time leader in the impact investing field) to launch a flexible impact-investing fund in order to showcase investment possibilities for projects and companies with positive social change.
- **Aspiration:** We are completing the first phase of designing a larger impact investment fund, in partnership with national impact investing advisors, and at the request of local philanthropies and partners, to support further capital formation and investments in projects like PFS financing models.

The entire iCount team remains committed to providing a smarter and more cost-effective care delivery framework for those that need it most in Pittsburgh. We look forward to working with the Commonwealth to advance the understanding and positive impact of these innovative financing mechanisms.

## Summary Response to Request for Information

### ***What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania?***

Over the last year, we have completed significant analysis of nearly every existing global Pay for Success / Social Impact Bond project occurring around the world including their investment structures, intermediary roles, return and payment expectations, intervention selection processes, and third-party measurement partners.

Reflecting on what we have learned in this research through the lense of Governor Wolf's announced Pay for Success areas of interest, we believe the following areas provide the Commonwealth with the highest potential for near-term successful execution.

- **Recidivism reduction**
- **Health and human services related to reducing the impacts of:**
  - **Asthma, with a focus on childhood asthma**
  - **Chronic homelessness**
  - **Hospital super-utilizers with complex medical/social needs**

For each of the above areas of work, we have deep institutional knowledge and partnerships with nearly all of the primary service providers and would welcome the opportunity to meaningfully support the Wolf Administration's efforts to pilot a project in the Pittsburgh region.

For the healthcare focused project, we have completed a multiyear design, RFP, and partner selection process that now includes more than 40 distinct service providers and agencies with detailed information on their organizational capacity, ability to manage financial risk, analysis and record management capabilities, intervention specialties, and other key points of data that are crucial to the selection of a service provider.

### ***What considerations should the Commonwealth take into account in structuring Pay for Success contracts?***

Recognizing the complexity and relative youth of these contracting models, our analysis has shown a number of key considerations that have disproportionate impact on success rates.

- 1. Credit enhancement to attract capital** – The most successful impact investing projects with more complex risk profiles greatly benefit from a core group of investors or other mission-aligned financial partners willing to provide some kind of credit enhancement or guarantee to reduce the impact of any perceived potential losses for other more traditional investors.
- 2. Short term and clear measurement of success** – The real and perceived risks associated with any contracted relationship increases in correlation to the length and complexity of the contract terms. PFS projects should be screened for clear and measurable short-term impacts, as well as consistent and trusted data sources to ensure clear attribution and validity.
- 3. Strong financial and social return on investment (ROI) potential** – PFS options should be prioritized based on both financial and social return on investment. Preference must be given to comparably low-cost preventative interventions, with the ability to have clear attribution of impacts of the contracted intervention. This directly reduces an existing and consistent cost burden to the ultimate payer over a limited time-horizon. Social return expectations should positively impact a substantial population directly, or indirectly by meaningfully freeing up resources within a given system to more effectively carry out its ultimate intended purpose.
- 4. Capacity of service delivery agencies** – PFS contracts can create substantial additional burdens that should be accounted for such as increased public scrutiny, financial risk, and new operational structures to ensure third party validation of records and impacts. Organizational selection and support mechanisms should be built accordingly.

See the attached detailed analysis report, *“Impacting Health”* which details the many additional considerations on the model structure informing our project.

***What outcomes should the Commonwealth prioritize in Pay for Success contracts?***

What types of outcomes should payments be based upon and how should they be measured?

We designed the iCount project to focus on readily accessible industry standards of healthcare measurement that are used within Commonwealth hospital systems. These measurements include readmission rates for individual patients as well as the common HEDIS, P4P and STARS scores that are used to track and define payments received. The intent of our interventions with this clearly defined population is to achieve more efficient transition from acute care hospitals, focusing on reducing inappropriate admissions and readmissions and improving HEDIS and STARS preventive health delivery and scores for a chronically ill at-risk population in Allegheny County.

To reinforce just how attainable and measureable the outcomes we are working toward are, note the findings of a 2014 study by an iCount partner, one of the largest independent health and human service nonprofit organizations in Southwestern PA.

Of their 26,000 patients, those engaged in an enhanced care management model were five times less likely to experience emergency room visits, psychiatric hospitalization and/or readmission. Furthermore, for those individuals admitted to a hospital, the lengths of stay were dramatically less than those not engaged in an enhanced Care Management model. While Care Management is an essential service to high-risk populations, its low (if any) reimbursement level is a disincentive for providers to deliver this service. This fosters continuing poor health outcomes, challenging experiences for the persons served, and ultimately higher costs to the system and ultimately the state and federal governments.

Although this is just one component of the iCount design work, it highlights how a PFS financing model has high potential to reduce costs and improve outcomes through increasing the use of similar low-cost preventative interventions and coordination of care.

***Are there opportunities for the Commonwealth to partner with local government entities on Pay for Success contracts that achieve savings and benefits at multiple levels of government?***

Allegheny County continues to be an exceptional leader, partner, and innovator in advancing better ways to deliver the services under their purview. County leaders have also spent significant time researching PFS opportunities and identifying prospective areas for these kinds of partnerships.

***What lessons can the Commonwealth learn from the experience in other states that have implemented Pay for Success contracts?***

See the attached detailed analysis report “*Impacting Health*” which details a number of existing models that have informed our work.

iCount is modeled after the transformative work of Dr. Jeffery Brenner and the Camden Coalition who pioneered using analytics tools to “hot-spotting” interventions for super-utilizers. The Robert Wood Johnson Foundation subsequently invested in expanding their hotspotting model to six additional communities under RWJF’s Aligning Forces for Quality (AF4Q) initiative.

A summary of the project and the dramatic cost reductions made possible by the hotspotting model is available here: <http://www.rwjf.org/en/library/articles-and-news/2014/02/improving-management-of-health-care-superutilizers.html>

We have also benefitted a great deal from conversations with the leadership of the Fresno, California Pay for Success pilot focusing on childhood asthma mitigation. With Pittsburgh's high asthma rates and many proven interventions in need of capital to scale their impact, we do believe that based on the outcome of the Fresno pilot and our existing network of philanthropies and service providers working to mitigate this challenge, Pittsburgh is a strong option for the next youth asthma Pay for Success pilot project.

***What other information would be useful to the Commonwealth of Pennsylvania in preparing a formal Request for Proposals for Pay for Success contracts?***

NOTE: See the attached detailed analysis report "*Impacting Health*" which details the many additional considerations on the model structure which have informed our project.

## **Research and Helpful Publications**

- **Rockefeller Foundation:**
  - "Building a Healthy & Sustainable Social Impact Bond Market: The Investor Landscape" [Link through Rockefeller Foundation](#)
- **Harvard Kennedy School - Social Impact Bond Technical Assistance Lab (SIB Lab):**
  - <http://hks-siblab.org/>
- **Nonprofit Finance Fund - Pay for Success Learning Hub:**
  - Main page: <http://payforsuccess.org>
  - Rapid Suitability Questionnaires: <http://payforsuccess.org/provider-toolkit/rapid-suitability-questionnaires>
- **Goldman Sachs – Urban Investment Group:**

In 2012, Goldman Sachs was the first financial institution to invest in SIBs in the US to finance preventative services for youth on Rikers Island

  - <http://www.goldmansachs.com/what-we-do/investing-and-lending/urban-investments/case-studies/social-impact-bonds.html>
- **McKinsey Global - Social Finance Office**
  - <http://mckinseysociety.com/sib/>
  - SIB Q&A: <http://mckinseysociety.com/social-impact-bonds-qa/#q3>
  - Social Impact Bonds: [http://mckinseysociety.com/downloads/reports/Social-Innovation/McKinsey\\_Social\\_Impact\\_Bonds\\_Report.pdf](http://mckinseysociety.com/downloads/reports/Social-Innovation/McKinsey_Social_Impact_Bonds_Report.pdf)
- **Social Finance:**
  - Advancing Social Impact Measurement to Build an Asset Class: The Appeal of Social Impact Bonds: [http://www.frbsf.org/community-development/files/Sp2012\\_Scherer\\_Schenk.pdf](http://www.frbsf.org/community-development/files/Sp2012_Scherer_Schenk.pdf)

- Social Finance White Paper: Foundations for Social Impact Bonds :  
[http://payforsuccess.org/sites/default/files/social\\_finance\\_white\\_paper\\_2014.pdf](http://payforsuccess.org/sites/default/files/social_finance_white_paper_2014.pdf)
- **RAND Corporation:** Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough:  
[http://www.rand.org/pubs/technical\\_reports/TR1166.html](http://www.rand.org/pubs/technical_reports/TR1166.html)
  - Note pg 15 contractual negotiation map
- **Social Impact Bonds in Nonprofit Health Care:** New Product or New Package? April 2013, Mark Pauly, Ashley Swanson - University of Pennsylvania:
  - <http://www.nber.org/papers/w18991#fromrss>
- **Emma Thompkinson Social Impact Blog:**
  - <http://emmatomkinson.com/>

## RFP/RFI Models:

### Federal Government

- [Department of Labor Pay for Success Solicitation for Grant Applications](#)
- [Department of the Treasury Request for Information](#)

### State Governments

#### *Colorado*

- [Request for Information – September 2013](#)

#### *Connecticut*

- [Request for Information – November 2013](#)
- [Request for Proposals – February 2014](#)

#### *Illinois*

- [Request for Proposals-September 2013](#)
- [Request for Information – May 2013](#)

#### *Massachusetts*

- [Request For Information – May 2011](#)
- [Request For Responses \(homelessness – intermediaries\) – January 2012](#)
- [Request For Responses \(homelessness – service providers\) – January 2012](#)
- [Request For Responses \(youth – intermediaries\) – January 2012](#)
- [Request For Responses \(youth – service providers\) – January 2012](#)
- [MA Request For Responses \(ABE – intermediaries\) – February 2014](#)
- [MA Request For Responses \(ABE – service providers\) – February 2014](#)

#### *Minnesota*

- [Request For Information-Service Providers – June 2012](#)

- [Request For Information-Third Party Contractors – June 2012](#)
- [Request For Responses \(workforce development services\) – November 2012](#)
- [Request For Responses \(supportive housing services\) – November 2012](#)

*Michigan*

- [Request for Information-September 2013](#)

*New York*

- [Request For Information – September 2012](#)
- [Request For Proposals \(Employing High Risk Formerly Incarcerated Persons\) – July 2012\\*](#) \*Please note that “Appendix NOA” referred to in this RFP is the US DOL Pay for Success SGA, available above.
- [Request For Proposals \(Early Childhood Development & Child Welfare, Health Care, and Public Safety\) – July 2013](#)
- [Detailed Summary of the New York State Pay for Success Project – March 2014](#)

*South Carolina*

- [Request For Information – September 2013](#)

**Local Governments**

*Denver*

- [Request for Information – September 2013](#)

*Cuyahoga County*

- [Request For Responses – October 2012](#)

*New York City*

- [Press Release – August 2012](#)
- [Briefing Slides](#)

**Appendix A – *Impacting Health***  
Pay for Success Analysis report completed by The Forbes Funds

# Impacting Health //

## Financing a Safety Net Accountable Care Organization (ACO) through a Pay for Success model.

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Matthew A. Zieger - The Forbes Funds

**PHASE I REVIEW:** April 2014 (*Updated August 2014*)

Introduction to details of Pay for Success (PFS) based financing, existing and promising models of its application, and exploration of its use as a financing method for a safety net Accountable Care Organization (ACO).



# Table of Contents

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<b>SCOPE OF WORK: PHASE I</b>	<b>3</b>
<b>OVERVIEW OF SOCIAL IMPACT BOND (SIB) FINANCING</b>	<b>4</b>
<b>KEY ROLES IN A SOCIAL IMPACT BOND:</b>	<b>5</b>
HOW MANY SIBS HAVE BEEN CREATED, AND WHERE?	7
“SIB ECOSYSTEM” - MCKINSEY ON SOCIETY	8
WHO IS THE PAYER IN A SIB-FUNDED ACO?	9
WHAT IS THE INTERMEDIARY ORGANIZATION?	14
WHO INVESTS IN SOCIAL IMPACT BONDS?	15
WHO ARE THE SERVICE PROVIDERS?	18
<b>BUILDING BLOCKS OF A SUCCESSFUL SOCIAL IMPACT BOND (SIB)</b>	<b>19</b>
BUILDING BLOCKS FOR A SIB AND APPLICABILITY TO ACO MODEL	20
SIB FUNDED ACO DEVELOPMENT TIMELINE	23
<b>IS THE OLDEST SIB ACTUALLY WORKING?</b>	<b>24</b>
<b>STRUCTURE OF SELECTED US-BASED SIB PROJECTS</b>	<b>26</b>
FRESNO PREVENTATIVE ASTHMA MANAGEMENT PILOT	27
RIKERS ISLAND RECIDIVISM REDUCTION SIB	29
NEW YORK STATE RECIDIVISM SIB	31
THE UTAH HIGH QUALITY PRESCHOOL PROGRAM	33
<b>OVERVIEW OF PROPOSED SAFETY NET ACO (I-COUNT)</b>	<b>34</b>
<b>PROMISING DELIVERY MODELS SIMILAR TO I-COUNT</b>	<b>36</b>
MONTEFIORE ACO	37
VERMONT MEDICAID SHARED SAVINGS PILOT	38
OREGON ACO SYSTEM	39
CAMDEN COALITION OF HEALTHCARE PROVIDERS (CCHP)	40
COMMUNITY CARE OF NORTH CAROLINA (CCNC)	41
HENNEPING HEALTH	42
<b>KEY QUESTIONS</b>	<b>44</b>
<b>RESOURCES</b>	<b>45</b>
SOCIAL IMPACT BOND RESEARCH AND HELPFUL PUBLICATIONS	45
SIB EXPERIENCED CONSULTANTS	46
RFP/RFI MODELS FROM FEDERAL, STATE, AND LOCAL SIB PROJECTS	47

## Scope of Work: Phase I

To explore opportunities to use Social Innovation Financing methodologies such as Social Impact Bonds (SIBs) or Pay for Success funding (PFS) in applications related to better coordinating medical and social healthcare, and improving a specific set of community health metrics in a defined Pittsburgh-based community population or geography.

**Research** existing and emerging international and domestic models utilizing or exploring Social Innovation Financing and compile relevant lessons learned, key success factors or pitfalls, and examples of contextually applicable financing models.

**Define and compile** key resources including research, examples of SIF requests for proposals (RFPs), and technical assistance providers that may enable the successful modeling, development, solicitation of bids, negotiation, and implementation of a Social Innovation Financing strategy for a defined community and designated set of community healthcare impacts, healthcare providers, and related governmental entities.

**Propose**, in conversation with existing and potential partners, a broad and general set of potential financing scenarios with related variables and key process components such as potential success metrics, financing partners, potential timelines, and other key items.



## Overview of Social Impact Bond (SIB) Financing

The social impact bond (SIB), otherwise known as a pay for success financing (PFS), has the potential to revolutionize how governments, non-profits, and other social service providers achieve their desired goals.

SIBs are not actually a bond, but are a type of fee-for-service contract between a government payer and a service provider. What differentiates these arrangement from traditional performance based contracts is that the government and provider both shift some or all of the risk of funding the service to a third-party investor that provides the up-front capital in exchange for a return on their investment upon successful performance of the service. The investor may place a value on the social impact of the service, or may only desire financial return on investment repaid by the government upon successful completion of the contracted service – but however they define return on investment, their involvement places both enormous value and scrutiny on valid performance measurement.

*“SIBs can give structure to the critical handoff between philanthropy (the risk capital of social innovation) and government (the scale-up capital of social innovation) to bring evidence-based interventions to more people.”*

McKinsey Global  
From potential to action: Bringing social impact bonds to the US

The basic SIB structure is quite simple, yet it creates an entirely new set of dynamics between the service provider and government payer that lessens the risk for the both the government payer and service provider while simultaneously rewarding those service providers that are most effective at achieving measurable and lasting results. This realignment of risk and reward also encourages innovation by shifting the government payer from funding a prescribed set of activities, to a more limited but more effective role of only funding a successfully achieved solution.

*“What makes recent PFS initiatives distinctive is that they are focused not simply on creating additional financial incentives for contractors to produce better outcomes, but more broadly on overcoming the wide set of barriers that are hindering the pace of social innovation. For sure, these barriers include a lack of performance focus and outcome measurement, but they also include political constraints that prevent government from investing in prevention, the inability of nonprofits to access the capital needed to expand operations, and insufficient capacity to develop rapid and rigorous evidence about what works.”<sup>1</sup>*

SIBs, although still in their very early stages of maturity, have significant potential to transform how society addresses its most plaguing social challenges. In contrast to budget-sapping recurrent expenditures, certain kinds of social challenges might now be viewed as a new marketplace promising considerable financial benefit to the most effective solution provider. Over the following pages, I will attempt to provide a roadmap on how to effectively approach the use of a SIB to fund the development of a Safety Net Accountable

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<sup>1</sup> Hanna Azemati, Michael Belinsky, Ryan Gillette, Jeffrey Liebman, Alina Sellman, and Angela Wyse, John F. Kennedy School of Government, Harvard University “Social Impact Bonds: Lessons Learned So Far” [Community Development INVESTMENT REVIEW](#), Vol 9, Issue 1 (April 2013) p 22 [\[link\]](#)

Care Organization (ACO) with a goal of providing high quality and cost-effective care to our most at-risk populations in the greater Pittsburgh region.

## Key Roles in a Social Impact Bond:

Social Impact Bond financing structures include at a minimum four distinct roles as visualized and defined below. Each role as defined below has typically been coordinated by a single organization, but as SIBs grow in number and maturity various new arrangements have provided examples of SIBs that do not follow that ‘standard’ structure. Recent SIB agreements have had structures that include multiple organizations in each role and/or a single organization playing more than one role, such as the service provider acting directly as the intermediary. As the marketplace and process for developing these agreements matures, we expect to see more distinct and standardized roles emerge.

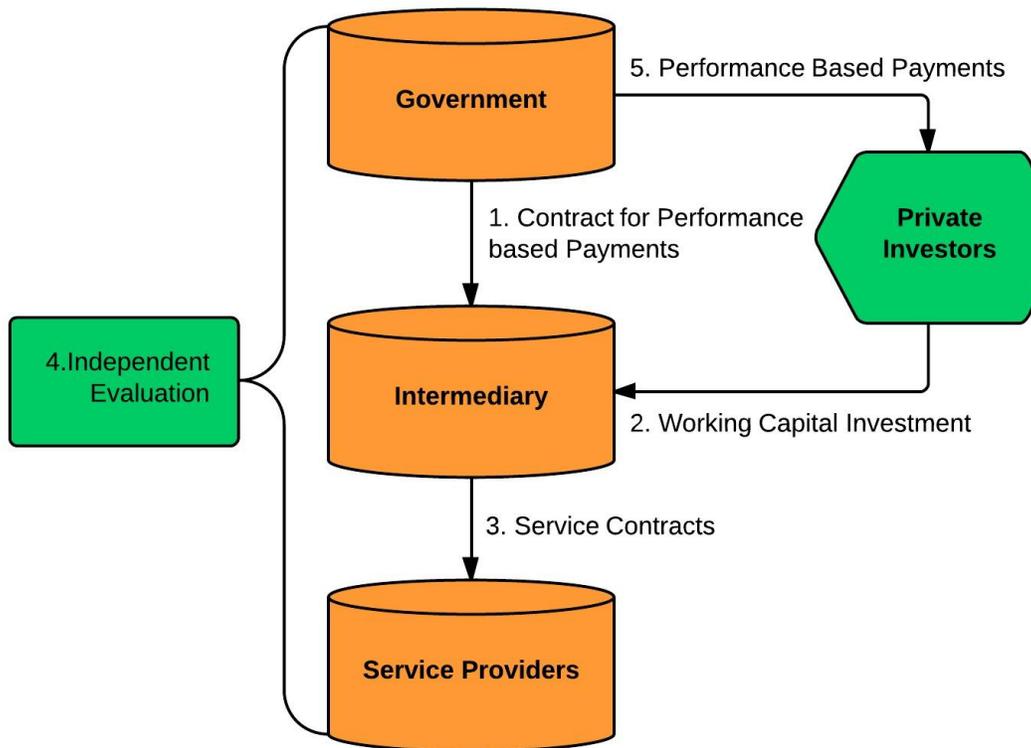


Figure 1 – Simplified visualization of Social Impact Bond components and payment flows.

Summary of key roles of SIB participants with further detail and related examples of each follow:

1. **Government / Payer:**  
Contracts with intermediary to make payments upon successful achievement of goals. Planned payments are made over time in accordance with the savings realized by the



impact of the preventative intervention. Along with lessening financial risk, this also allows governments and other potential payers to tap into and accelerate marketplace innovation and problem-solving relating to a defined and recurring challenge.

2. **Intermediary:**

Raises capital from private investors with the promise of a return on investment. Those funds are in turn used to capitalize a preventative intervention contracting with one or more service provider, and to contract with a third party assessor. Upon successful accomplishment of performance milestones, the government makes payments to repay the investment. The intermediary may share in a portion of the financial risk and reward, although to a lesser extent than the investor.

3. **Private Investor:**

One or more entities that provides upfront capital with the expectation of a risk-adjusted return on investment. Early investors have tended to place a value on the social impact of the service, but as the SIB investment marketplace matures, there are more traditional financial-return only investors seeking investment opportunities. Contractually agrees to performance metrics, risk-sharing upon lack of performance, terms of repayment, rate of return, and other variables based on project.

4. **Service Provider:**

One or more organizations that enters that contracts with the intermediary to achieve the agreed upon performance metrics through provision of service. This provider may share in a portion of the financial risk and reward, although typically to a lesser extent than the investor.



## How many SIBs have been created, and where?

Although this financing structure began in the UK, there has been significant interest and adoption accelerating in both the US and in Australia. For a general snapshot of SIB financing deals underway or fully launched, the Nonprofit Finance Fund has developed an interactive map which can be found here: [“Pay for Success Deals in the US.”](#)

The following charts developed by UK based social impact consultant, Emma Tomkison, show the speed of global adoption.

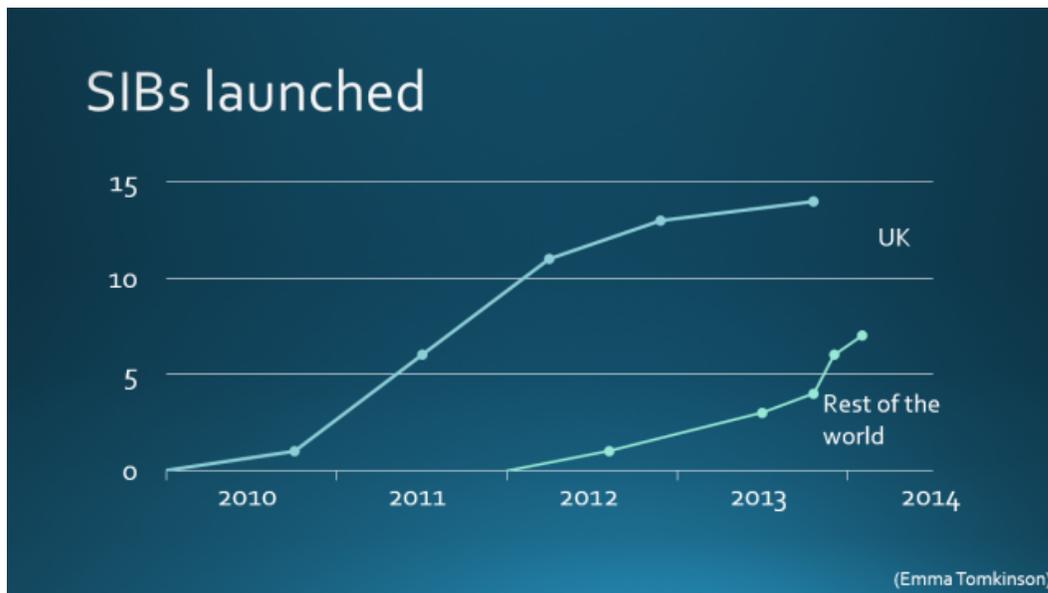


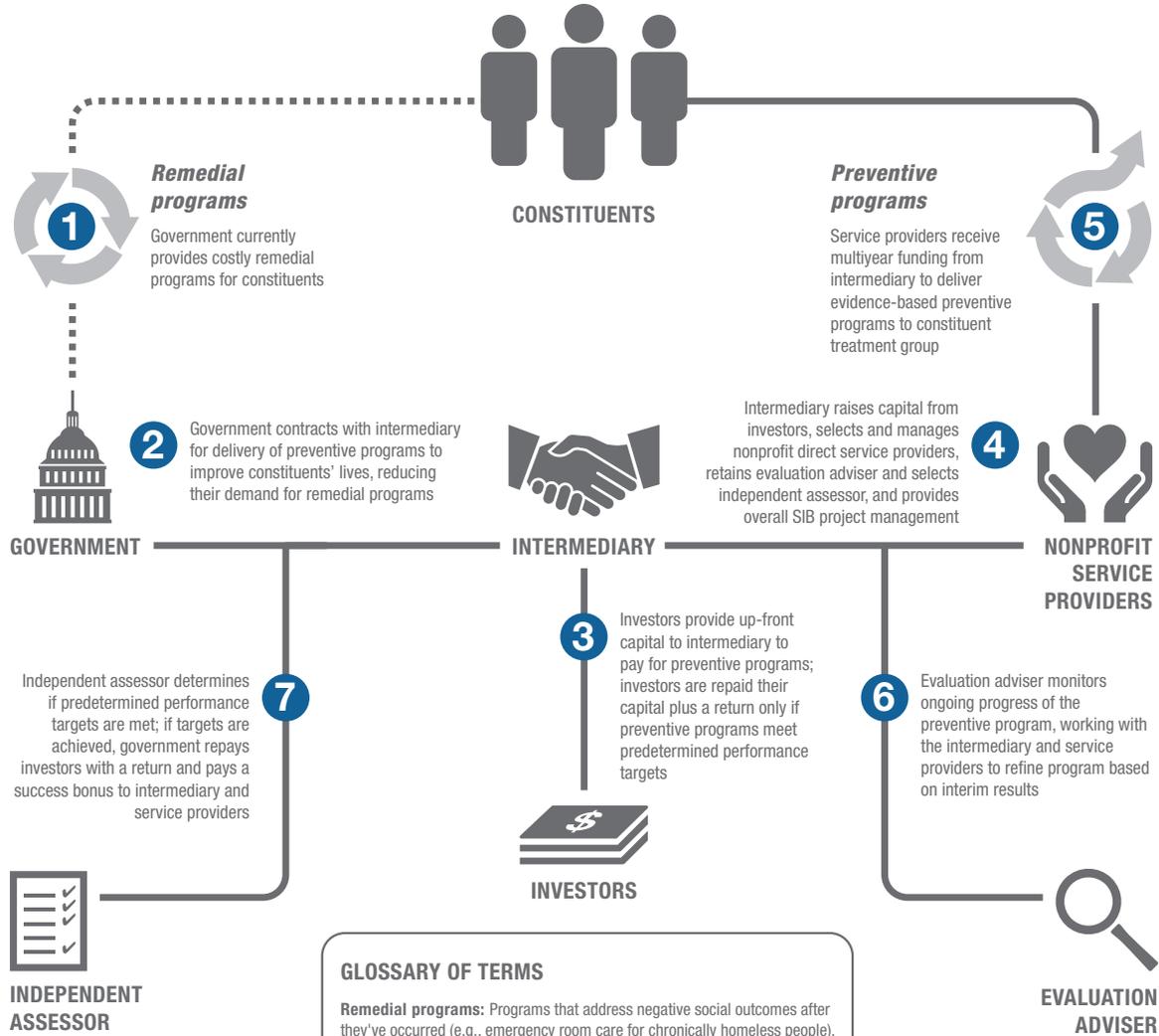
Figure 2 – As of February 2014, UK Social Impact Consultant, Emma Tomkison [\[link to source\]](#)



Figure 3 – As of February 2014, UK Social Impact Consultant, Emma Tomkison [\[link to source\]](#)

## "SIB Ecosystem" - McKinsey on Society

[Link to full document: "Will social impact bonds work in the United States?"](#)



### GLOSSARY OF TERMS

**Remedial programs:** Programs that address negative social outcomes after they've occurred (e.g., emergency room care for chronically homeless people).

**Preventive programs:** Programs that reduce negative social outcomes for constituents and reduce demand for remedial programs (e.g., permanent supportive housing for chronically homeless people).

**Constituent treatment group:** Constituents who receive preventive programs. Program results for the treatment group are compared with constituents who do not receive preventive programs (i.e., the constituent control group) who did not receive similar services.



## Who is the payer in a SIB-funded ACO?

Social Impact Bonds can help a government tap into new results-driven funding mechanism for recurring high-cost budget items that can be best solved through a larger up-front capitalization or other similar preventative measure structure.

Although it is possible to structure a SIB with a private corporation or other entity as the ultimate “payer”, to-date all SIBs launched worldwide have been initiated in partnership with a government entity as the payer or funder.

*“Corrections costs have quadrupled during the last 20 years, making prison spending the states’ fastest growing budget item after Medicaid.”*

–Bank of America Merrill Lynch, on why they helped finance the first state led recidivism focused social impact bond.

For a prospective SIB financing structure for the Safety-Net ACO, there may be a number of both government and private-payer options depending on the target of impact defined. This provides an added level of complexity, but also may provide additional promising options for funding depending on the impact target.

A SIB funded ACO is likely to have a payment structure very similar to the existing Medicare Shared Savings Program or the Advance Payment Model component of the Shared Savings Program pioneered by the Innovation Center for Medicare and Medicaid. The primary difference is that the shared savings payments would be pledged up front by the government, potentially as a global capitation payment, but the initial capitalization and performance risk would transferred in large part away from the government and the healthcare providers and to the investors who would then provide financing based on the pledged payment valuation.

The Centers for Medicare and Medicaid acknowledged the initial capitalization challenge of shared-savings payment funded ACOs when they noted this during the launch of their Advance Payment model for organizations seeking to participate in the Shared Savings Program:

*“Given the time lag between when ACOs will likely make these investments and when ACOs would receive shared savings payments, organizations with less access to capital may be less likely to participate in the Shared Savings Program.”<sup>2</sup>*

*“...[ACO] cost estimates...reflect an average estimate of \$0.58 million for the start-up investment costs and \$1.27 million in ongoing annual operating costs for an ACO participant in the Shared Savings Program.”<sup>3</sup>*

<sup>2</sup> Advance Payment Model component of the Shared Savings Program [\[link\]](#)

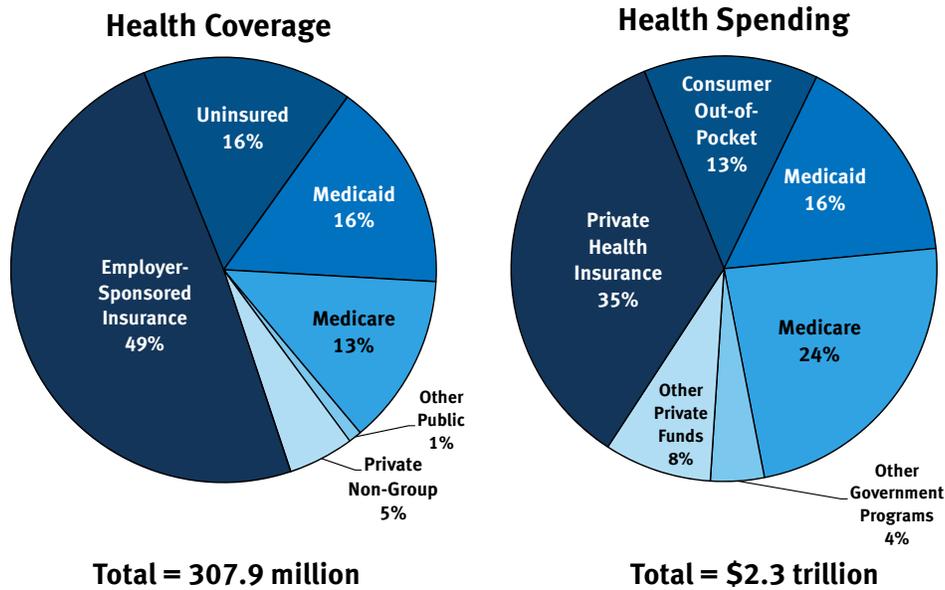
<sup>3</sup> Federal Register “Medicare Program; Medicare Shared Savings Program: Accountable Care Organizations” Vol. 76, No. 212 (Wednesday November 2, 2011) P. 67969 [\[link\]](#)



Given the substantial costs in this system, and the focus on a “safety-net” population that will be largely insured through Medicaid or Medicare there are a few plausible variations on the government or payer:

This charts below are from the report “[Medicaid and its Role in State/Federal Budgets and Health Reform](#)” which was released in April of 2013 by the Kaiser Commission on Medicaid and the Uninsured help define the existing revenue sources in the general healthcare marketplace and then in more detail in the safety net healthcare market.

### Medicaid is a major source of health coverage and spending.



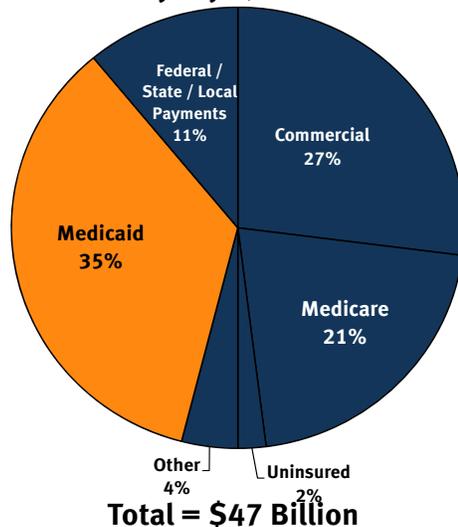
NOTE: Health spending total does not include administrative spending.  
SOURCE: Health insurance coverage: KCMU/Urban Institute analysis of 2011 data from 2012 ASEC Supplement to the CPS.  
Health expenditures: KFF calculations using 2011 NHE data from CMS, Office of the Actuary



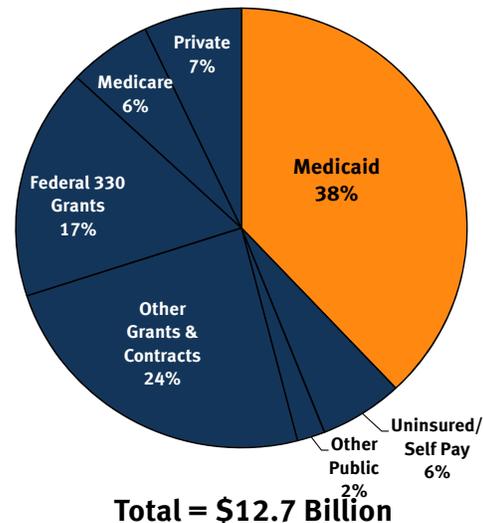


## Medicaid is the largest source of funding for safety-net providers.

Safety-Net Hospital Net Revenues by Payer, 2010



Health Center Revenues by Payer, 2011



SOURCES: Data for hospitals from *America's Safety Net Hospitals and Health Systems, 2010*, National Association of Public Hospitals and Health Systems, May 2012. Health center data from 2011 Uniform Data System (UDS), BPHC/HRSA/HHS.



### Potential Payer #1: DPW

#### Commonwealth of Pennsylvania:

- a. **Pennsylvania Department of Public Welfare (DPW):** There is a potential to contract directly with DPW as a pilot program that would provide substantial cost-savings upon scale.
  - i. Direct cost savings for state share of Medicare / Medicaid.
  - ii. Note: Pennsylvania spends more than \$7900 per Medicaid enrollee, which is higher than 38 other states, and rapidly growing.<sup>4</sup>
- b. **Discretionary funds driven by Office of Budget or Governor's Office:** As of March 2014, leaders of Pennsylvania's Office of the Budget had been in early discussions with equity financing specialists in the Department of Community and Economic Development, as well as the Department of Corrections, reviewing the applicability and potential use of Social Impact Bonds.
- c. **Department of Health (DoH):** Although discretionary funding and/or a contract of this kind is typically much less likely to be available through Pennsylvania's DoH, a March 2014 "Community-Based Health Care Program" grant announcement may provide an opportunity funding of key components of the project which will lessen the risk and burden of other funders involved.

<sup>4</sup> Katherine Young, Robin Rudowitz and Rachel Garfield – Kaiser Family Foundation "Medicaid Per Enrollee Spending: Variation Across States" (February 2014) [\[link\]](#)

## Potential Payer #2: CMS

### Centers for Medicare and Medicaid Services (CMS)

- d. **Health Care Innovation Award** – Round Two Funding<sup>5</sup>
  - i. Model is currently noted within application submitted to CMS by DPW
  - ii. Note: Potential for Round 3 if round two if not successful.
- e. **Medicare Shared Savings Program**<sup>6</sup> : Our ACO entity should complete an application to be considered for participation in the Shared Savings Program.
  - i. Current Application Cycle to Apply for Program Year 2015
  - ii. Notice of Intent to Apply (NOI) Submission due May 30, 2014

*“To qualify for shared savings, an ACO must meet or exceed a prescribed Minimum Savings Rate (MSR), meet the minimum quality performance standards, and otherwise maintain eligibility to participate in the Savings Program. ACOs meeting these requirements may share in savings at a rate determined by their quality performance up to a performance payment limit. The structure and features of the shared losses and shared savings methodologies are similar to each other.”<sup>7</sup>*

## Potential Payer #3: Private Payer - Hospital

### Direct Cost-Savings contract with regional Hospital system serving our population

- f. Potentially based on the Medicare Shared Savings Program methodology that is commonly used in healthcare systems and ACOs across the US.
- g. Agreements between participants, calculation of payment models, primary service areas, formats for data and reporting, and required quality measures are well defined by CMS within this system and has a number of years of testing underway to understand the variables that lead to successfully funding an ACO through a shared savings model.<sup>8</sup>
- h. Highest potential for clear attribution, and Return on Investment (ROI) potential may come from focusing on very specific and limited high-cost care population.
- i. Community Navigator / Onboarding System: Safety Net patients could be fully attributed by creating an onboarding system and personnel that reside within an existing Emergency Department with intake processes similar to a Split-Flow

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<sup>5</sup> Health Care Innovation Awards – Round Two [\[link\]](#)

<sup>6</sup> Federal Register “Medicare Program; Medicare Shared Savings Program: Accountable Care Organizations” Vol. 76, No. 212 (Wednesday November 2, 2011) P [\[link\]](#)

<sup>7</sup> Medicare Shared Savings Program Shared Savings and Losses and Assignment Methodology and Specifications [\[link\]](#)

<sup>8</sup> Centers for Medicare & Medicaid Services (CMS) Medicare Shared Savings Program [\[link\]](#)



onboarding system<sup>9</sup>, similar to the recently deployed system in St. Mary Medical Center<sup>10</sup>.

## Potential Payer #4: Private Payer - Insurance

### Direct shared-savings contract with a private insurer serving our defined population.

- j. The financing available through this this payer model will be directly correlated to the insurers coverage of our target population. This will be largely driven by the approval and adoption of Pennsylvania’s application for HealthyPA’s Private Coverage Option which is estimated by the Corbett Administration to provide Essential Health Benefits (EHB) through private health plans to approximately 520,000 Pennsylvanians below 133 percent of federal poverty. <sup>11</sup>

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<sup>9</sup> Becker’s Hospital Review: “St. Mary Medical Center in Pennsylvania Launches Split-Flow Model in ED” [\[link\]](#)

<sup>10</sup> St. Mary Changes the Patient Experience For Emergency Services [\[link\]](#)

<sup>11</sup> “Healthy Pennsylvania 1115 Demonstration Application” Commonwealth of Pennsylvania, Department of Public Welfare (February 2014) P 11 [\[link\]](#)

## What is the Intermediary Organization?

Intermediaries are a crucial player in the development and management of a Social Impact Bond, although the numerous roles they must play are often shared or collaborative roles shared across multiple entities.

*“...intermediaries can operate as non-profits or for-profits with expertise in particular interventions or regions. Ultimately, intermediaries could aggregate investor capital, brokering deals and acting as fund managers operating on a fee basis and possibly assuming a share of the outcome performance risk. However, given the early stage of this market, intermediaries are expected to require upfront philanthropic funding to support their capacity building work.”<sup>12</sup>*

In SIBs that are initiated by a Government through an RFP or RFI process, Intermediaries are often the organization that the government contracts in a role similar to a general contractor on a government funded construction project. Expectations of performance and cost are negotiated with that single General Contractor, who then shares risk and performance expectations with a series of subcontractors and interim financing entities.

The intermediary has also often been the entity that develops the project, typically through targeted grant funding, and brings it to the government body with the goal of compelling the government to participate in the project. This was the case in the initial SIB and many subsequent SIBs led by Social Finance in the UK and US.

Intermediaries typically play these key roles:

1. **Dealmaker:** Originator (or government requested leader) of the deal, bringing all key players together including legal and financial counsel.
2. **Contracting and managing service providers:** Identification, contracting, and hands-on management with a portfolio of service providing entities.
3. **Real-time Evaluation:** Helping to identify and work directly with the third party evaluation entity. Continuous impact analysis and course correction as needed.
4. **Financial Transaction Manager:** Receiving investor payments, funding contractors, also occasionally receiving pay-for-success payments from government and repaying investors.

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<sup>12</sup> Steven Godeke, Lyel Resner, “Building a Healthy & Sustainable Social Impact Bond Market: The Investor Landscape” (December 2012) Rockefeller Foundation – p 10 [[link](#)]

## Who Invests in Social Impact Bonds?

Due to the lack of data on historic performance data of SIB financing structures, or the current inability of traditional financial institutions to adequately assess SIB risks through existing underwriting procedures, traditional lenders and financial institutions remain largely unwilling to take on the full risk of these investments.

To date, all SIBs that have been successfully deployed have made use of one or more credit enhancements techniques to attract investors. It is expected that over time, as a proven track record of successful investments is developed and financial institutions learn a new set of tools for due diligence of potential investments and evaluation of performance, the need for these credit enhancements will decline.

In December of 2013, Bank of America Merrill Lynch raised **\$13.5 million** for a social impact bond (*largest to-date*) to fund a four year long project to reduce recidivism in New York.  
- Institutional Investor

*“Some bankers compared SIBs to the Low Income Housing Tax Credit (LIHTC) as an example of a community development financial product which required banks to assess new risks. LIHTC has now become a standard tool of the CRA banking industry and does not rely on philanthropic support.”<sup>13</sup>*

As the quote above shows, the nascence of the SIB investment marketplace still seems to mandate a substantial sharing of risk to attract the needed investment. To-date nearly all SIBs have structured their financing with one of more of the following collaborative financing methods with the goal of sharing risk and attracting capital.

ATTRACT  
INVESTMENT  
BY SHARING  
RISK.

- [ **Grants or non-recourse loans from philanthropies**
- [ **Program Related Investments (PRIs) from foundations**
- [ **Partial guarantees or collateral from foundations**
- [ **Subordinate financing positions**

**Grants or non-recourse loans from philanthropies.** The simplest and most commonly used method to lessen the risk of participation for follow-on investors is to reduce

<sup>13</sup> Steven Godeke, Lyel Resner, “Building a Healthy & Sustainable Social Impact Bond Market: The Investor Landscape” (December 2012) Rockefeller Foundation – p 18 [\[link\]](#)



downside risk and/or increase upside reward potential through a grant or other non-recourse funding mechanism.

Although there may be more mutually financially advantageous methods to leverage funds of willing foundation partners, this may be the simplest method to pursue as it is standard practice for the foundation community and provides a simple option for participation.

**Program Related Investments (PRIs):** Investments from foundations or other organizations that place a value on the target social impact as a component of their return-on-investment expectation. There are many examples of PRIs used by Foundations as methods to more efficiently drive healthcare improvements. In 2011, the Bill & Melinda Gates Foundation used a PRI to acquire a \$10 million equity stake in a for-profit biotechnology company in order to advance its goals of reducing health inequities in poor countries through the improved delivery of vaccines to the poor.<sup>14</sup>

The PRI co-funded model is applicable in Pittsburgh in a number of ways. Regional foundations may accelerate the SIB creation by directly investing in the SIB as if it was component of the asset-classes<sup>15</sup> within their investment portfolio, or by lessening ACO hub startup capital needed by taking an equity stake in the ACO managing organization itself. For the more adventurous investor, a PRI could be used to support application of a promising early stage healthcare technology innovation that may drive cost-reductions if utilized within the Safety-Net ACO populations.

Terms of the investment could range from traditional market-rate and short-term expectation of return with risk sharing, to a more preferential expectation of lower return or merely capital preservation based on the desire of the investor.

Even if a we were so fortunate to have a regional foundation offer 100% financing through a PRI, it is my recommendation that we include a traditional private investor in the financing structure if only to build that institution's capacity and experience with SIB financing while also ensuring the project meets the evaluative rigor and underwriting methods of a traditional financing institution.

*"Most bankers see bank participation in the first demonstration projects as critical to building the capacity to underwrite PFS financings and build a sustainable market. While early transactions may require close to full credit enhancement for commercial investors to participate, some level of outcome performance risk participation by commercial investors will be needed to build their capacity to assume more outcome performance risk and position themselves to participate in more deals in the future."<sup>16</sup>*

**Partial guarantees or collateral:** These guarantees, typically given from impact investors or foundation significantly lessen the downside risk to participating investors.

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<sup>14</sup> "Liquida Technologies Receives Investment to Bolster Development of Vaccines" Bill & Melinda Gates Foundation [\[link\]](#)

<sup>15</sup> Jill Scherer and Lynn Schenk, "Advancing Social Impact Measurement to Build an Asset Class: The Appeal of Social Impact Bonds" (Spring 2012) Social Finance, Inc. Community Investments – Volume 24, Number 1 [\[link\]](#)

<sup>16</sup> Steven Godeke, Lyel Resner, "Building a Healthy & Sustainable Social Impact Bond Market: The Investor Landscape" (December 2012) Rockefeller Foundation – p 18 [\[link\]](#)

A promising example of this was used in the Rikers Island Recidivism Pilot, explained in detail later in this report, where Bloomberg Philanthropies made a \$7.2 million grant to MDRC over that same four-year period, which will be held by MDRC in a guarantee fund to back a portion of Goldman Sachs' loan to MDRC.

**Subordinate financing positions:** Typically taken by foundations or impact investors.

A promising example of this was used in SIB funded Utah High Quality Preschool Program, explained in detail later in this report, where the J.B. Pritzker Foundation provided a subordinate loan up to \$2.4mm to United Way of Salt Lake, reducing risk to the senior lender, Goldman Sachs, if the preschool program proves to be ineffective.

To visualize the risk taken on by each party in multiple current SIB scenarios, the Nonprofit Finance Fund created the following visualization:

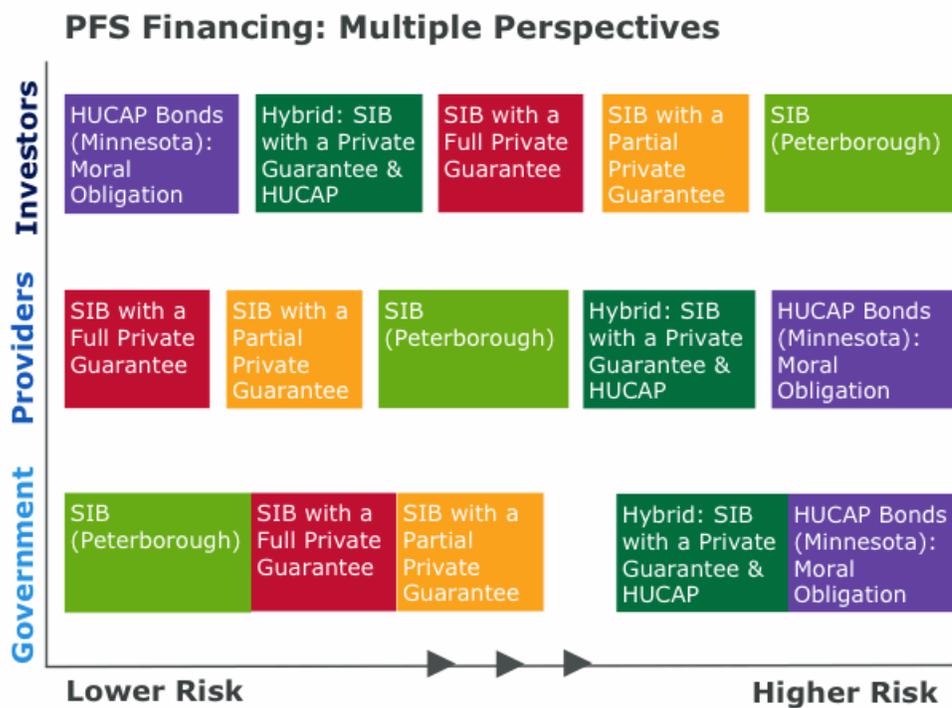


Figure 4 – Source: Nonprofit Finance Fund

<http://payforsuccess.org/provider-toolkit/structuring-transaction>

## Who are the Service Providers?

There are typically multiple service providers in every SIB project due to the complexity of the services being provided, and the occasional need to shift mid-project from an underperforming service provider to a new provider. All service providers are expected to be able to show a length of experience and breadth of internal capable to handle a lengthy project that is often higher-profile and more highly scrutinized than usual due to the added risk of loss of private investor capital if they do not perform.

Service delivery and the chosen providers will be highly dependent on the scale, target population, and impact measurements defined of the initial pilot of the Safety Net ACO, I-Count project. At full scale, each hub and spoke will likely have a series of service providers in order to cover the various areas of intervention discussed:

### **Service Provider Examples per I-Count Summary Document:**

- Affiliates based on unique needs of specific individual
- Behavioral Health
- Social Service Providers
- Housing/Shelter
- Day Care
- Daily Follow Up re: following discharge plans
- Monitoring NDRs
- Transportation (doctor visits, test, rehab, etc.)
- Errands (groceries, prescriptions, etc.)
- Family support services
- Environmental home safety assessments
- Information/Referral

To manage the SIB financing structure, coordinate contracting and performance management a more simplified and limited set of proven service providers is ideal.

**Recommendation:** A single ACO entity act as the primary service provider for as many providers as possible to simplify the contracting and management process for the intermediary in accordance with current CMS Shared Savings structures. As part of its duties the ACO will be required to submit a list of ACO participants.

Examples of ACO participants may encompass nearly all of the above service providers: a group practice, an acute care hospital, a pharmacy, a solo practice, a Federally Qualified Health Center, a Critical Access Hospital, a Rural Health Center, and other entities that are Medicare-enrolled and bill Medicare for services through a Medicare-enrolled TIN. Other service providers will have to be managed under separate contract. ACO participant billing TINs (or CCNs) are the basis for establishing eligibility, assignment of beneficiaries, computation of the benchmark, and quality assessment.<sup>17</sup>

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<sup>17</sup> What is the definition of an ACO participant and why is this concept important to understand? [\[link\]](#)



## Building Blocks of a Successful Social Impact Bond (SIB)

The first Social Impact Bond was announced in the UK in 2010<sup>18</sup>, and since then there has been a rapid expansion of the number of SIBs being developed with a equally quickly widening variety of the areas of social impact attempted and the models of how each is structuring its financing, evaluation, and repayment methods.

With the first US-based SIB only launched in August of 2012<sup>19</sup>, and only one fully launched SIB in the United States focused on improving healthcare outcomes through preventive interventions<sup>20</sup>, there remains a limited amount of longitudinal evidence on the relative value of the various SIB structures being undertaken.

*“...we now believe the most important criterion for deciding whether to do a SIB is its potential for a large impact.”*

Social Impact Bonds, Lessons Learned So Far, April 2013  
Harvard Kennedy School

Even so, there is broad and consistent agreement on the key building blocks of successful social impact financing. In the following pages I will summarize the key building blocks identified for all successful Social Impact Bonds, and make a case for how those building blocks may fit within the basic structure of the proposed Safety-Net ACO.

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<sup>18</sup> “Lessons from Planning and Early implementation of the SIB at HMP Peterborough” (May 2011) [\[link\]](#)

<sup>19</sup> “Rikers Island Tackles Rearrest Rate With Country's First Social Impact Bond” February 24, 2014 [\[link\]](#)

<sup>20</sup> Fresno Preventative Asthma Management Pilot: [“Can Pay for Success Reduce Asthma Emergencies and Reset a Broken Health Care System?”](#)



## Building Blocks for a SIB and Applicability to ACO Model

Key SIB Criteria	Application to Safety Net ACO
<p><b>Substantial and Recurring Benefit:</b> Impact must cause substantial financial and social benefit that can be realized through preventative investment.</p>	<ul style="list-style-type: none"> <li>• Limited population of high-utilizers are primary cost drivers.               <ul style="list-style-type: none"> <li>– 5% of Medicaid enrollees account for 54% of Medicaid spending.<sup>21</sup></li> <li>– Cost of overnight hospital stay or readmission.</li> </ul> </li> <li>• ACA has placed high financial value on limited factors or providers capabilities that drive reimbursement rates.               <ul style="list-style-type: none"> <li>– Readmission rates, Medicaid risk scores formula inputs, STAR ratings<sup>22</sup>, HEDIS measures<sup>23</sup>, ICD-10 coding capabilities, etc.</li> </ul> </li> <li>• A funding mechanism that is positioned to break the counter-cyclical cost problem presented by Medicaid may be particularly interesting to the Department of Public Welfare.               <ul style="list-style-type: none"> <li>– State Medicaid spending is counter-cyclical program, meaning during economy downturns, state revenues decline, and more individuals seek Medicaid coverage, which increases state budget pressures.</li> </ul> </li> </ul>
<p><b>Clear and Measurable Outcome Target:</b> Outcome metric(s) must be clearly defined and agreed upon by all SIB parties as attributable to the defined intervention. Simplicity and clarity is important here.</p>	<p>A single and undisputable metric is best for validation against control or non-SIB population.</p> <p>Existing Quality Performance Standards reported to CMS may be ideal due to their existing use for performance-based payments, which may help ensure validity.<sup>24</sup></p> <p><b>Example Targets:</b></p> <ul style="list-style-type: none"> <li>• 10% reduction in ACO population readmission benchmarked against past data or a demographically alike cohort control population.</li> <li>• 10% reduction in Hospital Admissions for Congestive Heart Failure among ACO population.</li> </ul> <p><b>Note:</b> Investors will have more confidence in a SIB if small differences in program performance do not cause sharp</p>

<sup>21</sup> Medicaid and its Role in State/Federal Budgets & Health Reform, Kaiser Commission on Medicaid and the Uninsured (April 2013) p12 [\[link\]](#)

<sup>22</sup> Five Star Quality Rating System, CMS [\[link\]](#)

<sup>23</sup> What is HEDIS® and Quality Compass®? [\[link\]](#)

<sup>24</sup> Quality Performance Standards, Accountable Care Organization 2013 Program Analysis (December 21, 2012) Center for Clinical Standards & Quality, Center for Medicare and Medicaid Services [\[link\]](#)



	distinctions between gaining a return on investment and experiencing a loss. <sup>25</sup>
<p><b>Credible Validation of Impact:</b> An independent assessor must be utilized, and a comprehensive evaluation process defined and agreed upon prior contracting the SIB.</p>	<p>The challenges of attribution for individual health interventions, and the inherent complexity of health quality metrics will make this a critical component of our ACO success.</p> <p>Correlation with existing models of CMS or hospital performance data and validated quality metrics will be key, along with a well designed 3<sup>rd</sup> party evaluative process. A good resource for evaluation processes can be found in this Social Finance report, entitled Advancing Social Impact Measurement to Build an Asset Class: The Appeal of Social Impact Bonds<sup>26</sup></p>
<p><b>Appropriate scale:</b> Provides large enough cost-benefit impact to achieve substantial financial return, while remaining simple enough to ensure clear attribution and measurement.</p>	<p>Scale of plausible payer cost-reduction and cost of ACO intervention for a specified quality care measurement and well-defined population will help determine the range of ideal scale. Note that the largest pool of SIB financing in the US to-date is \$13.5 Million for a 4 year service period in NY.</p>
<p><b>Short timeline to return-on-investment.</b> Investor risk is correlated with term of repayment expectations. The longer the timeline before they are repaid, the more they will demand in investment returns to make the initial investment.</p>	<p>Ideal timeline will be based on:</p> <ul style="list-style-type: none"> <li>• Length of payer’s willingness or ability to hold a multi-year contracted liability.</li> <li>• Speed of impact data collection and validation.</li> <li>• Investor repayment expectations (typically less than 3 years)</li> </ul> <p>Investors will also have more confidence in SIBs that incorporate early performance indicators.</p>
<p><b>Proven methodology of intervention:</b> This is an important area to limit risk exposure to investors. Method of impact should be a proven model that is being scaled or replicated through a SIB, not a newly attempted model. Service providers experience should also be indisputable.</p>	<p>Cost savings of ACO models have been and continue to be well documented. Populations care management among high-utilizers or high-cost populations such as Camden’s hotspotting techniques, Safety-Net ACOs or the newly created Totally Accountable Care Organizations or (TACOs) have been reporting even more substantial cost-reductions and improvements in care provision. See detail analysis and case studies on related models in the resource section of this report.</p> <p>Note: Our service providers would have to be diligently reviewed to ensure proven practice and ability.</p>
<p><b>Fund Manager to Solicit and</b></p>	<p>Can be an existing Foundation, but recent promising</p>

<sup>25</sup> Timothy Rudd, Elisa Nicoletti, Kristin Misner, Janae Bonsu “Financing Promising Evidence Based Programs” Early Lessons from the New York City Social Impact Bond (December 2013) [\[link\]](#)

<sup>26</sup> Jill Scherer and Lynn Schenk, “Advancing Social Impact Measurement to Build an Asset Class: The Appeal of Social Impact Bonds” (Spring 2012) Social Finance, Inc. Community Investments – Volume 24, Number 1 [\[link\]](#)

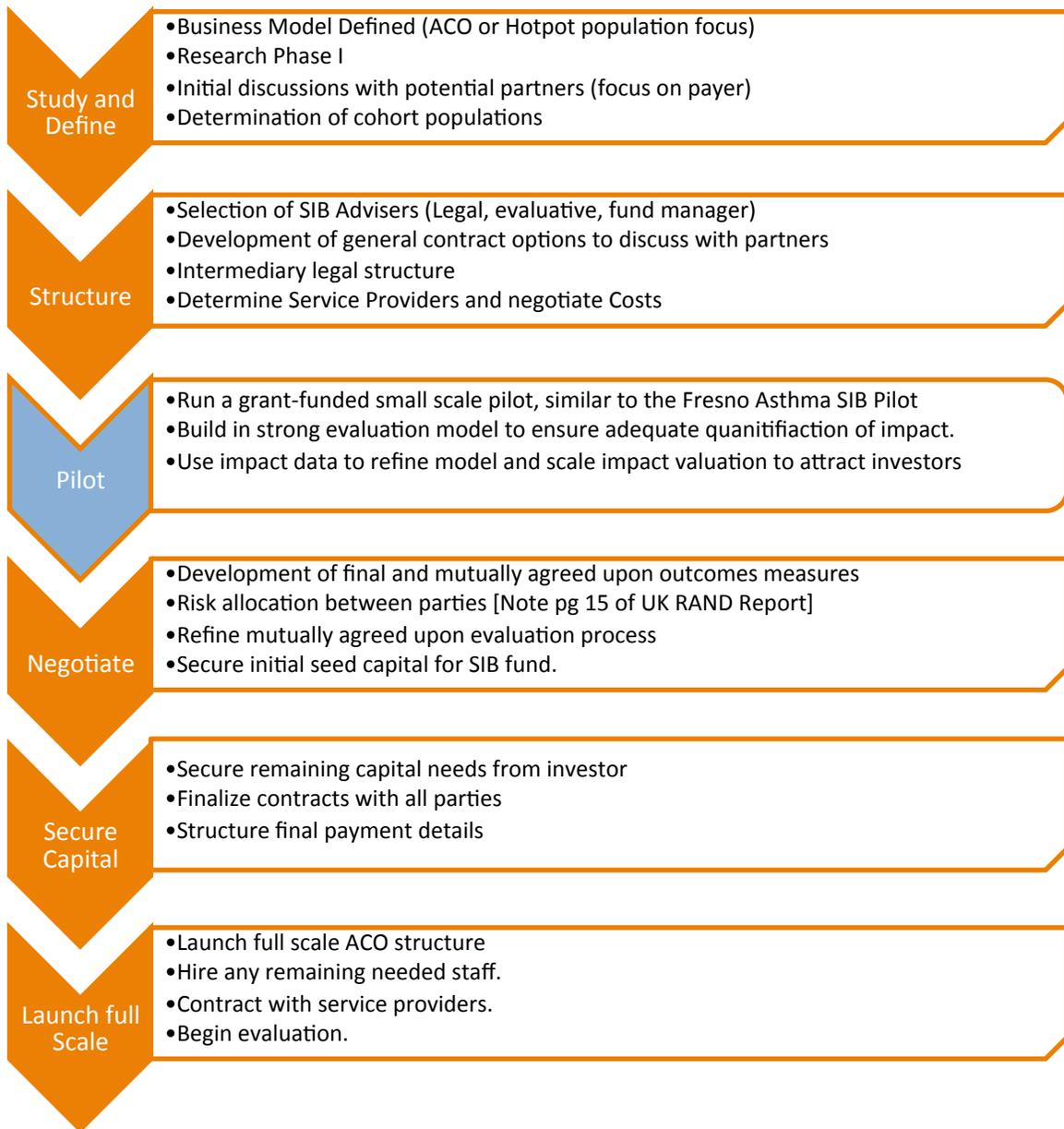


<b>Coordinate Investment</b>	results have been shown in NY by using a traditional equity investment platform where Bank of America Merrill Lynch worked with Social Finance to define the terms of the investment and acted as the placement agent for the offering to qualified high net worth and institutional investors. <sup>27</sup>
<b>Impact Investor willing to share risk with traditional Investors</b>	This is a key advantage of the Pittsburgh ACO pilot due to the nature of its early development through discussions involving leaders of local philanthropies. Also note Investor page with key options for participation based on other domestic and international SIB projects.
<b>Motivated and willing payer.</b> This is defined with some detail on in the government/payer portion of this report.	<p>The motivation of the payer will likely be directly correlated to a proven cost reduction through a piloted intervention. Note that the PA Office of the Budget has been reviewing the use of Social Impact Bonds throughout early 2014 and may be amenable to discussion. Also see government/payer portion of this report.</p> <p>Note, although this is in tension with investor pressures, repayment that is held until clear evidence that savings are in fact being achieved and in alignment with the cost-savings realized increases the government partner's confidence in the effectiveness of the program and willingness to participate.<sup>28</sup></p>

<sup>27</sup> "Bank of America Merrill Lynch Introduces Innovative Pay-for-Success Program in Partnership With New York State and Social Finance Inc. *New Social Impact Partnership Gives Qualified Private and Institutional Investors the Opportunity to Fund Social Change*" [\[link\]](#)

<sup>28</sup> Timothy Rudd, Elisa Nicoletti, Kristin Misner, Janae Bonsu "Financing Promising Evidence Based Programs" Early Lessons from the New York City Social Impact Bond (December 2013) [\[link\]](#)

## SIB Funded ACO Development Timeline



## Is the Oldest SIB Actually Working?

The first SIB, which is still ongoing as of August 2014, was launched in September 2010 targeted at reducing recidivism rates in the UK-based Peterborough Prison. Developed through the work of Social Finance UK, this structure was an outgrowth of Social Finance’s work as a nongovernmental organization (NGO) established to raise capital to help finance social service organizations. Subsequently the Ministry of Justice has launched a secondary pilot in October of 2011 in Doncaster Prison with a slightly different design to study the validity of various impact methods.

**Target population:** The focus of this first SIB was to help reduce comparative re-conviction rates (defined as re-conviction within 12 months after release) within a defined prison population through providing a suite of support activities for 3,000 short-term prisoners at Peterborough Prison over a six-year period.

**Service Providers Plan:** Under the contract four service providers were engaged by the intermediary, Social Finance to deliver services to these prisoners: St. Giles Trust, Ormiston Trust, the YMCA, and Supporting Others through Volunteer Action. The programs have been targeted at increasing education, skills, and confidence of the prisoners.

### How is it performing?:

In August of 2014, a detailed independent evaluation was completed by a research team from QinetiQ, University of Leicester, and the University of Greenwich<sup>29</sup>. Re-conviction rates within the pilot site with SIB funded interventions have shown a significant and positive divergence compared to national re-conviction trends. The analysis shows an 8.39% reduction in reoffending rates for the first cohort of offenders in the Peterborough SIB. This reduction, although insufficient to trigger payment for the first cohort, is expected to trigger full payment upon the completion of the second cohort of offenders are analyzed. A third cohort was can



**Impact Metrics:** The reoffending rate of the Peterborough prisoners are being measured against a control group of 30,000 short-term prisoners from other jails who are not receiving these preventive support services. Specific measurable: *“Any re-conviction event relating to offences committed in the 12 months following release from prison, and resulting in conviction at court either in those 12 months or in a further 6 months”*

<sup>29</sup> Darrick Jolliffe, Carol Hedderman, *Peterborough Social Impact Bond: Final Report on Cohort 1 Analysis* (QinetiQ 2014) [\[link\]](#)



**How the financing deal is structured for investor return:** If reoffending rates among the Peterborough prisoners drop by 10% in one of the three cohorts, or 7.5 percent reduction across all cohorts, investors get a minimum payout equal to a 7.5 percent return on their investment. If reoffending rates are lower than those established benchmarks, the payout could increase up to 13.5 percent. However, if these outcomes are not achieved, the investors understood that they could see no return as well as a total loss of their initial investment capital.

**Methodology for Evaluation:** QinetiQ Ltd defines the specific evaluation methodology in their August 2014 report as follows:

*“Propensity score matching (PSM) is the statistical technique that was selected by the Ministry of Justice (MoJ) and SF [Social Finance] as the method of controlling for the observable differences between the cohort and the Comparison Groups. The creation of the PSM model originally involved the development of a process for restricting the data to ensure that only appropriate individuals from both the Intervention and Comparison Groups are included (i.e., those aged 18 or over sentenced to a short term of imprisonment of less than 12 months), and the identification of relevant variables to be tested for inclusion in the statistical model (see Cave et al., 2012).*

*This overall process (data restriction and model creation) will need to be repeated for each cohort. The reconviction frequency is defined as the number of times an offender is reconvicted at court in the 12 months following release from prison.<sup>1</sup>*

*The development of a PSM model is based on the individuals who comprise a given cohort (and the data available about these individuals), and each cohort will contain different individuals. This means that a separate PSM model will need to be created for each cohort.*

*It should be noted that, unlike random control allocation, PSM cannot take account of unmeasured differences which may account for variation in reconviction aside from ‘treatment received’.*

*However, PSM is widely regarded as one of the best ways of matching quasi-experimentally (Rosenbaum, 2002), and it has been increasingly used in a criminological context (e.g. Wermink et al., 2010), however concerns have been raised about its inappropriate use (Shadish, 2013). The PSM method involves using logistic regression to model group membership using the available data.*

*Specifically, in regard to the PSM model to be used for the SIB evaluation, the response variable is a binary indicator of whether a prisoner was discharged from HMP Peterborough. The explanatory variables cover basic demographic data as well as detailed historic offence, conviction, sentence and disposal information.*



*The PSM method of matching was used because it can account for (measurable) pre-existing differences between groups with relative ease.<sup>30</sup> “*

## Structure of Selected US-based SIB Projects

With a very limited number of early stage projects, I have selected four projects that I believe show the most potential for relevance to our ACO project, with project summaries on the following pages.

- 1. Fresno Preventative Asthma Management Pilot:**  
The first US-based preventative healthcare social impact bond pilot project, currently in a 2 year evaluative phase. Very good model for us to emulate based on two phase evaluation-first approach before SIB structure or negotiation.
- 2. Rikers Island Recidivism Reduction SIB:**  
Scale of target population is a very similar size to the Pittsburgh ACO pilot as currently discussed.
- 3. New York State Recidivism SIB:**  
Promising model for investor fund development and partnership structures.
- 4. The Utah High Quality Preschool Program:**  
The only education focused social impact bond in the US, this agreement is unique for its longer-term impacts, and how they were able to simplify a relatively complex measurement process into a single set of metrics.

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<sup>30</sup> Darrick Jolliffe, Carol Hedderman, *Peterborough Social Impact Bond: Final Report on Cohort 1 Analysis* (QinetiQ 2014), 6-7 [\[link\]](#)

## Fresno Preventative Asthma Management Pilot

**Summary:** A Social Impact Bond demonstration project to improve the health of low-income children with asthma and reduce the costs that result from emergency treatments. Based in Fresno, California, the project will incorporate rigorous data collection and evaluation methodologies in order to demonstrate the dual social and financial benefits of up-front investment in asthma management and prevention. This project will lay the groundwork for Social Finance and Collective Health to design and launch the first health-focused Social Impact Bond in the U.S

**Lead Organization:** Social Finance, Inc. and Collective Health

**Financing Scale:** Currently only \$660,000 for pilot. Total costs of Asthma in Fresno are estimated at \$35 Million per year.

**Date Began:** March 2013

**Target Population Size:** 200 Families

**Target Cost Reduction:** Collective Health estimates that asthma-related emergency department and hospital costs currently average \$16,371 per person per year. By reducing those service areas by 30 percent and 50 percent, respectively, we believe we can bring down annual costs by \$7,773 per person, with an anticipated \$1.6 million in savings for the targeted 200 individuals in the first year following the intervention.

**Pay for Success Structure:** None defined yet, but the estimate that a five-year program with 3,500 participants could yield \$27 million in reduced costs.

**Government Payer:** Not yet defined

**Intermediary:** In partnership with Collective Health, Social Finance will create an advisory group to begin planning for a Social Impact Bond to launch after the two-year demonstration.

**Investors:** Pilot funded by the California Endowment

**Service Providers:**

Central California Asthma Collaborative and Clinica Sierra Vista, which both have proven track records in managing this disease, will design and execute the comprehensive asthma management program, and Regional Asthma Management and Prevention will provide technical assistance.

**Measurement:** Collective Health estimates that a five-year program with 3,500 participants could yield \$27 million in reduced costs

**More information available here:**

[Can Pay for Success Reduce Asthma Emergencies and Reset a Broken Health Care System?](#)



THE FORBES FUNDS



## Rikers Island Recidivism Reduction SIB

Summary: Titled the “Adolescent Behavioral Learning Experience” New York City created the first U.S. SIB, an initiative that is providing services to 16 to 18 year olds who are jailed at Rikers Island with the aim of reducing recidivism and related budgetary and social costs.

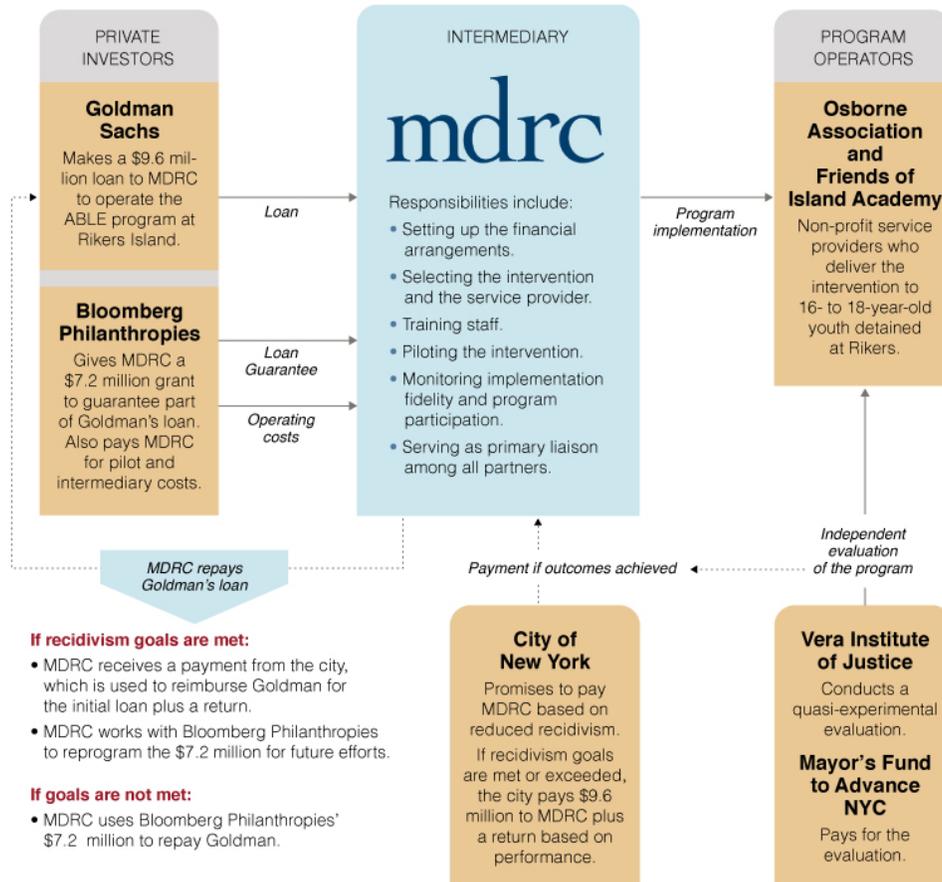


Figure 5 – Source: MDRC Social Impact Bond Site <http://www.mdrc.org/key-partners-nycs-social-impact-bond>

**Lead Organization:** New York City Office of the Mayor initiated the project. MDRC, a nonprofit research organization, is serving as the intermediary, overseeing day-to-day implementation of the project and managing the two nonprofit service providers who are delivering the intervention.

**Financing Scale:** \$9.6 Million

**Target Population Size:** Services are being delivered to approximately 3,000 adolescent men per year, from September 2012 to August 2015.



**Target Cost Reduction:** If the program is able to reduce recidivism rate by 20%, the city would realize \$20.5 million in savings.<sup>31</sup>

**Pay for Success Structure:** The city will make payments that range from \$4.8 million if recidivism is reduced by 8.5 percent to \$11.7 million if recidivism is reduced by 20 percent.

**Government Payer:** New York City Department of Corrections

**Intermediary:** MDRC, a nonprofit research organization, is serving as the intermediary, overseeing day-to-day implementation of the project and managing the two nonprofit service providers who are delivering the intervention.

**Investors:** Goldman Sachs is funding the project's delivery and operations through a \$9.6 million loan to MDRC, Bloomberg Philanthropies is guaranteeing the first \$7.2 million of loan repayment.

**Service Providers:** [Osbourne Association](#)

Measurement: **Vera Institute of Justice conducting evaluation.**

**Recent Update on Project:**

February 24, 2014 - Rikers Island Tackles Rearrest Rate With Country's First Social Impact Bond: <http://www.freeenterprise.com/capital-markets/rikers-island-tackles-rearrest-rate-countrys-first-social-impact-bond>

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<sup>31</sup> Financing Promising Evidence Based Programs, MDRC (December 2013) [\[link\]](#)

## New York State Recidivism SIB

**Summary:** The New York SIB is the nation's first state-sponsored SIB, and the \$13.5 million equity capital raise is the largest to date globally. Importantly, this transaction is also the first-ever SIB offering distributed via a leading wealth management platform, made available to qualified private and institutional investor clients of Merrill Lynch and U.S. Trust and other impact investors. This platform and process successfully attracted more than 40 investors to participate in this transaction. This distribution model is an important development in the field.

The SIB will provide \$13.5 million over a 5.5-year investment life to expand the work of Center for Employment Opportunities (CEO), a world-class provider of evidence-based training and employment programs to recently incarcerated individuals in New York State. This flexible, multiyear funding will cover the full cost of CEO's programmatic work and core costs. CEO's preventative program will assist 2,000 individuals over a four-year service period to break the downward cycle of recidivism while obtaining gainful employment.

**Lead Organization:** NY State Issued an RFP, but Social Finance US was the lead entity organizing the fund.

**Financing Scale:** \$13.5 Million

**Term Length:** Four year service period.

**Target Population Size:** 2,000

**Target Cost Reduction:** If the project achieves all performance measures, the public sector would realize \$7.8 million in savings.

**Payment for Success Structure:** For investors to be repaid, the project must reduce recidivism by at least 8 percent and/or increase employment by at least 5 percent. If the program performs better than the target goals, investors can earn a positive return on their investment that is proportionate to the savings and benefits achieved by the public sector. No payment is made if the program does not meet goals, ensuring that taxpayer dollars are only spent if a meaningful impact was attained. The maximum return possible to investors will be 12 to 12.5 percent annually but a probable return in the high single digits is what has been discussed with investors.<sup>32</sup>

**Government Payer:** NY State

**Intermediary:** Social Finance identified the opportunity, conducted rigorous due diligence to select the provider partners, brought together the public and private sector parties that constitute the partnership and played a central role in negotiating the transaction. It will also provide ongoing performance management throughout the life of the project.

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**32** \$13 Million In Social Investment Bonds Might Pay 12.5%, Non-Profit Times. [\[link\]](#)



**Investors:** More than 40 Investors, made possible by the use of [Bank of America Merrill Lynch](#) distributing this opportunity through its wealth management platform to private and institutional investors via a private placement offering, which was a first in the SIB space. Major investors are: [The Rockefeller Foundation](#) will provide a first-loss guarantee to protect up to \$1.3 million of investor principal, or approximately 10 percent of the total investment. [The Robin Hood Foundation](#), NYC's pioneering poverty fighting organization, committed early to a \$300,000 investment in the transaction.

**Service Providers:** [The Center for Employment Opportunities](#) will receive funding to expand its evidence-based training and employment services program to serve an additional 2,000 recently-released inmates over a four-year period.

**Other Important Consultants:** [Jones Day](#) provided legal expertise in the SIB structuring and contracting process.

**Measurement:** [Chesapeake Research Associates](#) will independently validate the results of a Randomized Control Trial that measures outcomes for program participants; verified social impact will form the basis of outcome payments to investors. This is the first SIB to use a Randomized Control Trial (RCT) in determining outcome payments. The RCT is widely considered to be the most rigorous evaluation methodology for social program effectiveness and is often used in FDA drug trials.

**Summary Information and details can be found here:**

[http://www.nyc.gov/html/om/pdf/2012/sib\\_media\\_presentation\\_080212.pdf](http://www.nyc.gov/html/om/pdf/2012/sib_media_presentation_080212.pdf)

## The Utah High Quality Preschool Program

### **Summary:**

The Utah High Quality Preschool Program delivers a high impact and targeted curriculum to increase school readiness and academic performance among 3 and 4 year olds. As a result of entering kindergarten better prepared, it is expected that fewer children will use special education and remedial services in kindergarten through 12th grade, which results in cost savings for school districts, the State of Utah and other government entities. The first \$1 million investment in this program will enable 450-600 children to attend pre-school this Fall. Private capital from J.B. Pritzker and Goldman Sachs will finance an expansion of the Utah High Quality Preschool Program to provide early education services to up to five cohorts totaling over 3,500 children.

### **Lead Organization:**

United Way of Salt Lake

### **Location:**

Salt Lake City, UT

### **Financing Scale:**

“up to” \$4.6 Million

### **Target Population Size:** 1<sup>st</sup> cohort will target 450-600 children

Ultimate goal is to reach 5 cohorts, totaling 3500 children.

**Target Cost Reduction:** \$2,600 per student is actual cost per annum for Utah State to fund remediation or special education services.

**Pay-for-Success Payments:** Pay-for-Success payments will be made equal to 95% of the avoided costs or \$2,470 per child for every year, Kindergarten through Sixth Grade, to repay the senior and subordinate debt plus a base interest rate of 5.0%. Thereafter, Success Payments will equal 40% of the savings, or \$1,040 per child per year of special education services avoided, to be paid as Success Fees to Goldman Sachs and Pritzker

**Government Payer:** State of Utah

**Intermediary:** United Way of Salt Lake

**Investors:** J.B. Pritzker Family Foundation provided a subordinate loan up to \$2.4mm to United Way of Salt Lake.

**Service Providers:** United Way of Salt Lake, and two school districts.

**Measurement:** Children will take a Peabody Picture Vocabulary Test which is a predictive evaluation that will serve as an indicator of their likely usage of special education and remedial services. Students that test below average and are therefore likely to use special education services will be tracked as they progress through 6<sup>th</sup> grade. Every year that they do not use special education or remediation services will generate a pay-for-success payment.

## Overview of Proposed Safety Net ACO (I-Count)

The Safety Net Accountable Care Organization (ACO) model is designed to improve quality, increase satisfaction and reduce the cost of treating individuals with complex health needs.

The model includes several key attributes:

- Person-focused
- Coordinates and tracks comprehensive services
- Evaluates and provides multi-dimensional care plans
- Provides shared administrative services to monitor and modify the system

The Forbes Funds has labeled this model **I-COUNT**, and is continuing its leadership role as the primary facilitator and oversight entity guiding this initiative through the business and implementation planning process.

**I-COUNT** will work toward forming coordinated networks of community providers that bundle and simplify healthcare services and products for citizen use. At the same time I-COUNT has the goal of helping providers cluster together to negotiate rates so as to lower costs. The ending measurable result is expected to be a reduction of inappropriate or unnecessary emergency department use, reductions in hospital admissions, reductions in hospital readmissions, and improved use of community resources aimed at delivering better healthcare outcomes with the target population segments.

### **Target Population:**

The service will be open to all. However, it will be designed to impact most directly individuals that fit the following characteristics:

- Income at or below 200% of the federal poverty guideline
- Frequently use emergency departments for primary care services.
- High rate of inappropriate hospital admissions
- High rate of readmission due to inadequate follow up.

This population segment is identified as the primary market target because it accounts for an inordinate level of use of our healthcare system, an inordinate level of misuse of emergency care services, and an inordinately high level of use of our social and mental health services. Many of the individuals in question are recipients of Medicaid and others are workers at the low end of the income scale. For these individuals, Federally Qualified Health Centers (FQHCs) are particularly suited as a primary care option because of their cultural sensitivity and geographic alignment to distressed locations.

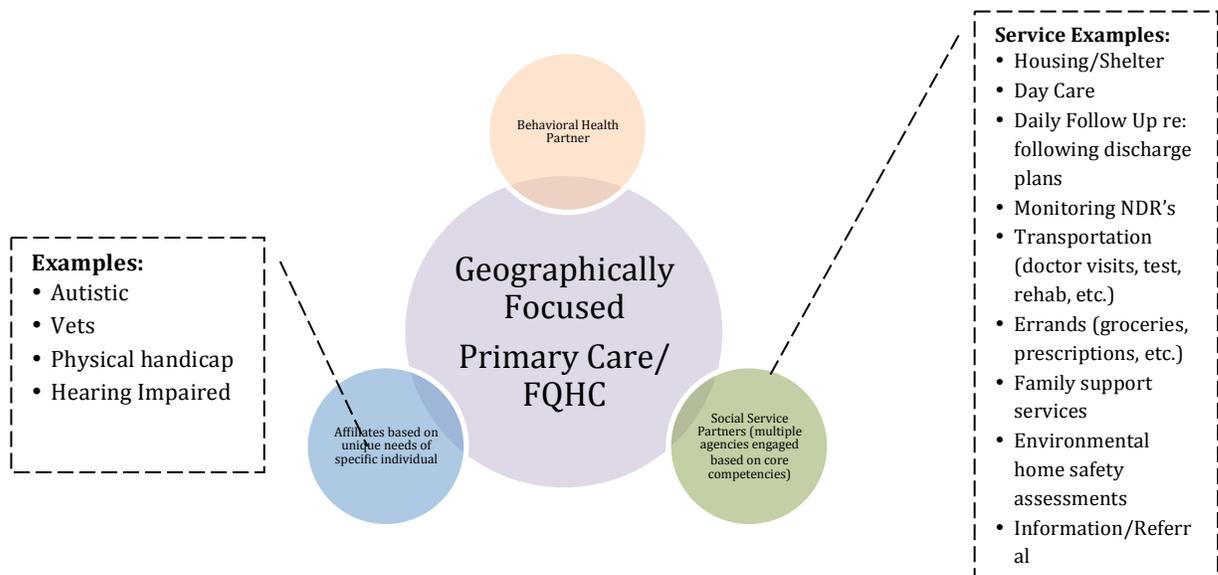
### **Design Overview:**

A hub-and-spoke cluster design (see figure below) will be customized for each service area based on local characteristics, assets and needs. The “spokes” in the model design constitute the clusters of agencies, which will be organized to serve three to four specific demonstration service areas in Allegheny County. The “hub” in the model design constitutes the service pods.

- *Service Pods* will be FQHCs or, where an FQHC is not available, other primary care practices that serve this population. Squirrel Hill Health Center, East Liberty Family Health Care Center, and Mercy Behavioral Health Primary Care Clinic each participated in the Community Action Team and are intended to be actively involved in the service pod design and roll out for this model. The pod of each service delivery cluster will formally partner with a behavioral health care provider and contract for social services and specialty medical care with a cohesive group of social service providers and health specialists.
- *Clusters of Community Service Partners* will be organized around the primary care/FQHC service pods to serve specific neighborhoods or communities.

It is not the intent of this model to displace agencies that are functioning effectively in the community. Rather, the intent is to organize the existing and some new community resources into a locally based person-centered integrated and coordinated system that creates value for the consumer, provider and payer. Thus, the model will draw upon proven strengths of long-standing, trusted and familiar community-based organizations. In effect it will be a concierge approach which bundles services based on the needs of the individual.

#### GRAPHIC REPRESENTATION OF A COMMUNITY FOCUSED SERVICE POD





## Promising Delivery Models Similar to I-Count

Although there are more than 370 Accountable Care Organizations (ACOs) under development nation wide as of late 2013 (See below), there are many promising models that provide learning opportunities for the I-Count team due to a related mission, existing outcome data, best practice use of patient records and EMR/EHR data, and similar target population demographics.

Brief summaries of selected healthcare delivery models that provide learning opportunities, due to similarities in financing or population demographics are included on the following pages.



As of September 2013, there were more than 370 accountable care organizations (ACOs) in the U.S., with approximately 150 more being developed

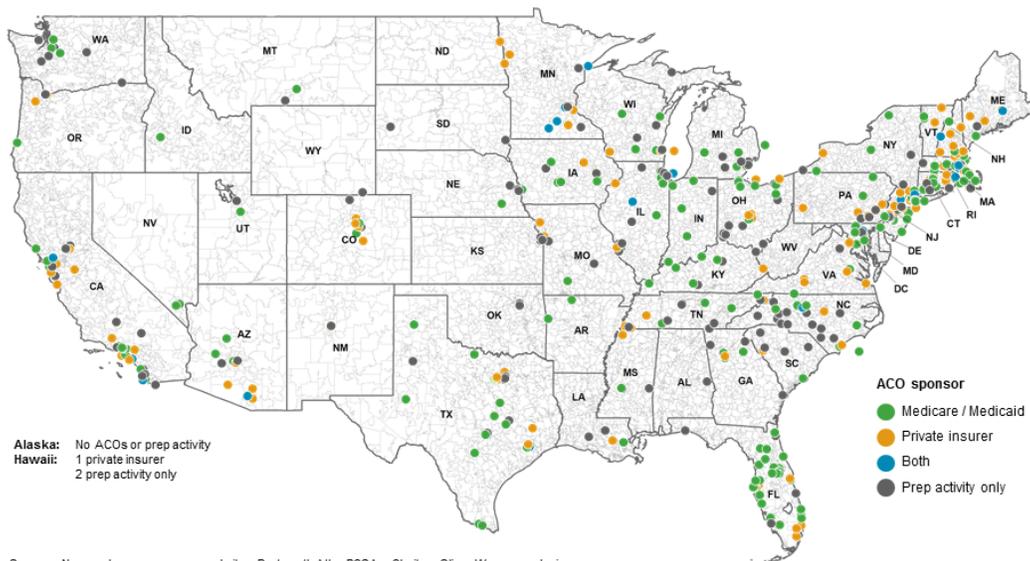


Figure 6 - Source: Oliver Wyman, Tracking the Growth of ACOs - Sept 2013

## Montefiore ACO

**Service Area:** New York City (Bronx) and lower Westchester County, NY

**Summary:** As a “Pioneer” ACO—one of 32 participating in the Centers for Medicare and Medicaid Innovation (CMMI) Pioneer ACO model—Montefiore Medical Center in New York appears to be a trailblazer. In 2013 Montefiore achieved the highest financial performance among the 32 pioneer ACOs, according to initial data reported by CMMI; the savings represent a 7 percent reduction in the cost of care when compared against the benchmark CMMI established for more than 23,000 patients attributed to physicians in the Montefiore ACO. [[More information](#)]

**Interesting note:** [Heavy focus on mental health screening.](#)

*“...Highest utilizers are often patients with comorbid general medical and psychiatric conditions. “We have found that a third of our patients have had some form of diagnosed behavioral disorder in the past three years,” he said. “That one-third has 50 percent to 60 percent higher costs in utilization than patients who don’t have those disorders.”*

## Vermont Medicaid Shared Savings Pilot

**Service Area:** State of Vermont

**Website:** <http://gmcbboard.vermont.gov/>

**Summary:**

The Vermont Medicaid Shared Savings Program (SSP) is a performance-based contract which governs the calculation and distribution of financial incentives, via shared savings, to Accountable Care Organizations (ACOs) that proactively invest in new care management programs and redesign care processes to improve the quality, efficiency and effectiveness of care delivered to Medicaid beneficiaries. The Vermont Medicaid ACO pilot will be an Agency of Human Service initiative administered by the Department of Vermont Health Access (DVHA)

**Full resource details:**

Vermont Medicaid ACO Shared Savings Program (SSP) Pilot Compilation of Pilot Standards Draft as of August 20, 2013 [\[link\]](#)

## Oregon ACO System

**Service Area:** State of Oregon

**Website:** <http://www.oregon.gov/OHA/healthplan/Pages/index.aspx>

### Summary:

Oregon's CCO program began in September 2012 with the aim of providing comprehensive, coordinated care for enrollees in the Oregon Health Plan through the integration of health services, reduction of administrative overhead and improvement of patient-centered care.

**Interesting Note:** [Oregon's Progress Report](#).

The state is tracking 17 CCO incentive metrics and 16 additional state performance metrics. It is also tracking financial data, displayed both by cost and by utilization. By using quality, access and financial metrics together, the state can determine whether CCOs are effectively and adequately improving care, making quality care accessible, eliminating health disparities, and controlling costs for the populations that they serve.

Data from the first nine months of 2013 compared to 2011 baseline data:

- Emergency visits by CCO members **decreased 13 percent**.
- Hospital admissions for congestive heart failure **fell by 32 percent** for CCO members. Admissions for chronic obstructive pulmonary disease **fell by 36 percent** and those for asthma **decreased 18 percent**.
- Enrollment in patient-centered primary care homes grew by 51 percent since 2012, the baseline year for that program. The Oregon Health Program's spending on primary care is also up 18 percent.
- The percentage of adults readmitted for any reason within 30 days of their hospital discharge — dropped from a baseline of 12.3 percent to 11.3 percent in the first nine months of 2011.

## Camden Coalition of Healthcare Providers (CCHP)

**Service Area:** The City of Camden, NJ

**Website:** <http://www.camdenhealth.org/>

### Summary:

The Camden Coalition of Healthcare Providers is a non-profit organization committed to improving the quality, capacity, and accessibility of the healthcare system for vulnerable populations in the City of Camden, New Jersey. Founded in 2002, the board of the organization includes local hospitals, independent practitioners, behavioral health providers, and local federally qualified health centers. The Coalition currently operates five projects: 1) the Camden Health Database with claims data from all three local hospitals, 2) a Citywide Care Management Project targeting fragile and vulnerable patients who over-utilize the local emergency rooms, 3) a Diabetes Collaborative assisting ten local primary care practices to become patient centered medical homes using the chronic care model, 4) a Health Information Exchange providing real-time exchange of clinical information that will be operational in a few months, and 5) a Violence Intervention Program providing services to Camden youth visiting local hospitals after an assault

### Interesting Notes:

1. Announced January 14, 2014 - BlueLabs, the analytics, data, and technology company formed last year by senior members of the Obama for America analytics team, will be partnering with the Camden Coalition of Healthcare Providers (CCHP) to build a first-of-its-kind open source dashboard, called the "[Camden Health Explorer](#)," which will be funded by a \$450,000 grant awarded to the Camden Coalition as a winner of the John S. and James L. Knight Foundation's Knight News Challenge: Health.

2. CCHP is currently deploying a larger scale shared savings model with UnitedHealthcare and a network of providers.

"The Camden Coalition is establishing a Medicaid ACO in one of the poorest cities in the country, working with UnitedHealthcare, three hospitals, two federally qualified health centers and eight primary care practices to coordinate care across settings, including members' homes. The ACO aims to redirect improper ED utilization and preventable hospitalizations to appropriate and lower-cost care settings. That will be accomplished through care management and improved access, according to an operating agreement between United Healthcare and CCHP."

See more at:

<http://managedhealthcareexecutive.modernmedicine.com/managed->



[healthcare-executive/news/states-move-forward-unique-aco-models-medicaid?id=&sk=&date=&pageID=2#sthash.hpPNRuXd.dpuf](https://www.healthcare-executive.com/news/states-move-forward-unique-aco-models-medicaid?id=&sk=&date=&pageID=2#sthash.hpPNRuXd.dpuf)

## Community Care of North Carolina (CCNC)

**Service Area:** State of North Carolina

**Website:** <http://www.communitycarenc.com/>

### Summary:

CCNC is a community-based, public-private partnership that takes a population management approach to improving health care and containing costs for North Carolina's most vulnerable populations. Through its 14 local network partners, CCNC creates "medical homes" for Medicaid beneficiaries, individuals eligible for both Medicare and Medicaid, privately-insured employees and uninsured people in all 100 counties.

### Interesting Notes:

1. CCNC is a very early ACO-like network that has shown the [lowest Medicaid spending growth in the country since 2007](#).
2. CCNC claims to have saved the [North Carolina and Medicaid nearly \\$1 billion over the past 15 years](#). The program, which features some aspects of accountable care, manages the primary care of Medicaid patients through medical homes.

## Hennepin Health

**Service Area:** Hennepin County, Minnesota

**Website:** <http://www.hennepin.us/healthcare>

**Summary:** [[From Hennepin Health Website](#)]

### **“Centered around patients’ needs, Hennepin Health serves the 5 percent who use 64 percent of medical resources”**

Hennepin Health is an innovative healthcare delivery program that was launched in January 2012 as a collaboration between Hennepin County Medical Center, NorthPoint Health and Wellness, Metropolitan Health Plan (MHP), and the Human Services and Public Health Department of Hennepin County.

Hennepin Health serves adults in Hennepin County who are earning at or below 75 percent of the Federal Poverty Guideline (133 percent as of January 1, 2014) and who do not otherwise qualify for Medical Assistance. Members of Hennepin Health fit these demographics: single adult, ages 21-64, no dependent children. A Hennepin Health candidate might also be jobless, homeless, have chemical addiction or mental health problems, and be socially isolated.

Hennepin Health seeks to deliver timely, individualized, and comprehensive care. In addition, the program aims to decrease unnecessary crisis care expenditures (e.g. emergency department visits, inpatient admission visits) by focusing on primary care and preventative services.

Since its inception in January 2012, the rate of Hennepin Health member emergency department visits and inpatient admissions has declined. By avoiding costly acute care and improving quality, the program has been able to invest resources into new initiatives — such as a supported vocational services program and a proposed sobering center — that fill medical, social, and behavioral health gaps within Hennepin County. These “reinvestment initiatives” are expected to yield cost savings in the future.

### **Interesting Notes:**

#### [Details of Hennepin Health Activities.](#)

- Summary of recent Hennepin Health activities below:
  - They have assigned a single accountable individual to each member; this person has primary accountability for care management and coordination and provides a single point of contact for members. Successfully assigned an SAI to the top 20 percent highest utilizers in Hennepin Health.
  - They have launched a county-operated intensive case management team that will identify and respond to the needs of Hennepin Health members with serious and persistent mental illness.



- They have implemented a supported vocational services initiative for members with at least one behavioral health hospitalization in the past year. Offered members career and financial counseling and successfully placed individuals in new jobs.
- Implemented an emergency department "in-reach" initiative. Linked high utilizers of the emergency room and/or other crisis services to primary care and non-emergent behavioral health services.
- Analyzing data from more than 1,200 Life Style Overview surveys. Identified social determinant areas that Hennepin Health members perceive as having a high potential of improving their quality of life, such as food, social support, employment and medications.



## Key Questions

- Many other safety net focused ACOs seem to be working fine w/o SIB funding structure. What will the upfront capital allow us to do that others cannot?
- Will Department of Public Welfare or Federal Government be willing to finance this SIB? If so, would the procurement process allow a SIB structure or would we have to competitively bid for service providers?
- Will the risk inherently involved in the quickly evolving healthcare marketplace cause preclusively high investor return expectations?
- Is a small population target of high-cost super-utilizers more effective for a SIB funded pilot than a larger scale population due to attribution challenges?
- Are our preferred service providers currently within another ACO, which may preclude their involvement in our ACO under current CMS guidelines?
- How will we ensure our services receive clear attribution linked to needed outcomes in a large population?



## Resources

### Social Impact Bond Research and Helpful Publications

- **Rockefeller Foundation:**
  - “Building a Healthy & Sustainable Social Impact Bond Market: The Investor Landscape”  
[Link through Rockefeller Foundation](#)
- **Harvard Kennedy School - Social Impact Bond Technical Assistance Lab (SIB Lab):**
  - <http://hks-siblab.org/>
- **Nonprofit Finance Fund - Pay for Success Learning Hub:**
  - Main page: <http://payforsuccess.org>
  - Rapid Suitability Questionnaires: <http://payforsuccess.org/provider-toolkit/rapid-suitability-questionnaires>
- **Goldman Sachs – Urban Investment Group:**

In 2012, Goldman Sachs was the first financial institution to invest in SIBs in the US to finance preventative services for youth on Rikers Island

  - <http://www.goldmansachs.com/what-we-do/investing-and-lending/urban-investments/case-studies/social-impact-bonds.html>
- **McKinsey Global - Social Finance Office**
  - <http://mckinseysociety.com/sib/>
  - SIB Q&A: <http://mckinseysociety.com/social-impact-bonds-qa/#q3>
  - Social Impact Bonds: [http://mckinseysociety.com/downloads/reports/Social-Innovation/McKinsey\\_Social\\_Impact\\_Bonds\\_Report.pdf](http://mckinseysociety.com/downloads/reports/Social-Innovation/McKinsey_Social_Impact_Bonds_Report.pdf)
- **Social Finance:**
  - Advancing Social Impact Measurement to Build an Asset Class: The Appeal of Social Impact Bonds: [http://www.frbsf.org/community-development/files/Sp2012\\_Scherer\\_Schenk.pdf](http://www.frbsf.org/community-development/files/Sp2012_Scherer_Schenk.pdf)
  - Social Finance White Paper: Foundations for Social Impact Bonds :  
[http://payforsuccess.org/sites/default/files/social\\_finance\\_white\\_paper\\_2014.pdf](http://payforsuccess.org/sites/default/files/social_finance_white_paper_2014.pdf)
- **RAND Corporation:** Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough:
  - [http://www.rand.org/pubs/technical\\_reports/TR1166.html](http://www.rand.org/pubs/technical_reports/TR1166.html)
  - Note pg 15 contractual negotiation map
- **Social Impact Bonds in Nonprofit Health Care:** New Product or New Package? April 2013, Mark Pauly, Ashley Swanson - University of Pennsylvania:
  - <http://www.nber.org/papers/w18991#fromrss>
- **Emma Thompkinson Social Impact Blog:**
  - <http://emmatomkinson.com/>



## Experienced Consultants:

**Social Finance, Inc.** is a nonprofit organization that is dedicated to mobilizing investment capital to drive social progress. The organization focuses on structuring and managing impact investments that will unlock capital to fund effective solutions to persistent social problems and drive an outcomes-focused social sector. The firm develops Social Impact Bonds, innovative multi-stakeholder partnerships that scale performance-driven social programs, create taxpayer efficiencies, and generate financial returns for investors.

**Collective Health** is a Connecticut-based social enterprise launched in January 2011 to address the underlying causes of poor health and sustainably reduce health care costs. The organization provides health analytics, evidence-based programs, and financing to insurers, employers, health care providers, governments and communities to improve health and lower costs.

**Merrill Lynch – Private Banking and Investment Group:** Guillermo MacLean, a director with Merrill Lynch Wealth Management, is among those looking to use social impact bonds not just to help governments fund worthy programs but also to underwrite causes wherever they exist. Having spent years working to set up similar financial structures to improve housing and sanitation in various parts of Asia, Africa and South America, including his native Peru, MacLean is preparing to put out the word to major donors — and smaller givers whose pooled money would amount to large sums — to enter into commitments to put up sums of money that will be awarded upon the realization of similarly elusive and compelling social goals.

**Jones Day:** Jones Day advised Social Finance, Inc. in its role as intermediary in the recently announced New York State pay-for-success program (also known as a social impact bond). Very few of these programs have been launched and this is the first such program that involved sales of investments to unaffiliated investors. This New York State project will be funded in part by a grant from the U.S. Department of Labor and in part by a grant from New York State.

**Foundation Strategy Group (FSG):** a nonprofit consulting firm specializing in strategy, evaluation, and research that has assisted in evaluation for a number of Social Impact Bond projects in the US. Founded in 2000 as Foundation Strategy Group, they have completed more than 600 consulting engagements with many of the world’s leading corporations, nonprofit organizations, and charitable foundations.

**Chesapeake Research Associates** will serve in NY State as the independent evaluation consultant to ensure that outcomes are measured according to the specified methodology designed to determine the success of the program.

## RFP/RFI Models:

Links compiled by the Harvard Kennedy School Social Impact Bond Technical Assistance Lab.

### Federal Government

- [Department of Labor Pay for Success Solicitation for Grant Applications](#)
- [Department of the Treasury Request for Information](#)

### State Governments

#### *Colorado*

- [Request for Information – September 2013](#)

#### *Connecticut*

- [Request for Information – November 2013](#)
- [Request for Proposals – February 2014](#)

#### *Illinois*

- [Request for Proposals-September 2013](#)
- [Request for Information – May 2013](#)

#### *Massachusetts*

- [Request For Information – May 2011](#)
- [Request For Responses \(homelessness – intermediaries\) – January 2012](#)
- [Request For Responses \(homelessness – service providers\) – January 2012](#)
- [Request For Responses \(youth – intermediaries\) – January 2012](#)
- [Request For Responses \(youth – service providers\) – January 2012](#)
- [MA Request For Responses \(ABE – intermediaries\) – February 2014](#)
- [MA Request For Responses \(ABE – service providers\) – February 2014](#)

#### *Minnesota*

- [Request For Information-Service Providers – June 2012](#)
- [Request For Information-Third Party Contractors – June 2012](#)
- [Request For Responses \(workforce development services\) – November 2012](#)
- [Request For Responses \(supportive housing services\) – November 2012](#)

#### *Michigan*

- [Request for Information-September 2013](#)

#### *New York*

- [Request For Information – September 2012](#)
- [Request For Proposals \(Employing High Risk Formerly Incarcerated Persons\) – July 2012\\*](#) \*Please note that “Appendix NOA” referred to in this RFP is the US DOL Pay for Success SGA, available above.



- [Request For Proposals \(Early Childhood Development & Child Welfare, Health Care, and Public Safety\) – July 2013](#)
- [Detailed Summary of the New York State Pay for Success Project – March 2014](#)

*South Carolina*

- [Request For Information – September 2013](#)

**Local Governments**

*Denver*

- [Request for Information – September 2013](#)

*Cuyahoga County*

- [Request For Responses – October 2012](#)

*New York City*

- [Press Release – August 2012](#)
- [Briefing Slides](#)



THE FORBES FUNDS



275 Grandview Avenue  
Suite 201  
Camp Hill, PA 17011

May 8, 2015

Ms. Traci Anderson  
Assistant Counsel, Governor's Budget Office  
333 Market Street, 18<sup>th</sup> Floor  
Harrisburg, PA 17101-2210

Re: Pay for Success Initiative RFI # 0B 2015-1

Dear Ms. Anderson:

Thank you for the opportunity to submit IBM's response to the Request for Information # 0B 2015-1 Pay for Success Initiative for the Commonwealth of Pennsylvania

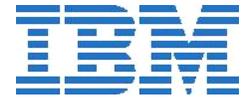
IBM thoughtfully considered the questions posed by the Commonwealth in the RFI and responded accordingly. IBM looks forward to working with the Commonwealth through the design, implementation and analysis of your Pay for Success Initiative.

Please don't hesitate to contact me if there is any further information IBM can provide.

Sincerely,

*Dom Cottone*

Dom Cottone  
Client Executive, Commonwealth of Pennsylvania  
Public Sector  
[cottone@us.ibm.com](mailto:cottone@us.ibm.com)  
(410) 332-2523



**Request for Information**  
**OB 2015-1**

**Regarding the Pay for Success Initiative**

**Response Date: May 8, 2015**

Dom Cottone  
Client Executive, Commonwealth of Pennsylvania  
Public Sector  
[cottone@us.ibm.com](mailto:cottone@us.ibm.com)  
(410) 332-2523





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## Table of Contents

<i>Section</i>	<i>Page</i>
<b>Executive Summary .....</b>	<b>2</b>
<b>Part I - IBM's Perspective on Pay for Success Initiatives.....</b>	<b>3</b>
Background.....	3
What is Pay for Success? .....	3
What Is the Potential of Using a PFS Approach?.....	5
What are the Challenges in Using a PFS Approach?.....	6
What Are Some of the Potential Models for PFS Projects? .....	6
IBM's Perspective on Design Issues Related to the PFS Initiative .....	7
Role of the Commonwealth .....	7
Structures and Processes .....	8
Authority to Act .....	8
What Is IBM's Interest in the Success of PFS Initiatives? .....	9
<b>Part II -- Responses to the Questions in the RFI.....</b>	<b>11</b>
❖ Question 1: What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania? .....	11
❖ Question 2: What considerations should the Commonwealth take into account in structuring Pay for Success contracts? .....	12
❖ Question 3: What outcomes should the Commonwealth prioritize in Pay for Success contracts?.....	12
❖ Question 4: Are there opportunities for the Commonwealth to partner with local government entities on Pay for Success contracts that achieve savings and benefits at multiple levels of government? .....	13
❖ Question 5: What lessons can the Commonwealth learn from the experience in other states that have implemented Pay for Success contracts? .....	13
❖ Question 6: What other information would be useful to the Commonwealth of Pennsylvania in preparing a formal Request for Proposals for Pay for Success contracts? .....	14

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## 1 Executive Summary

We applaud the Commonwealth of Pennsylvania's interest in the Pay for Success (PFS) concept as an innovative approach to meeting citizens' needs while reducing the risk to taxpayers of potentially ineffective efforts. The Pay for Success approach provides governments an alternative funding model that reduces the upfront investment, but introduces new complexities relating to the management and oversight. However, we note that the Commonwealth's RFI is silent on how it plans to organize its cross-agency approach to determine individual project feasibility, design, and delivery. This is especially important to address if there is intent to conduct PFS efforts beyond two or three pilot efforts.

Our experience in large-scale project design and implementation tells us that it is important to have clarity in the roles, responsibilities, governance, design, and decision-making processes before proceeding. We see a need for further definition of the overall governance model that will be needed to operationalize this initiative. In order to help Commonwealth leaders think this through, we offer what we consider to be several prerequisites of success before moving to the stage of actually releasing an RFP.

It will take significant investment of resources and effort to put a Pay for Success structure and partnership(s) into place. There are many things that the Commonwealth must have in order to succeed:

- Partners with the desire and resources to invest;
- A structured model to evaluate the partners, programs and impact;
- A system of governance for those tasked with oversight;
- Data and methodologies to analyze the quality and measure outcomes from the services providers; and last but not least
- A facilitated communication process that enables all stakeholders to keeps all parties in the process moving in a positive direction and on track.

If the Commonwealth envisions expanding its outcomes-oriented approach to service purchasing and delivery beyond its Pay for Success initiative, for example to performance-based contracting and other similar vehicles, such an investment would be worthwhile.

IBM can bring its substantial expertise in large-scale transformation in the public and private sectors to help the Commonwealth create a performance-driven Pay for Success environment with its industry-recognized subject matter expertise, industry consultants who can:

- Define the data, and construct the analysis and governance models;
- Design the analysis methodology and
- Assist with the communication process.

IBM, an industry leader in business analytics, can help the Commonwealth field the right analytics tools and business process consultants. IBM invites you to discuss our point of view and expertise.

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## Part I – IBM’s Perspective on Pay for Success Initiatives

### Background

In 2010, the British government launched an innovative funding scheme, which it called Social Impact Bonds, where private sector investors committed funding upfront to pay for improved social outcomes that result in public sector savings. The investors were repaid by the government only when the outcomes were determined to have been achieved. Since that time, this funding scheme has attracted substantial attention in the U.S. where it and many variations are being piloted.

### What is Pay for Success?

“Pay for Success” (PFS) is a broader umbrella term that encompasses social impact bonds, along with variations including: “pay for performance,” “performance contracting,” “outcome-oriented contracts,” and “performance-based grants.”

There is no commonly agreed-upon definition. For example, the U.S. Treasury limits it to its financing aspects, stating: “Pay for Success is an innovative financing model that leverages philanthropic and private dollars to fund services up front, with the Government paying after they generate results. Unlike programs structured around processes rather than measurable results, Pay for Success provides greater flexibility for State, local and tribal governments to implement evidence-based solutions, carefully test promising innovations, and scale programs that work.” The Obama Administration has declared the broader Pay for Success approach to be a key second term initiative and has committed funding for its development and implementation.

PFS is a type of performance-based contracting that is used to support the delivery of targeted, high-impact preventive social services where an intervention at an early stage can reduce the need for higher-cost services in the future. For example, experts believe that preventing asthma attacks in at-risk children reduces emergency room visits and hospitalization, which are more costly than the preventative services. When the government pays for the preventative services only if desired set of specified outcomes are achieved this reduces the risk to the government that the proposed intervention may not work. Thus, the government only “pays for success.”

While the concept is compelling and there is substantial public and philanthropic interest, the evidence of its success so far is not clear, largely because the concept is so new. As of December 2014, there were seven PFS projects underway in the U.S. These projects are anticipated to operate over a 3 to 7 year period before payments are made -- and the oldest is only two years old. However, dozens are currently under development.

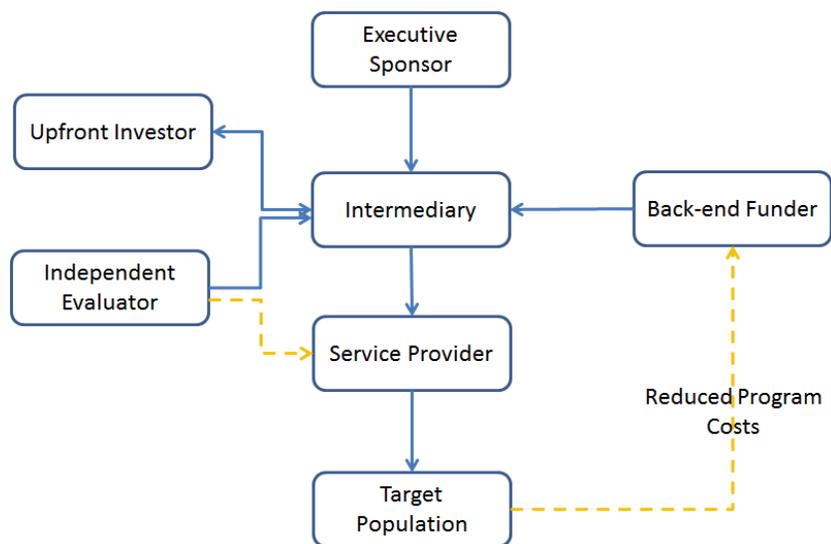
Because of the substantial interest, a number of advocacy and research groups have outlined key elements and the stages of development for individual PFS projects. Foundations, think tanks, and the federal government are in the process of developing extensive technical assistance resources for PFS initiatives.

What are the key elements of a PFS project? Based on experiences to date, there are a series of key elements to every PFS project. The Green & Healthy Homes initiative in Baltimore, to reduce the instances of emergency room visits by at-risk asthmatic children, is a good example:

- *An Executive Sponsor* who sets the overall “rules of the game” and the scope of projects (e.g., healthcare, education, criminal justice, etc.). The executive sponsor may work

independently or directly with the Intermediary and may provide cross-governmental coordination around data sharing, waivers of government contracting or budgeting procedures, etc.

- *A defined Intervention* to be applied to a specified problem (e.g., reducing allergens in the home environment and having caseworkers provide preventative education).
- *An Intermediary*, who identifies qualified service providers for the intervention, conducts feasibility assessments regarding the deal, brokers the financing, engages legal and actuarial assistance, negotiates the contract and data sharing agreements, oversees the independent evaluator, and determines when progress and final payments are made. The intermediary also identifies a dispute mediation arbitrator for when disputes arise.
- *A Service Provider*, who works with a targeted set of families and ensures the removal of allergens from the homes of affected children, including replacing contaminated carpeting.
- *An Up-Front Investor*, who sees a return-on-investment from funding the intervention. The Investor can be a private sector financial firm, such as Goldman Sachs, a foundation, a private investor or a governmental entity.
- *A Back-End Funder*, which could be the government-run Medicaid program or other entity. In the case of the Green & Healthy Homes initiative, the Funder is Johns Hopkins University Hospital, which has an incentive to reduce the number of preventable emergency room visits and finds value in funding less-costly preventative measures.
- *An Independent Evaluator*, who develops a rigorous evaluation protocol to measure the impact of the intervention and calculates the resulting impact, effectiveness, and savings. The evaluator collects and analyzes the data, reporting to the Intermediary.



**Figure 1: Key Elements in a PFS Project**

The Nonprofit Finance Fund and McKinsey & Co have developed feasibility assessment/maturity [templates](#) to assess the readiness of the key stakeholders before a project is approved for funding and implementation.

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What are the key stages in developing and implementing a PFS project? The Urban Institute outlines five key stages in the development of a PFS project:

- **Value a PFS project’s potential return-on-investment.** For each stakeholder, assess the risk associated with achieving those returns, and set agreed-upon performance targets.
- **Develop the deal and incentives.** Conduct feasibility assessments. Negotiate the roles and responsibilities of each of the key stakeholders. This would include definitions of what constitutes success, responsibilities for collecting data, and the payment structure.
- **Develop the logic model,** the level of technical assistance necessary, and the implementation plan to deliver the specified programmatic results.
- **Deliver the services,** using the logic model.
- **Evaluate the program** to determine if it achieved the agreed-upon performance targets. Ideally, a randomized control trial with an equivalent target population would confirm the effectiveness of the intervention.

### What Is the Potential of Using a PFS Approach?

There are several reasons the PFS concept has captured the imaginations of many policy advocates on a bipartisan basis. It creates a focus on outcomes, not programs, policies and activities. It creates access to new sources of funding, outside of constrained government budgets. And it offers strong accountability for outcomes, in that governments only pay for what works, thus shifting the risks of program failure to other stakeholders.

The PFS approach allows resources/interventions to be applied more flexibly to the root causes of problems wherever they are in the policy system. This is especially important when the root cause falls within the purview of a different agency than that of the outcome. For example, in the Baltimore Green & Healthy Homes initiative, reducing hospital emergency admissions due to asthma attacks triggered by unhealthy home environments benefits the healthcare system by reducing costs. However, the Medicaid program – which benefits from lower costs – typically cannot reimburse preventive services, such as home carpet cleaning, asbestos removal or housing. The PFS approach creates a way to address these programmatic restrictions, by focusing on the “purchase” of an outcome that result in savings for the broader governmental system (and increases the quality of life for the affected child).

In addition, advocates of the PFS approach see it as an opportunity to attract new monies to support social services via private sector capital, which is a larger pool of funding than traditionally available from philanthropists. For example, if at some point Community Reinvestment Act funding (where banks are required to invest in their local communities) were to be deemed an eligible funding pool, then up to \$200 billion in resources might become available for PFS projects (the concern of some advocates, though, is that these monies are already being invested in local communities and that PFS projects could displace existing investments).<sup>1</sup>

Finally, PFS provides a form of accountability because payment by the Back-End Funder occurs only if the project is deemed to be successful in meeting its agreed-upon outcomes. Otherwise, the Up-Front Funder – generally in the private sector – bears the costs and associated risks.

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<sup>1</sup>Sonal Shah and Kristina Costa, “Social Finance: A Primer.” Center for American Progress (November 5, 2013).

It is important to note that a PFS initiative is an interim financing mechanism for a project and is not a “permanent state of being” for a programmatic intervention. A PFS initiative would typically be used to test out an innovative intervention approach. Once it proves that a certain level of social or financial return is achievable, then it can transition to a more dedicated funding stream (however, since the PFS approach is so new, this has yet to be determined how this transition would work).. The PFS project has the potential to provide the data necessary to revise policy where necessary to enable agencies to either increase the breath of services covered or move to a cross agency model of service delivery.

### **What are the Challenges in Using a PFS Approach?**

Because the concept is so new, there is no single, proven approach for structuring PFS projects. While this offers opportunities for great innovation, projects to date have been administratively complex arrangements that are not yet scalable or necessarily repeatable.

The administrative complexity in developing, implementing, and evaluating PFS initiatives has been costly in terms of time and money. To date, it is unclear if these costs are higher or lower than the amount of savings to be achieved. By developing a repeatable format, Pennsylvania would be able to reduce the impact of the administrative complexity and the associated costs.

There are lessons that can be learned from other public-private partnership initiatives – the development of the state health information exchanges, the “All Payer Database,” and even infrastructure and technology projects. In each of these cases, there are complexities that arise around governance (especially when government cedes operational control over projects) and accountability (when there is too great an emphasis on processes vs. end results). The use of contracts, service level agreements, interim progress payments, score-cards, and the careful selection and monitoring of projects help ensure service providers are not “skimming” the target population for only those who are easiest to serve.

In addition, the Executive Sponsor needs to be careful that they do not set too high of a threshold for Service Provider qualifications or too high of a standard of evidence, because these elements might disqualify or discourage potential applicants by creating barriers that they could not surmount. Allowing the Intermediary to develop appropriate feasibility assessments, without a substantial amount of preconditions being imposed by the Executive Sponsor, may be an important element of the PFS initiative’s design. For example, the draft legislation for the Commonwealth seems to provide more flexibility in this regard than the pending bills for PFS in Congress.<sup>2</sup>

### **What Are Some of the Potential Models for PFS Projects?**

There are a number of different variations in the design of a PFS initiative. The UK’s Social Impact Bond initiative, on which the US PFS initiatives are based, focuses on preventive services in different social policy arenas – homelessness, elderly hospice, mental health, recidivism, gun violence, child protection, etc.

However, there are lessons that can be learned from similar policy tools in the US that have been in use over the past two decades, such as performance-based contracting (largely in the

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<sup>2</sup> See “The Social Impact Partnership Act,” H.R.1336, Introduced March 4, 2015; and S.1089, Introduced April 27, 2015.

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environmental arena) and public-private partnerships (largely in the public infrastructure arena). In the private sector and technology arenas, there is a great deal of expertise in the development and use of Service Level Agreements.

In these different models, the focus is typically on agreed-upon service levels and funding is directly sourced from the Funder. However, in public-private partnerships involving infrastructure, the funding comes from the Investor and the government has largely ceded control (e.g., toll roads).

Understanding the pros and cons of these different models, their governance structures, and their contract, payment, and monitoring provisions can be helpful in the design of the Pennsylvania PFS initiative.

### **IBM's Perspective on Design Issues Related to the PFS Initiative**

The focus of PFS initiatives to date in the U.S. has been on individual projects. The Commonwealth of Pennsylvania's RFI seems to suggest that it proposes to create a state-wide approach that promises to become a scalable, repeatable model for use in at least the five high-priority areas mentioned in the RFI, largely with a focus on preventive social or community services.

With the assumption that the state is interested in more than just piloting a small handful of disparate projects, IBM suggests that a strategy should be put in place for this initiative to go to scale and to do so in a way that is cost effective. The RFI is broad and does not offer a description of key design elements of the system that will be needed to oversee and implement a range of projects. Similar governance models used in other sectors may serve as potential inspiration for the creation of such as governance framework.

Before undertaking a broad RFP for multiple PFS projects (or possibly in parallel to an RFP for one or two targeted pilot projects), the state may want to consider addressing issues related to its role, the structures and processes it will use for making decisions, and the authorities that may be needed by any governing body to make the initiative effective.

### **Role of the Commonwealth**

There are many questions the Commonwealth must consider when determine its role in a Pay for Success initiative. How does the Commonwealth view its role in PFS? The RFI mentions in passing that "the state selected the programs and sets targets." But how is that done and is that the most appropriate role? For example, should the state select one of the high-priority areas and an Integrator and allow the Integrator to undertake the rest of the work of determining feasibility, the interventions that have the most promise for success, etc.?

Should the Commonwealth be involved in the individual projects or, instead, serve as a catalyst for the overall concept of pay-for-success? For example: Does the Commonwealth choose among the winners and losers, or will this be left to the intermediary? Does the Commonwealth engage in the contract negotiations for individual projects or will that be left completely to the discretion of the Intermediary?

If the former, should the Commonwealth encourage "a thousand flowers bloom" approach to determine where the levels of interest, existing capacity, or demand for services lay? Or should

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it target one or two high-priority areas and use a tiered evidence approach, and ramp up its involvement over time?

If the latter, should its role be to:

- Invest in non-profit readiness?
- Fund the upfront costs of feasibility studies, program and contract design, etc?
- Fund the upfront costs of service delivery, with hopes of repayment?
- Be a hub for lessons learned/knowledge sharing across projects (and possibly in conjunction with other entities)?

Finally, how will the Commonwealth expect accountability from the Intermediary (and other participants in any particular project, including the service provider and funder) – will it only assess the end results, or will it expect adherence to various governmental processes (e.g., small business set-asides, minority hiring goals, or other executive directives or procurement provisions)?

### Structures and Processes

Whether the state chooses to be highly involved or takes a hands-off approach, it should create a governance framework to oversee the effort. For example, at the Federal level, this is often done via an interagency council of high-level officials with a small staff that comprises a program management office. But at the state level, such a group might include a broader range of stakeholders – relevant state agencies, the Legislature, commercial and nonprofit organizations, and maybe even unions. Recently-proposed Federal legislation for a PFS initiative includes such an interagency council that might serve as useful inspiration. Issues that should be addressed in designing such a framework might include:

- Insure agency-level council members are not limited by their own agencies’ policies and procedures (e.g., data sharing policies, contracting provisions) and have the authority to streamline the approval process for individual PFS projects.
- Create a staff-level “deal hub” of government agency partners, comprised of domain experts from the agencies unencumbered by the data privacy and contracting provisions of their agencies.

In regard to both the council and the deal hub staff:

- Would they be responsible for conducting broad feasibility assessments regarding data maturity, knowledge of successful evidence-based interventions, and a market survey of qualified providers?
- Should the interagency council work jointly with, or separately from, the Intermediary which would have financing and programmatic responsibilities?
- Who would be responsible for employing and paying the third party independent evaluator?

### Authority to Act

A third area for consideration may be determining the state’s authority to be a “barrier buster” whenever roadblocks are encountered in the design and implementation of individual PFS

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projects. Ideally, this authority would be vested in any steering function, as described above. This would include:

- Access to data across organizational boundaries
- Relevant waivers from federal, state, local acquisition standards/requirements

In terms of the Independent Evaluator, who ultimately judges whether payments are made:

- Would the interagency council or the Integrator be responsible for approving the evaluation methodology to be used?
- Would the evaluator be a state agency or contracted with an outside vendor or university?
- Would the evaluator report to the interagency council or to the Intermediary?

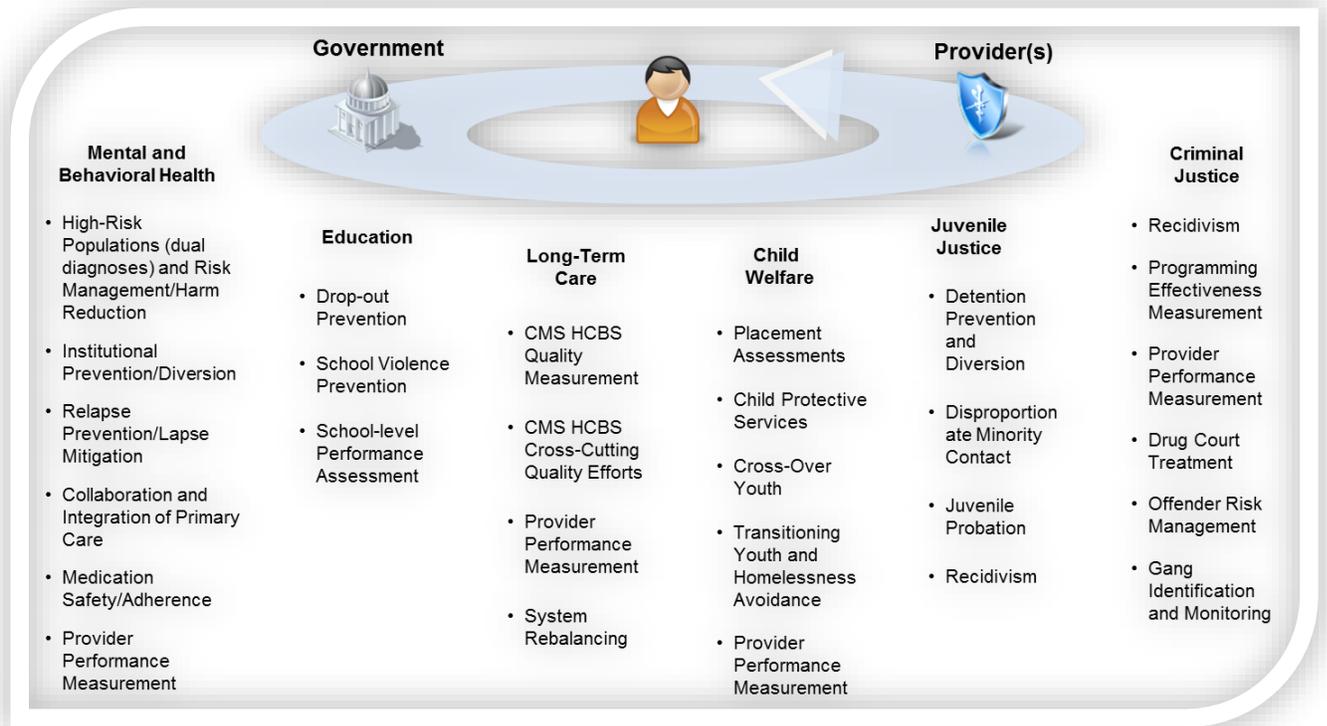
We have found that in large-scale projects we have been involved in over the years, addressing the role, structure, process, and authority issues in advance of issuing an RFP for specific projects is helpful in establishing the understanding and expectations of potential participants, and increase the likelihood of success.

### **What Is IBM's Interest in the Success of PFS Initiatives?**

IBM may not pursue specific PFS projects in the Commonwealth, but does have a long term interest in the success of the growing use of evidence-based analytic approaches to delivering public services that a large-scale PFS initiative could engender. We applaud the Commonwealth's interest in undertaking such an effort and would like to be helpful in its successful implementation.

From our perspective, the professional communities that provide design, technical assistance, and evaluation services are relatively robust; we do not think we want to participate in these roles. Nor do we want to be a direct service provider or a clearinghouse. However, once the system capacity and governance systems are defined, designed and implemented, we see potential opportunities to help implement an evidence-based outcomes methodology supporting the transformation.

We have extensive in scaling intervention systems (which in this case would typically follow after success has been demonstrated in a PFS project). Figure 2 below offers examples of some potential areas for consideration as PFS initiatives, where prior IBM experiences that could be useful.



**Figure 2: Examples of Some Potential Areas for PFS Initiatives**

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## Part II -- Responses to the Questions in the RFI

- ❖ **Question 1: What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania?** *This may include description of programs and service providers, their evidence base, and the results they have been able to achieve for their target population(s).*

The five high-priority areas mentioned in the RFI seem to be appropriate candidates for preventive services and in many cases there have been PFS-related pilots conducted in other areas. The question then becomes what should be the framework and criteria for selecting areas for inclusion in the planned RFP. There are generally two approaches.

The first could be let “a thousand flowers bloom” approach. The state would structure an RFP that would allow program-specific proposals including but not limited to the five high-priority areas. Based on responses, it would then use selection criteria such as those proposed by McKinsey that reflect feasibility and capacity, such as how well organized are they, what networks do they have, do they have funders, do they have a credible service intervention model.

The second could be called the “pick winners and losers” approach. The state would identify those high-priority areas or interventions that it determines would have the highest return on investment (ROI), using the most proven strategies, with the most mature data collection, reporting, and analysis systems. This might be based on the use of existing inventories of validated and tested interventions from federal “What Works” clearing houses and similar resources developed by various foundations and universities.

Another question that should be addressed up front is – how bold does the state want to be in its initiative efforts?? For example, does it want to pursue initiatives that impact society as well as business development and productivity? If this is the case, then it may want to pursue initiatives that are cross-agency rather than “siloed” into any one agency, since the PFS approach is a bold way of reaching across traditionally stove piped programs and focus on client-based outcomes.

However, if the state wants to ensure a successful outcome at an early stage, it may want to focus instead on defined outcomes, for targeted initiatives, using approaches already underway in other existing PFS initiatives. The advantage of this approach would be to focus on developing the framework and associated processes rather than building something new from scratch that has been untested elsewhere.

In any case, the anticipated PFS outcomes need to be able to translate into a compelling ROI for both the public and private sectors. For example, in the case of a failed educational experience, the social impact includes increased crime rates and increased unemployment. While the social value of the outcomes is indisputable, it may not be compelling to investors. In addition, commercial organizations may be more likely to respond to opportunities that will: attract new businesses, provide a workforce to support high paying jobs, and decrease the risk of investments.

We observe that the PA Department of Corrections has recently begun exploring the use of Pay for Performance with their providers, evaluating a payment model associated with recidivism reduction and reform (i.e. provider payments directly associated with provider’s impact on recidivism reduction). Furthermore, this approach appears to exemplify the

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various critical success characteristics expressed earlier, including governance, score-cards, and evidence-based outcomes to name a few.

- ❖ **Question 2: What considerations should the Commonwealth take into account in structuring Pay for Success contracts?** *This may include the respective roles of intermediaries and service providers, the appropriate duration of contracts, and how to design payment schedules and milestones to provide the greatest value to taxpayers and achieve the most progress in addressing social problems.*

As noted in Part I, the Commonwealth should develop a governance structure – such as an interagency council – upfront before issuing an RFP. In developing this governance structure, it needs to determine the state’s appropriate role. How much control will it exercise over the feasibility, design, and funding processes vs. how much will be delegate to an Intermediary broker? How much is it willing to invest in such efforts? How much will it expect in terms of progress reports? Etc.

To date, it seems that the few PFS projects that have been successfully launched have allowed a significant degree of autonomy for the Intermediary in terms of design, financing, and other operational aspects. Delegating operational control, however, is typically not a natural act for most governmental entities because they are often held accountable if anything goes wrong, even if they are not directly involved.

- ❖ **Question 3: What outcomes should the Commonwealth prioritize in Pay for Success contracts?** *What types of outcomes should payments be based upon and how should they be measured?*

The types of outcomes selected for the basis of payments may depend on specific policy areas. However, the Commonwealth may want to determine its philosophical approach on the varying degrees of intermediate outcomes that might be considered eligible. For example, for disadvantaged students would it be an increase in the number of days in class? Or might it be higher reading scores? Or moving to the next grade level? The premise behind these types of intermediate outcomes is that they lead to a more desired end outcome, such as for the same group, it might be employment after graduation, or acceptance into college. However, end outcomes oftentimes take years to manifest, long past a reasonable payback period, and other intervening events (such as the Great Recession or a hurricane) could derail efforts to effectively measure such outcomes.

Nevertheless, all outcome need to be measurable and be directly tied to desired end state versus those that may be correlated but not causal. For example, the World Bank, in conducting conditional cash assistant programs across several regions, realized that and found that an increase in enrollment rates or the number of days a child spends in the classroom, are not directly related to increased learning or grade promotion. As such, these provide to be unreliable measures for reductions in poverty or increased employment. In many cases, parents made sure their children went to school, and they received their payments, but the children did not learn – because there was no incentive to learn built into

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the project's design. The measures for payment were later changed from attendance to test scores.<sup>3</sup>

- ❖ **Question 4: Are there opportunities for the Commonwealth to partner with local government entities on Pay for Success contracts that achieve savings and benefits at multiple levels of government?** *Describe program structure issues that should be taken into account in the development of such contracts.*

Yes. Most preventative and community-based services are delivered through local government. In fact, the City of Philadelphia is actively pursuing the consideration of PFS approaches in areas such as reducing obesity, recidivism, and at risk youth engaged in the juvenile justice system. IBM's Smarter Outcomes methodology is inherently designed to support broader intervention eco-systems (i.e. state, local, provider, referral) seeking to capture outcome results at each interval hoping to build a smarter knowledge base, to maximize higher degrees of social and economic outcome predictability for each new cohort at initial intervention (a veritable "smart system of evidence-based outcome and insights").

Local engagement is particularly important when addressing the needs and improved outcomes for high need high costs customers. These are the individuals requiring multiple services across different agencies. Although this population typically accounts for less than 20% of agency customers, they account for over 50% of the total program costs. Effectively managing the high utilizer population delivers the highest value for the government, but requires coordination across agencies. The coordination begins with policy reforms addressing the existing policies that promote a more siloed approach to service delivery, as well as coordination across the service delivery arms of the agencies. While the policies must be addressed at the state level, coordination of service delivery is best managed at the local level.

- ❖ **Question 5: What lessons can the Commonwealth learn from the experience in other states that have implemented Pay for Success contracts?** *Are there examples of Pay for Success projects, Requests for Proposals, contracts or other experiences that the Commonwealth should take into consideration in its program development?*

- **Measurement must be directly related to the desired final state** and not merely coexistent with that state – Measurements must also be obtainable and preferably not without extensive cost and infrastructure. Finally, the measurements must be such that they can be collected in the near term. For example, measuring the impact on generational poverty is not a good measurement since it would require the Investor to wait an unreasonable time period between investment and return.
- **Complications of measuring** – how do you quantify what does not exist? Most Pay for Success initiatives are aimed at reducing negative impact on society, such as recidivism, child abuse, and hospital admissions. While all of these are measurable, there is no way to ensure that when the number of hospital admissions decline by 5% that this is relates directly to the Pay for Success initiative unless you can show that without the PFS initiative, the decline would not have occurred.

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<sup>3</sup>Conditional Cash Transfers: Reducing Present and Future Poverty , A World Bank Policy Research Paper, by Ariel Fiszbein and Norbert Schady, with Francisco H.G. Ferreira, Margaret Grosh, Nial Kelleher, Pedro Olinto, and Emmanuel Skoufias

- **Deliver sufficient value to all stakeholders**— a successful PFS initiative, is one that is structured to deliver value across the stakeholder group; including the state, investor, intermediary and independent evaluator.
  - **Limit barriers to entry** – In order to attract a competitive pool of responses, the state must limit the barriers to entry. Barriers to entry may include administrative requirements, terms and conditions and well as functional and nonfunctional requirements. Providing flexibility for the responders to define the approach and methodology will increase the engagement of the broader community.
  - **Importance of standards** – there is a lack of industry wide standards and definitions in social services. Therefore, it is essential that all measurements include clear definitions relating the how the measurements will be tracked, captured and evaluated. There must be agreement to the definitions across all stakeholders to avoid conflicts.
  - **Commitment from Government** – although Pay for Success initiatives do not require the same level of oversight and management as traditional project approaches, it will still require significant commitment from the Commonwealth. For example, management of the disparate stakeholders involved in the project execution will be essential to realizing the long term goals.
  - **Importance of transparency** – since Pay for Success is a new funding model, it will be important that the Commonwealth maintain a high level of transparency to avoid negative perceptions and build the trust of the community.
  - **It’s not just a different model, it is a different cultural expectation** – implementing new funding and operating models are relatively easy, changing culture is not. Pay for Success moves away from a transaction or program based view of services to an outcome based view. In a culture familiar with measuring outputs not outcomes, such as government agencies, it may take effort to align stakeholders and establish a mutually agreeable model. The state should anticipate this in advance and be prepared to support the necessary change management activities.
- ❖ **Question 6: What other information would be useful to the Commonwealth of Pennsylvania in preparing a formal Request for Proposals for Pay for Success contracts?**

The program design and governance issues raised in Part I outline some of the elements that we think would be appropriate to consider before moving to the RFP stage for PFS contracts. However, if there is a strong desire to act quickly, the state may consider approving two or three in the near term and then develop its broader strategic approach.

In addition, we believe that a greater understanding of the “burning platforms” as seen by private sector employers in the Commonwealth and its localities is appropriate. Engaging private sector employers at this stage could help identify areas where they may be willing to provide up-front capital investments. For example, they may see a need for more targeted training for the workforce to adapt to changing technologies in order to be more successful and be willing to provide that type of investment. If the Commonwealth creates an interagency steering council for its PFS initiative, one of its initial efforts might be to undertake such listening sessions.



## **Request for Information – Pay for Success**

**JEVS Human Services Response**

**May 8, 2015**

❖ ***What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania?***

### **About JEVS Human Services**

JEVS Human Services is a multifaceted organization that has built a reputation in Philadelphia as the “go-to” agency for effectively working with individuals who have barriers to employment and independence. JEVS promotes an asset-based approach to working with clients so that they can achieve the most self-sufficient lifestyle possible. To maximize the potential of our clients, JEVS connects them to high quality education, training, and employment opportunities. We serve more than 19,000 individuals annually, including un- and underemployed workers; public assistance recipients; older workers; veterans; immigrants; individuals with physical, intellectual, and behavioral disabilities; and currently and formerly incarcerated individuals.

With more than 70 years of human services experience, 39 concurrent operating programs, an annual budget of \$81 million, and a staff of more than 900, JEVS has the organizational capacity and expertise to operate Pay for Success projects in a variety of the Commonwealth’s high-priority policy areas. We have considerable strength as a provider operating our own and others’ evidence-based programs in a pay-for-performance environment and delivering successfully: much of our funding comes from hybrid cost-reimbursement/pay-for-performance contracts with government agencies.

### **Policy Area & Intervention Recommendations**

Among many promising areas for Pay for Success initiatives, we recommend that the Commonwealth consider PFS initiatives focused on 1) high-impact diversion programs, and 2) interventions that reduce the high cost of care for individuals with co-occurring diagnoses of mental illness and developmental disability.

#### **1. Public Safety/Diversion: *The Choice is Yours***

Incarcerating non-violent offenders is a huge drain on the Commonwealth’s resources in a variety of ways: it costs approximately \$100 per day to house an inmate in prison, while at the same time preventing that individual from working and contributing to the community. Recognizing the significant societal costs of incarcerating non-violent offenders—housing the

prison population, lost future earnings, increased health costs, and an increased likelihood of recidivism—JEVS is working to prevent this problem before it starts through a research-based and field-tested diversion program: *The Choice is Yours* (TCY).

Philadelphia District Attorney Seth Williams spearheaded the development of this alternative-to-incarceration program for first-time, nonviolent offenders facing mandatory state prison sentences. TCY diverts these offenders away from prison into both 1) TCY court (a problem-solving Philadelphia Municipal Court featuring a dedicated judge who monitors participant progress and motivates compliance) and 2) a suite of community-based social services and supports directed by JEVS and our partner agencies. Upon successful completion of all program requirements, participants' records are expunged.

TCY is based on current research and is informed by similar successful programs already underway (specifically San Francisco's Back on Track program). TCY combines the best of what we know works to prevent individuals from becoming re-involved in criminal activity: educational and employment services; case management; mentoring; assistance with housing, child support, public benefits, and other key services; and participation in restorative justice activities including community service.

JEVS has been operating TCY since 2012, selected via a competitive bid process managed by a third-party intermediary/evaluator. Internal and external evaluation shows exceptional results: in the initial pilot group, 89% completed the 13-month program. This pilot group saw significant reduction in risk behaviors, and 89% of graduates with employment goals met their stated goals while 52% attained stated education goals.<sup>1</sup> Only 12% were rearrested within one year of graduation, compared an expected re-arrest of 40% rate for individuals with similar backgrounds.<sup>2</sup>

Of 25 non-participants who either rejected the offer of participation in TCY or failed to complete orientation, 22 cases have been completed, resulting in 20 felony convictions. Further, the non-participating group had a re-arrest rate of 59%. To date, jail costs alone for those who rejected or failed TCY are in excess of \$307,300—nearly three times the custody costs associated with those who completed and were rearrested.

TCY fills a void in our community and legal system, providing offenders with the rare opportunity to remain in the community, enhance their academic skills and job opportunities, avoid incarceration, and subsequently expunge their criminal records. Because TCY has the potential to be widely replicated, it represents an effective alternative to incarceration with broad policy implications: **brought to scale, this program could significantly reduce the fiscal and social costs associated with incarceration and recidivism.**

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<sup>1</sup> Goal-setting is individualized, based on participant needs. Participants without GED or high school diplomas work toward educational goals, while those with these credentials work towards employment goals.

<sup>2</sup> Philadelphia Probation Department figures for those considered at "moderate risk" for rearrest, 2013.

## 2. Health & Human Services/Home- and Community-based Services: *Happy Healthy Life*

Providers in Pennsylvania have been struggling for years to effectively meet the needs of patients who have co-occurring diagnoses of mental illness and developmental disability. The neediest among this group use excessive resources of both systems: hospitalizations and emergency care from the mental health system and heavily-staffed day and residential services in the developmental disability system. These individuals require high levels of clinical support at great cost—often without achieving significant quality of life gains.

To address this, JEVS developed *Happy Healthy Life* (HHL), an adaptation of an evidence-based Illness Management and Recovery (IMR) model that helps dually-diagnosed individuals with behavioral health/intellectual disabilities (DD) understand and manage their illnesses and achieve improved health and quality of life, while simultaneously reducing cost of care. The program incorporates a 10-module curriculum that begins with helping participants envision a “Happy Healthy Life” for themselves, progresses with strategies for effectively using medication, reducing relapses and developing coping mechanisms and culminates in a module on self-advocacy. The program is innovative in that it is intentionally disruptive—aiming to tear down the silos that comprise the service delivery environment for individuals with DD by engaging the consumers, their families and caregivers in a model that focuses on management, coping, and self-advocacy, leading to greater independence.

JEVS successfully implemented this pilot in 2007 with impressive outcomes including: reduced psychiatric hospitalizations and crisis episodes, and increased engagement and social interaction –determinants of overall health and well-being. The initial 18-month pilot included an engaging curriculum that allowed participants to set their own pace to meet their level of understanding. Incidents for the original pilot of 7 people dropped from a baseline of 11 prior to year 1 of the program to only 2 in year 3 of the program, while inpatient psychiatric hospitalizations dropped from a baseline of 5 prior to year 1 to only 1 in year 3. Participant survey results indicated patient improvements in their understanding and management of illness and improvement in coping and social skills as measured from baseline.

*Happy Healthy Lives* allowed JEVS to eliminate costs of one-to-one 24-hour staffing for DD individuals, enabling these clients to live with a roommate and share a staff person. **Replication of this lower cost model has the potential to save the Commonwealth and other states significant costs in the care of dually-diagnosed individuals.**

### ❖ *What considerations should the Commonwealth take into account in structuring Pay for Success contracts?*

1. The ideal service providers for PFS initiatives will be those who have:
  - a. The **experience and expertise to operate in a performance-based environment.** Providers with experience with performance-based contracts will be able to

structure and staff the projects in order to maximize results while keeping costs reasonable.

- b. **Experience with evidence-based interventions.** Providers must have a strong track record of successfully delivering evidence-based interventions and an enduring commitment to assessment and data management.
  - c. **A high level of connection with the community to be served.** The PFS initiative will be most effective when delivered by a provider with a deep and lasting connection with the target population.
  - d. Demonstrated **capacity to scale-up efficiently and sustainably.**
2. In order to maximize sustainable results, **providers must be at the table when performance benchmarks and payment schedules are set.** Providers will have the best data on what is achievable over what time frame, and will have necessary input on what level of funding is required to reach desired outcomes.
  3. All stakeholders must recognize the importance of **properly capitalizing the initiative at start-up.** In order for Pay for Success projects to be successful, it is essential that providers have the right staff and infrastructure in place from the beginning.

❖ ***What outcomes should the Commonwealth prioritize in Pay for Success contracts?***

We recommend that the Commonwealth prioritize sustainable, long-term outcomes that focus on **increased independence** and **decreased use of high-cost public resources** whenever possible. We consider the following outcomes to be particularly significant:

1. Decreased incarceration
2. Decreased recidivism
3. Increased job readiness
4. Increased employment
5. Increased employment retention
6. Decreased use of emergency hospital care
7. Decreased use of day and residential programs



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Four Tower Bridge, 200 Barr Harbor Dr., Suite 400

Traci Anderson,

This letter is a formal response to the Commonwealth of Pennsylvania’s request for information for the Pay for Success Initiative. The Jagpat Institute of Professional Accounting and Bookkeeping Employment Program would be a great candidate for a Pay for Success contract in Pennsylvania. The Jagpat Institute is part of Jagpat & Associates, CPA PC. The institute teaches people with no prior financial or bookkeeping knowledge the follow:

- Accounting & Bookkeeping
- Accounts Payable
- Payroll
- Billing and invoicing
- Microsoft Excel
- Quickbooks
- Microsoft Word
- ERP systems

This subject matter gives those being instructed the knowledge necessary to succeed in a career as a bookkeeper, payroll specialist or accounting clerk across multiple industries. Once our students have completed the program it gives them the opportunity to make two to three times minimum wage and make meaning contributions to society and the economic environment in which they live.

**Cost and Benefit**

Our classes cost \$675 to \$1,350 per student. In addition to the twelve week course the tuition also covers:

- Assistance with attaining employment
- A professional reference from a reputable accounting firm
- Three months on the job support
- All supplies and academic materials
- Assistance with resume and interview preparation

**Request for Information Questions:**

- **What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania?**

The Jagpat Institute's program covers several of the top five high-priority areas identified by Governor’s proposal. It is specifically designed to help recent high school graduates, high school dropouts, and men and women who live below the poverty level to learn vital skills that are needed across multiple industries.

By positioning these individuals to earn more money and increase their standard of living, what we are effectively doing is preventing and stopping a cycle of poverty. This has the added benefit of changing the mentality of many people and reducing crime.

The Jagpat Institute doesn't abandon their students once instructional classes come to a close. We assist our students by helping them with resume preparation and providing a professional reference from a Certified Public Accounting firm. Furthermore, we offer three months of on the job support once our students actually find employment. This helps to further ensure their professional success.

- **What considerations should the Commonwealth take into account in structuring Pay for Success contracts?**

The commonwealth should truly consider what real life impact the contracts would have and just how far reaching that impact will be. The Jagpat Institute's program is designed to make real life, significant changes in the lives of people. We enhance their ability to both find and keep a job, but not only that. Through our on the job support program, we help individuals position themselves for not just maintaining a job, but actually advancing in their occupation.

- **What outcomes should the Commonwealth prioritize in Pay for Success contracts? What type of outcomes should payments be based upon and how should they be measured?**

The Commonwealth should prioritize programs that have a real life effect on making members of society more employable. This has a positive economic effect for the state in terms of taxable dollars and well as reduced crime rates.

As for measurable outcomes, The Jagpat Institute educates our students, helps them prepare a professional resume, provides a professional reference and offers three months of on the job support once the individual finds a job. This outcome is increased knowledge that is in high demand across multiple industries, improved employment rates for disadvantaged individuals and an increased tax base for the state.

There is a \$675 payment for the completion of the class. At the end of the instructional sessions there will be a bookkeeping and excel test. This is to prove that the individuals have satisfactory knowledge of the subject matter at hand. A passing grade is required to be granted a certificate and a professional reference. This payment will be for the knowledge that the student obtains that will benefit them and society their whole life.

There is an additional \$675 payment for when the student has obtained employment and maintained it for three months. During this period The Jagpat Institute will offer on the job support.

The income taxes on that income earned for the three month period alone will reimburse the Commonwealth for this payment. In five years The commonwealth will make over six times the cost of program in tax income and the savings on social benefits payouts (e.g. welfare, food stamps, Medicaid). Because that resident would be over the poverty income level as oppose to making minimum wage, he/she would qualify for less or even no social benefits depending on their individual situation.

- **Are there opportunities for the Commonwealth to partner with local government entities on Pay for Success contracts that achieve savings and benefits at multiple levels of government?**

The classes at The Jagpat Institute can be conducted anywhere. In addition to our four locations we have online classes available for our student's convenience. Every locality has businesses with a need for low cost competent accounting personnel or bookkeepers. We can educate people in every county or locality that has people making minimum wage, high school drops and high school graduates that have no prospects for college but are looking to make more than minimum wage.

- **What lessons can the Commonwealth learn from the experience in other states that have implemented Pay for Success contracts?**

The classes at The Jagpat Institute have never been implemented for a Pay for Success contract with any other state(s). However, our program is designed to be effective in real life situations for low income individuals and has wide ranged and far reaching benefits for the economy as a whole.

- **What other information would be useful to the Commonwealth of Pennsylvania in preparing a formal Request for Proposals for Pay for Success contracts?**

Our program is more personal, less intimidating and more interactive than the traditional class environment. It is specifically designed for individuals who did not succeed in a traditional class environment. Unlike other programs which do not actually train you for actual on the job functions, we do. Also, we go a step further and help the individual to attain and sustain meaningful employment.

Thank you for considering The Jagpat Institute for the Commonwealth's Pay for Success Initiative. If you have any questions or would like to contact us, please use the information below:

Address:       The Jagpat Institute  
                  1631 Coolidge Ave., Suite 210  
                  Willow Grove, PA 19090  
Phone:         215-326-9343  
Email:         ddarbouze@jagpat.com

Sincerely,

Mike C. Jagpat  
President



Maternity Care Coalition (MCC) is a community-based organization serving pregnant and postpartum women and young children in underserved communities in Southeastern Pennsylvania, including Philadelphia's County jail. MCC's mission is *to improve maternal and child health and wellbeing through the collaborative efforts of individuals, families, providers and communities*. Our comprehensive approach includes research, public policy initiatives and services for families. Since 1989, MCC has provided maternal and child health home visiting and early care and education to over 95,000 vulnerable families. We work in some of the region's highest risk communities, where access to health care, high-quality early childhood education, and support services for families are often limited. Our programs serve mothers and children together, providing continuous, dual-generational care from pregnancy, birth and the postpartum period, through the critical first years of motherhood and early childhood. MCC has considerable expertise working with high-risk individuals with complex histories that include trauma, perinatal depression, substance abuse, intimate partner violence and criminal justice involvement.

MCC proposes a project that will touch on three of the five high-priority areas. Beginning at Riverside Women's Correctional Facility addressing **Public Safety** and recidivism, during the reentry period and up until the child's third year where services such as Healthy Families America and Early Head Start address **Health and Human Services** and **Early Childhood Care and Education**. The MOMobile at Riverside® Program is an innovative collaboration between Maternity Care Coalition (MCC) and the Philadelphia Prison System. In 2004, MCC was approached by the Philadelphia Prison System administration and asked to address the significant unmet needs of the growing number of pregnant incarcerated women. After identifying financial support, we established the MOMobile at Riverside in 2006, providing services to women during incarceration and for up to one year after their release. Operating both inside Riverside Correctional Facility (Philadelphia's County jail) and in the community, the overarching goal of the Program is to improve the health of pregnant and postpartum incarcerated women and their babies, and to help women acquire the resources and parenting skills they need to establish healthy families as they make the transition from prison to home. This continuum of care is a unique aspect of the program.

Female prisoners are the fastest growing population in the Criminal Justice System. Most women were the primary caregivers of their children when they entered jail or prison and most will return to parenting upon release. It is critical to support women as parents in order to contribute to the healthy development of their children. Children with incarcerated parents are more likely to end up in the criminal justice system themselves, as well as become teen parents, high school drop-outs and a range of other adverse outcomes.

Therefore, MCC's proposed Pay for Success initiative is at the heart of the Commonwealth's interest in securing and saving for two generations.

Sincerely,

JoAnne Fischer  
Executive Director

## 1. What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania?

As a leading service provider in the field of maternal and child health and well-being, Maternity Care Coalition (MCC) recommends the following policy areas as those most suited for private financing from Pay for Success (PFS): **a) early childhood care and education; b) public safety; and c) health and human services.** Since 1989, MCC has provided maternal and child health home visiting services to over 95,000 vulnerable families in Southeastern PA. We work in some of the region's poorest communities, where access to health care, early childhood education, and support services for families are often severely limited. Our programs serve mothers and children together, providing continuous, dual-generational care from pregnancy, birth and the postpartum period, through the critical first years of motherhood and early childhood. According to the Zero to Three Policy Center, every dollar invested in early childhood programs that begin in pregnancy saves between \$3.78 and \$17.07 in reduced special education, reduced crime, and increased lifelong self-sufficiency.

MCC uses rigorous measures to evaluate program outcomes. Three of our core programs – Early Head Start; MOMobile Healthy Families America (HFA); and MOMobile at Riverside – utilize evidence-based interventions to produce positive health and education outcomes for women and children. In 2014, MCC's outcomes were independently analyzed and validated by researchers at Georgetown University. Clients participating in all of MCC's home visiting programs, including HFA, achieved the following outcomes: a 68% reduction in the number of women at risk for depression over the course of participation; 83% of clients initiated breastfeeding (compared to 49% of comparable low-income women); and 98% of clients placed their babies to sleep on their backs (compared to 65% of an ethnically matched sample of new mothers across women in PA). Since the inception of our HFA program, clients have achieved a 64% reduction in positive depression screens over the course of their participation. In addition, 100% of HFA clients have a medical home; and 97.6% of mother-baby pairs screen positive for healthy bonding.

Based on these programs' outcomes, we view them as strong candidates for private capital from PFS.

MOMobile HFA is an evidence-based home visiting model recognized by the U.S. Department of Health and Human Services that supports families who are at-risk for child abuse and neglect. MCC's HFA program provides parenting and health education, case management services, referrals to community resources, and emergency supplies to pregnant women, children ages 0-3, and their families in Delaware, Montgomery, and Philadelphia counties.

MCC operates a unique MOMobile home visiting program within the Riverside Correctional Facility, Philadelphia County's jail for women. The MOMobile at Riverside's innovative approach includes parenting education and support, and doula or labor support while women are incarcerated, and follows them into the community to provide further support during the critical period of reentry. This continuum of care is a unique aspect of the program. In 2014, MCC's clients achieved a two year post-release recidivism rate of only 36%, compared to 65% recidivism in Philadelphia prisons overall. Since 2006, the MOMobile at Riverside has served over 125 women each year. Additionally, trained doulas (birth assistants) have been present at over 100 births. MCC collaborated with other advocates in the effort to

end shackling during labor, which led to the passage of the Healthy Birth for Incarcerated Women Act in 2010.

## **2. What Considerations should the Commonwealth take into account in Structuring Pay for Success Contracts in Pennsylvania?**

In structuring PFS contracts, the Commonwealth should take into account the roles of intermediaries and service providers and the design of payment schedules based on outcomes. The Commonwealth should also take into account contract duration. For PFS contracts funding service providers in maternal and child health, the appropriate duration would be three and a half to four years, based on serving a pregnant woman until her baby is three.

MCC, the service provider, will provide services to incarcerated women and to women up to three years after reentry. The role of the intermediary would be to raise adequate capital from funders and provide payment to MCC, the service provider. Based on MCC's outcomes, the Commonwealth would pay the intermediary and the intermediary would repay the funders.

In the context of the criminal justice system, existing outcomes are based on factors such as decreases in incarceration (reduced recidivism), increased job readiness and increases in employment after re-entry. Women in the criminal justice system have additional and special needs that thus far have not been considered from a systemic level. Whether or not these needs are met impacts not only their successful reentry but the long-term development of their children, including school readiness and later criminal justice involvement. These outcomes are detailed in the following section.

In terms of existing PFS contracts, private investors in Massachusetts partnered with service provider Roca, a nonprofit that provides outreach services to high-risk men formerly involved in the justice system in order to reduce incarceration rates. Private investors provided funds upfront and the Commonwealth of Massachusetts repays these funds according to a graduated payment schedule. These payments begin during the second year of the contract, at which point there are reportable outcomes, and continue throughout the duration of the contract. Increasing amounts are paid each day that participants avoid incarceration. Payment rates are based on associated savings to the Commonwealth of Massachusetts. The Commonwealth of Massachusetts's gross savings based on this decrease in incarceration is equivalent to \$45 million. The minimum reduction in incarceration necessary for the private investor to receive any reimbursement is 5.2%<sup>1</sup>. For more information on how states have handled contracts and payment burden see question 5 below.

## **3. What outcomes should the Commonwealth prioritize in Pay for Success contracts?**

Rigorous, objective evaluation is critical to the adoption and success of evidence-based programs and in reducing criminal justice expenditures. The long-term impact of a PFS contract in the Commonwealth will

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<sup>1</sup> <http://www.goldmansachs.com/our-thinking/trends-in-our-business/massachusetts-social-impact-bond/MA-juvenile-justice-pay-for-success-initiative.pdf>

be a reduction in recidivism, or facilitating the successful reentry of released prisoners, which will lead to cost savings such as the \$45 million in Massachusetts and \$20.5 million in New York City.

Specific and measurable intermediate outcomes, in addition to recidivism, must be included and related to the unique needs of women in the criminal justice system. Female prisoners are the fastest growing population in the Philadelphia Prison System. Most women were the primary caregivers of their children when they entered jail or prison and most will return to parenting upon release. It is critical to support women as parents in order to contribute to the healthy development of their children. Children with incarcerated parents are more likely to end up in the criminal justice system themselves, as well as become teen parents, high school drop-outs and a range of other adverse outcomes. Therefore, the specific and measurable outcomes of the contract should include:

- Link women to community based services for education, employment, and housing upon release from prison
- Increase access to the behavioral health system for mental health, substance abuse and intimate partner violence treatment
- Help women overcome such barriers as lack of proper identification and health insurance, so they can access services in the community and apply for employment
- Increase enrollment in and access to public benefits and health insurance
- Assist women in reuniting with their children
- Screen for perinatal depression and intimate partner violence / adverse early childhood experiences (ACEs)
- Increase access to quality Early Childhood Care and Education and home visiting to promote School Readiness
- Increase attendance at postpartum and well-baby medical visits
- Provide education on pregnancy spacing, family planning and other health behaviors

These outcomes are currently being reliably measured by MCC in its comprehensive database management system, Efforts-to Outcomes.

#### **4. Are there opportunities for the Commonwealth to partner with local government entities on Pay for Success contracts that achieve savings and benefits at multiple levels of government?**

To achieve our outcomes, collaboration with other entities is critical to success in achieving savings and benefits in the criminal justice system. The Substance Abuse and Mental Health Administration (SAMHSA) urges the importance of “strategic linkages with community-based behavioral health providers, the criminal justice system and community correctional health”. These entities include state and local prison systems, especially the Philadelphia Prison System (PPS), Community Behavioral Health (CBH), the

Department of Human Services (DHS) and related foster care entities, and Philadelphia City Health Centers and Federally Qualified Health Centers. We have strong and established relationships with each of these entities. Additionally, we serve on The Mayor's Office of Reentry Coalition and have close relationships with advocates from Community Legal Services and the ACLU of PA. The Public Defenders and District Attorney's offices are also critical to coalition building. On the Early Childhood side, MCC is a member of the Mayor's Early Learning Advisory Council (MELAC).

We have productive working relationships with other key system stakeholders including providers, insurers, policymakers and local, state and national legislators. We have relationships with community-based organizations serving criminal justice-involved women in the areas of workforce preparation and education; substance abuse, intimate partner violence and mental health treatment; general health care; childcare; housing; public benefits; early intervention; child abuse; foster care and related legal concerns.

## **5. What lessons can the Commonwealth learn from the experience of other states that have implemented Pay for Success contracts?**

PFS projects have the potential to spread proven approaches to tough problems. More often than not, interventions that work never get beyond a small portion of the target population. PFS helps to unlock the capital that is necessary to get beyond the pilot stage and to reach those that need it most.

Since the first PFS project, the federal government has made significant investments in supporting the use of PFS financing. During 2012 the US Department of Justice offered priority grant consideration to applicants using PFS financing for Second Chance Act reentry program funding to encourage the integration of PFS financing and justice system programming.<sup>2</sup> In 2013, the US Department of Labor awarded nearly \$24 million in grants to support PFS pilots. At the state and local level, the range of domestic PFS projects is also expanding. As of February 2014, California, Connecticut, Hawaii, Massachusetts, Maryland, New Jersey, and Pennsylvania have either proposed or adopted some form of legislation to initiate or facilitate PFS projects

### **Pay for Success in the Criminal Justice System**

In 2012, New York City launched the first American PFS project. This PFS project raised \$9.6 million from Goldman Sachs to provide cognitive behavioral therapy to 16- to 18 year-old adolescents in the Rikers Island jail. Returns are paid on a sliding scale: the break-even point for Goldman to recoup its investment is a 10 percent recidivism reduction, with a 20 percent recidivism reduction offering the maximum possible return on investment (approximately \$2.1 million) and long term savings to New York City of \$20.5 million.

One feature of the New York project is a \$7.2 million loan guarantee provided by Bloomberg Philanthropies. The loan guarantee reimburses Goldman for the first \$7.2 million lost if the program fails

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<sup>2</sup> Bureau of Justice Assistance (BJA). 2013. "Justice Reinvestment Initiative (JRI)." Bureau of Justice Assistance. Department of Justice. Washington, DC.

to attain its performance goals, effectively reducing risk and limiting potential loss on the principal investment to \$2.4 million.<sup>3</sup>

A few years into the first PFS project aimed at reducing recidivism rates brings mixed results. A limitation identified by the organization running the program is the lack of support after the inmates have been released and speaks to a need for a continuum of care that addresses prisoner's reentry and beyond.

California, Connecticut, Hawaii, Massachusetts, Maryland, New Jersey, and Pennsylvania have either proposed or adopted some form of legislation to initiate or facilitate PFS projects. The scope and reach of the proposals in these seven states differ significantly. In Massachusetts, the investors assume the financial risk and they are reimbursed if and only if the program is successful based on certain outcomes. Legislation in New Jersey and Connecticut provides a special set-aside fund established for social innovation. The laws authorize specific accounts into which funds may be deposited. Money can be retained in these accounts until they are used for PFS payment. This ensures money is available so that, at the time of payment, future governments are not encumbered by the spending decisions of prior governments. Maryland and California have proposed bills to define what a PFS project is in the state context and establish government authorities for PFS.<sup>4</sup> Maryland's bill defines PFS specifically and includes the achievement of savings as part of the definition. California's language takes a broader approach on PFS and defines performance-based contracting where, based on the attainment of success measures, the government pays a provider more or less.

Clearly, many States have found promise in the PFS model. PFS offers advantages over traditional government financing: risk transference, accountability, infrastructure building, and flexibility. Because the government only pays for a program if the program achieves specific objectives, PFS funding can transfer some or all of the financial and political risk of program implementation from the government to the private investors. The transference of risk allows the government more opportunities to support social programming as taxpayer funds will only be expended on programs that are independently verified as successful.<sup>5</sup> This accountability is a second advantage of PFS: because payment is dependent upon results, there is more incentive to pick evidence-based programs and to empirically validate results. The focus on developing and using evidence-based social programs may also spur innovation in the social sector as programs compete and are adopted based on the strength of their evidence and track records of success.

While there is still much to learn in designing and implementing the novel PFS/social and development impact bonds, early experiences are somewhat promising in that they have gotten politicians from both sides of the aisle, the investors and the providers of services to the same table and with aligned interests. MCC hopes to contribute to the body of knowledge and lessons learned in these fledgling years.

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<sup>3</sup> Rudd, Timothy, Elisa Nicoletti, Kristin Misner, and Janae Bonsu. 2013. Financing Promising Evidence-Based Programs: Early Lessons for the New York City Social Impact Bond. New York: MDRC.

<sup>4</sup> Goldberg, Steve. 2013c. "Do SIBs Qualify for the Community Reinvestment Act? Oh, Yeah." The Social Impact Bond Tribune 2: 14–17. Goldberg, Steve. 2013b. "Legislative Update." The Social Impact Bond Tribune 3: 1–8.

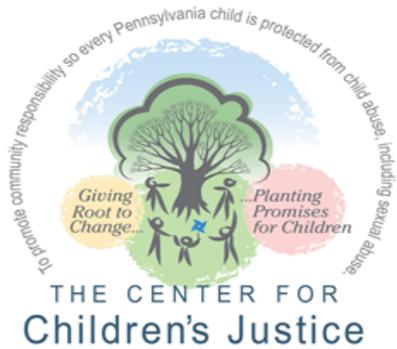
<sup>5</sup> Kohli, Jitinder, Douglas J. Besharov, and Kristina Costa. 2012a. "Inside a Social Impact Bond Agreement: Exploring the Contract Challenges of a New Social Finance Mechanism." Washington, DC: Center for American Progress.

**6. What other information would be useful to the Commonwealth of Pennsylvania in preparing a formal Request for proposals for Pay for Success contracts.**

In preparing a formal Request for proposals, the Commonwealth needs to be familiar with the inter-relationships between formal systems and the extent of sharing of resources, particularly information, between these systems. For example, data on the long-term goal, recidivism, is extremely difficult to compare across systems. Recidivism can be characterized in numerous ways, for example: rearrest vs. reincarceration; time since release (2, 3, 5 or more years); type of crime; gender and many others. Furthermore, rates are defined differently across jurisdiction, systems and programs. This makes comparison very challenging. In order to measure the overarching goal of reduction, a proximal goal is collaboration within the Commonwealth on a shared definition or set of definitions.

Sharing information across the entities mentioned above is critical in supporting the successful reentry of women. This population of women is extremely high-risk and often cycle in and out of the correctional system because of a lack of resources in the community. Coordinating reentry, by developing a “Reentry Navigation” system, would facilitate success. The most risky and critical period in reentry is the first year and sharing information among systems and programs on release dates, and pooling resources to locate recently released women, would contribute to reduced recidivism.

Consistency and sharing of data in programs serving this population would promote successful evaluation of the evidence-base. Key stakeholder collaboration in determining what data to collect, data collection methods and analysis is an important element of a PFS contract.



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## **Response to Pennsylvania's Request for Information #OB 2015-1 – Pay for Success Initiative**

### **Proposed Area for PSF Contracts in PA**

The Design and Implementation of Innovative, Interdisciplinary, and Dual-Generation Plans of Safe Care for Infants

### ***Background***

It has been two decades since Pennsylvania Governor Robert Casey, a Democrat, put his signature on legislation creating Act 65 of 1993.<sup>1</sup> This legislation, initiated by the late Pennsylvania Senator Roxanne Jones, directed the Department of Health to fund “residential drug and alcohol treatment and related services for pregnant women, mothers and their dependent children and mothers who do not have custody of their children where there is a reasonable likelihood that the children will be returned to them if the mother participates satisfactorily in the treatment program.” Jones fought for the legislation advocating, “Saving the family, that's the important thing....we're going to have a whole lost generation.”<sup>2</sup>

As Jones’ legislation was winding its way through the state legislature, Deb Beck, leader of the Drug and Alcohol Service Providers Organization of Pennsylvania, reinforced why the focus must be on both mother and baby. She helped policy makers to better understand that many pregnant and parenting moms battling the chronic health condition of addiction refuse treatment “fearing they will lose custody of their children.”<sup>3</sup>

Pennsylvania has been ahead of the curve establishing a proven track record on early childhood care and education well before it became the vogue thing for states to do. It was Republican Governor Tom Ridge who launched PA’s smart investment in evidence-based home visiting services through the Nurse-Family Partnership (NFP) program. Then Governor Ed Rendell, a Democrat, created a dual office for early childhood demonstrating

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<sup>1</sup> Act of Jul. 8, 1993, P.L. 451, No. 65, retrieved at <http://www.legis.state.pa.us/cfdocs/Legis/LI/uconsCheck.cfm?txtType=HTM&yr=1993&sessInd=0&smthLwInd=0&act=65>

<sup>2</sup> Jones Is Doubtful On Bills To Aid Drug-using Mothers, By Russell E. Eshleman Jr., Inquirer Harrisburg Bureau, March 15, 1988. Retrieved at [http://articles.philly.com/1988-03-15/news/26276111\\_1\\_alcohol-service-providers-organization-gaudenzia-drug-and-alcohol](http://articles.philly.com/1988-03-15/news/26276111_1_alcohol-service-providers-organization-gaudenzia-drug-and-alcohol)

<sup>3</sup> Ibid.

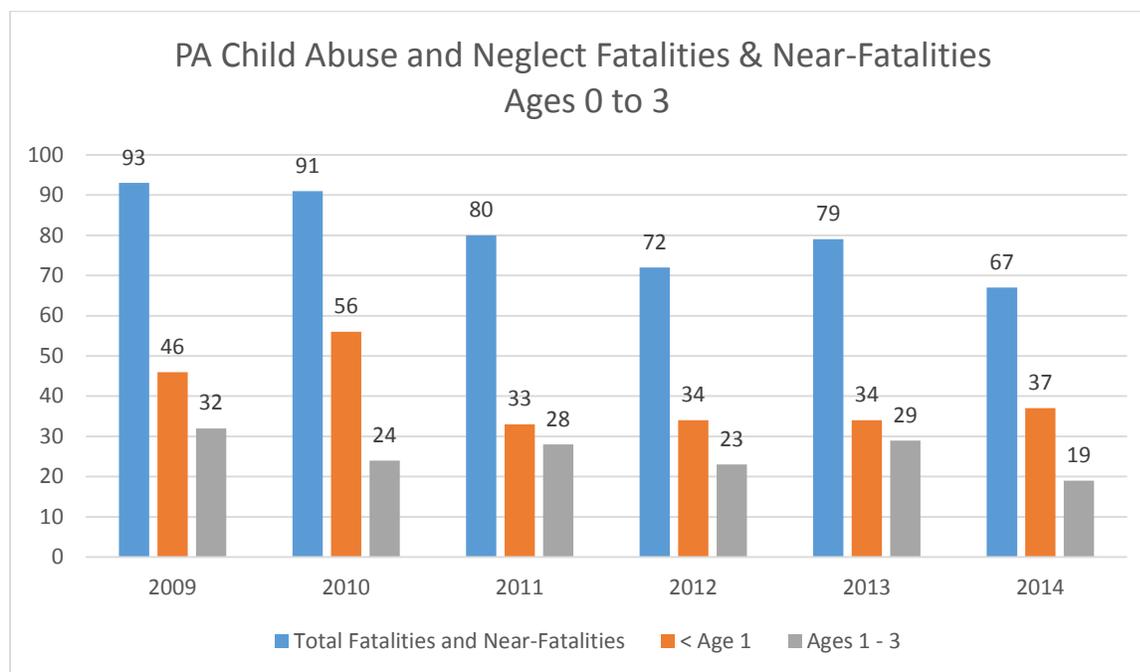
the Commonwealth would work to connect the dots between infant and child health, safety, well-being, permanency and early learning.

At Present Pennsylvania Governor Tom Wolf, a Democrat, is working to have Pennsylvania enter into Pay for Success (P4S) contracts targeted, in part, on maternal health, addiction services and early childhood care and education. Wolf's efforts complement a legislative P4S initiative introduced by Pennsylvania State Representative Todd Stephens, himself a Republican.<sup>4</sup>

Pennsylvania has consistently demonstrated that it is a state that can and will overcome partisan and philosophical divides to make smart investments in those critical first years of a child's life. These investments have also rightly sought to reflect that an infant's first protector and teacher is the parent.

### ***Parental Substance Abuse and Pennsylvania Infants and Toddlers***

Between January 1, 2009 and September 30, 2014, at least 240 Pennsylvania infants, who had not yet celebrated a first birthday, died or nearly died as a result of substantiated child abuse and neglect (CAN). The toll is also significant for children 1 to 3 years of age with 155 Pennsylvania toddlers dying from CAN in this same time period. In all, 80 percent of Pennsylvania children who died from CAN in this time period were 3 years of age or younger.<sup>5</sup>



<sup>4</sup> House Bill 1053 introduced April 27, 2015. Retrieved at <http://www.legis.state.pa.us/cfdocs/billinfo/billinfo.cfm?syear=2015&sind=0&body=H&type=B&bn=1053>

<sup>5</sup> Based on data included in Annual Child Abuse Reports issued by the Pennsylvania Department of Human Services. While the DHS report fatality and near-fatality data related to the year in which the report is substantiated as child abuse and neglect, this chart reflects data categorizing the fatalities and near-fatalities based on the year in which the incident occurred. PA's Annual Child Abuse Reports can be retrieved at <http://www.dhs.state.pa.us/publications/childabusereports/index.htm>

Parental substance abuse is woven into many of the life and death stories of these young children. Examples include:

- A Fayette County 3-month-old infant died March 6, 2014 “due to injuries sustained as a result of physical neglect.” The Pennsylvania Department of Human Services (DHS) noted that the mother had “fresh track marks and has a long history of heroin addiction.” The infant tested positive for Subutex at birth. According to DHS, “The family was not known to children and youth services.”<sup>6</sup>
- A 3-month-old male Luzerne County infant died on February 14, 2014 as a result of physical injuries that were substantiated as child abuse. According to DHS, the county children and youth service (CYS) agency had been involved with the family since the infant’s birth when “the mother tested positive for cocaine and marijuana” at the time of the infant’s birth. A court order was in place, at the time of the infant’s death, which “prevented the mother from having unsupervised contact with her children.” DHS also notes that “Prior to the incident CYS had made referrals for services for the family for drug and alcohol, mental health, and early intervention.”<sup>7</sup>
- A 6-month-old Cambria County infant nearly-died on February 9, 2014 “after sustaining burns to approximately 20 percent of her body.” DHS reports: “The medical team noted the child had blistering on her legs, thighs, buttocks, and vaginal area and was transferred to a burn center. Upon examination at the burn center, the child was also noted to have scratches on her face and under both ears, bruising on her shoulders, bruising inside her right ear, and a contusion to her nose.” The infant’s family was involved with CYS in 2011 “due to allegations that the mother was using drugs and the family had inadequate shelter” the county closed the case “after it was determined that no safety threats were present.” A subsequent referral was made to CYS “the day after the victim child’s birth alleging concerns for drug and alcohol use by caregivers and concerns for the wellbeing of the victim child. Again, no safety threats were identified and it was determined that the children were receiving appropriate care.”<sup>8</sup>
- A 10-month-old Indiana County infant died on May 19, 2013 “due to serious injuries sustained from physical abuse.” The stepfather was caring for the victim child while the child’s mother “was taken to the hospital to give birth.” There was a safety plan in place for the victim child “due to a recent incident in which the child fell from a dresser and broke his femur while in the stepfather’s care.” The child’s family had history with the CYS agency dating back to 2007 when the “mother lost custody of two of her children due to her drug use.” DHS reports that “Both the mother and

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<sup>6</sup>3<sup>rd</sup> Quarter Fatality and Near-Fatality Report for 2014 produced by the Pennsylvania Department of Human Services. This report can be retrieved at [http://www.dhs.state.pa.us/cs/groups/webcontent/documents/document/c\\_116043.pdf](http://www.dhs.state.pa.us/cs/groups/webcontent/documents/document/c_116043.pdf)

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

stepfather received methadone treatment.” The mother was able to regain custody of the victim child’s older siblings in 2011 and CYS closed the case.<sup>9</sup>

- A 1 year old child and her 3-year old brother nearly died in Blair County on June 20, 2013 “due to poisoning as a result of a lack of supervision.” The child discovered “several psychiatric medications in a baby-wipe container in their bedroom and ingested the medications.” The family was known to CYS beginning in 2010 “due to domestic violence, mother’s alcohol use, inappropriate environmental conditions in the home and possible neglect” of the older child. They received services until they relocated to California in 2011. When they returned to Blair County in 2012 again they were the subject of a general protective services referral related to “unstable living conditions, inappropriate discipline, and suspected neglect.” The county assisted the mother in applying for public benefits (e.g., food stamps and cash assistance) and closed the case in “early July 2012.” A sixth GPS referral was received in December 2012 “when mother tested positive for marijuana at the birth of her youngest child and then left the hospital with the baby before meeting with social services.” CYS assisted the mother in receiving home nursing care as well as Head Start for the older child and the referral was closed at the end of January 2013. A seventh and eighth GPS referral were received with the last arriving in March 2013 related to an allegation that the 3-year-old child “choked on a penny” and the mother and paramour did not intervene. They were referred to parenting education and counseling and the case was closed in April 2013.<sup>10</sup>
- A 2-month-old Philadelphia infant died on April 10, 2013 “as a result of blunt force trauma sustained during physical abuse.” The child “had clavicle and rib fractures of varying ages, as well as internal injuries and bleeding.” The family had a history with both Philadelphia and New Jersey child welfare authorities. In January 2013, there was a referral in New Jersey “after the mother tested positive for marijuana and amphetamines during her pregnancy.” The infant was born with Neonatal Abstinence Syndrome (NAS) “and was prescribed Phenobarbital.” The infant’s drug screen, at birth, was also “positive for amphetamines and marijuana. DHS reports that “no services were planned for the family, as the mother was receiving substance abuse treatment.” The infant was released to his parents’ custody from the hospital on March 3, 2013. At the time of the infant’s death, a new report to CYS was pending, as a result of a missed medical appointment for the infant.<sup>11</sup>

There are too many examples of other Pennsylvania infants and toddlers who died or nearly-died in similar circumstances. And yet it wouldn’t matter if there were ten or one hundred more because Pennsylvania should commit itself to saying one, just one, child dying from child abuse and neglect is too many.

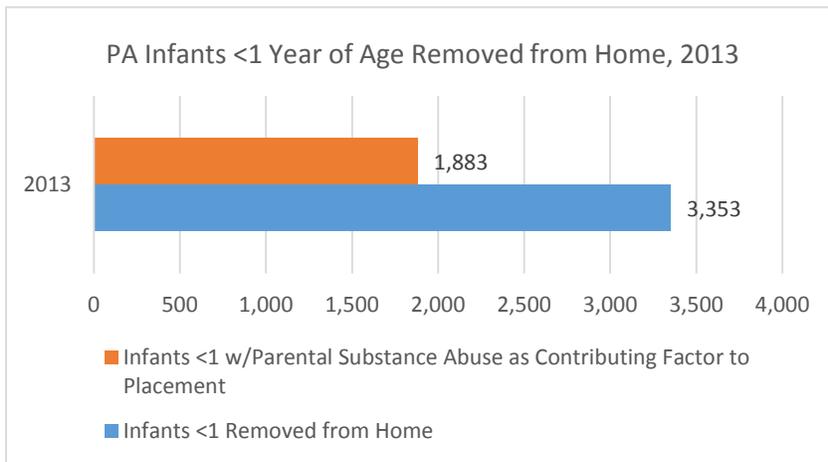
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<sup>9</sup> 2013 Annual Child Abuse Report published by the Pennsylvania Department of Human Services.

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

Additional Pennsylvania infants and toddlers live in families where parental substance abuse are a factor, but they do not experience a fatal or near-fatal event. Still others do intersect in the formal child welfare system.



Consider that, according to data submitted by Pennsylvania to the Adoption and Foster Care Analysis and Reporting System (AFCARS), 3,353 infants under the age of one were removed from their home in 2013. Fifty-six percent (n=1,883) were recorded as having parental substance abuse as a contributing factor to the out-of-home placement.<sup>12</sup>

### ***Leveraging State and Federal Statutes and Funding Streams to Support Mothers and Babies***

Pennsylvania Act 4 of 2014<sup>13</sup> requires that substance exposed infants be referred, by health care providers, to a county children and youth service (CYS) agency when the health care provider is has been involved in the delivery or care of a child under age one who is “born and affected by” any of the following:

- “(1) Illegal substance abuse by the child's mother.
- (2) Withdrawal symptoms resulting from prenatal drug exposure.
- (3) A Fetal Alcohol Spectrum Disorder.”

Act 4 outlined the duties then of the CYs agency including initiating a safety assessment or risk assessment or both for the child toward determining if the child is in need of child protective or general protective services. A representative of the CYs agency must also physically see the infant within 48 hours of the referral after having contacted the parents of the infant within 24 hours of the referral. Finally, state law directs the CYs agency to “provide or arrange reasonable services to ensure the child is provided with proper parental care, control and supervision.”

This state law is responsive to a federal provision contained within the Child Abuse Prevention and Treatment Act (CAPTA). This CAPTA requirement, known as a Plan of Safe Care, was placed in federal statute by former Pennsylvania Congressman Jim Greenwood.

During a 2002 Congressional debate, then Congressman Greenwood demonstrated the struggle that still exists. “These babies are born in hospitals, they are frequently underweight, and they are frequently frail. Much money and effort is devoted to bringing them to health. These children do not meet any definition of child abuse, and probably they

<sup>12</sup> Children and Family Futures, Unpublished data, Analysis of the AFCARS dataset, 2013.

<sup>13</sup> Act of Jan. 22, 2014, P.L. 6, No. 4. Retrieved at

<http://www.legis.state.pa.us/cfdocs/legis/li/uconsCheck.cfm?yr=2014&sessInd=0&act=4>

should not, but what happens is they are sent home from hospitals every day in this country and it is only a matter of time in so many instances until they return back to the hospital abused, bruised, beaten, and sometimes deceased. That is because we have not developed a system in this country to identify these children and intervene in their lives.”<sup>14</sup>

In 2001 while Congress was considering enacting the plan of safe care provision, the Washington Post wrote a series (*'Protected' Children Died as Government Did Little*)<sup>15</sup> addressing the deaths of 11 “drug-exposed or medically frail newborns” that had died between 1993 and 2000. The Post traced how the infants “were released to parents whose troubles were well documented by hospitals and social workers.” The series underscores the challenge in 2001 and still today in 2015: “The babies got lost in a system where no one assumes direct responsibility for them. Vague legal definitions and poor communication among caregivers hamstring those who would like to help.”

To be in compliance with CAPTA and to receive CAPTA funding as well as federal Children’s Justice Act (CJA) resources, states must provide assurances in the form of policies and procedures that will refer an infant affected by with prenatal drug- or alcohol exposure to child protective services (CPS) and “the development of a plan of safe care for the infant born and identified as being affected by illegal substance abuse or withdrawal symptoms, or a Fetal Alcohol Spectrum Disorder.”<sup>16</sup>

Pennsylvania receives approximately \$2.7 million annually in CJA and a pool of CAPTA funding.

Even as state and federal law stipulate that these plan of safe care referrals are not child abuse reports, advocates for women, clinically appropriate treatment services, and children rightfully remain unsettled. Experience has demonstrated that too often systems respond punitively with a heavy hand seeing the mother as unfit further contributing to her existing struggle to recover from a chronic health condition – addiction. On the other hand, systems may downplay the risk for the infant, as well as the opportunity, that exists to actively and effectively engage the mother and her infant with support services that can keep both safe and healthy.

Beyond CAPTA and Pennsylvania’s Act 4, other state and federal statutes and funding streams invite PA to intentionally plan, deliver research-informed and evidence-based services, and track outcomes across all child-serving systems.

Beyond the obvious opportunities for expanded access, innovation and parity that is built into the Affordable Care Act (ACA), Pennsylvania is among the states with a Title IV-E Child Welfare Demonstration Waiver<sup>17</sup> that is intended to rebalance child welfare funding and initiatives toward more fully supporting parents at the front-end versus putting money into the backend when safety threats have resulted in the child being placed in out-of-home care.

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<sup>14</sup> Congressional Record Volume 148, Number 46 (Tuesday, April 23, 2002). Retrieved at <http://www.gpo.gov/fdsys/pkg/CREC-2002-04-23/html/CREC-2002-04-23-pt1-PgH1502-5.htm>

<sup>15</sup> <http://www.washingtonpost.com/wp-dyn/content/article/2007/06/29/AR2007062901407.html>

<sup>16</sup> 42 U.S. Code § 5106a - Grants to States for child abuse or neglect prevention and treatment programs

<sup>17</sup> <http://www.pacwrc.pitt.edu/ChildWelfareDemoProject.htm>

Also, the federal Substance Abuse Prevention and Treatment Block Grant (SABG) designates substance-abusing pregnant women as the “number one priority population,” and states must spend at least 20 percent of the funding on substance abuse prevention strategies.<sup>18</sup> Pennsylvania received approximately \$58 million in SABG funds in federal fiscal year (FFY) 2014.<sup>19</sup>

Pennsylvania has been awarded \$12.8 million in formula and competitive funds through the federal Maternal, Infant, Early Childhood Home Visiting (MIECHV) Program.<sup>20</sup> The state has previously received formula and competitive MIECHV funding, but little attention has been focused on the role of MIECHV and other evidence-based home visiting services as a component of intentional plans of safe care for infants.

PA’s MIEHVC Needs Assessment submitted in December 2014 does address the implications of smoking and prenatal substance use on infants.<sup>21</sup> “Women with the most frequent rates of alcohol and drug use were the least likely to abstain from usage during pregnancy, thus further increasing the likelihood of poor birth outcomes in births to these mothers due to the frequency and quantity of usage. Drinking alcohol during pregnancy has not only been linked to poor birth outcomes such as preterm birth and low birth weights, but also to more lasting effects such as heart, brain, and other organ defects, vision or hearing problems, learning disabilities, speech and language delays, and behavioral problems.”

### ***Defining and Determining the Scope of the Challenge and Opportunity***

Children and Family Futures (CCF), which provides technical assistance to Pennsylvania, projects that if plans of safe care were developed and implemented for American newborns with prenatal substance exposure, “as many as 500,000 infants would receive the care and services they need.”<sup>22</sup> In their recent testimony before the National Commission to Eliminate Child Abuse and Neglect Fatalities (CECANF), CCF highlighted that “Out of an estimated 500,000 babies born with prenatal substance exposure, only 22,000 pregnant women were admitted to publicly funded treatment in 2011.” They also demonstrated the difficulty in predicting the overall number if the narrower criteria of “affected by illegal substance abuse or withdrawal symptoms or a fetal alcohol spectrum disorder” is applied.

Below is a chart illustrating (with limitations) the number of live births in PA where the infant was exposed to illegal drugs prenatally or FASD.

### **Pennsylvania live births exposed to illegal drugs or with FASD (2002-2014)<sup>23</sup>**

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<sup>18</sup> What is the Substance Abuse Prevention and Treatment Block Grant (SABG)?, Substance Abuse and Mental Health Services Administration (SAMHSA) retrieved at <http://www.samhsa.gov/grants/block-grants/sabg>

<sup>19</sup> Substance Abuse and Mental Health Services Administration, Justification of Estimates for Appropriations Committee, FY 2016, pp. 246–7.

<sup>20</sup> <http://www.hrsa.gov/about/news/2015tables/homevisiting/>

<sup>21</sup> Pennsylvania’s Maternal, Infant and Early Childhood Home Visiting Needs Assessment, Revised December 2014.

<sup>22</sup> Testimony of Dr. Nancy K. Young, Executive Director, Children and Family Futures (CFF) presented to the National Commission to Eliminate Child Abuse and Neglect Fatalities on April 28, 2015.

<sup>23</sup> Prepared from data submitted by Pennsylvania hospitals to the Department of Health. Retrieved at <http://www.portal.state.pa.us/portal/server.pt?open=514&objID=596752&mode=2>

Year (July 1 <sup>st</sup> – June 30 <sup>th</sup> ) <sup>[1]</sup>	Live births exposed to illegal drugs before birth	Live births with Fetal Alcohol Syndrome
2013-2014 <sup>[2]</sup>	3,119	37
2012-2013	2,706	33
2011-2012	2,686	20
2010-2011	2,586	16
2009-2010	2,588	---
2008-2009	2,356	19
2007-2008	2,728	42
2006-2007	3,288	29
2005-2006	3,092	32
2004-2005	2,389	50
2003-2004	2,325	32
2002-2003	2,533	24

Pennsylvania Preemie Network, which is a program of the Pennsylvania Chapter of the American Academy of Pediatrics,<sup>24</sup> demonstrated the extensive and interdisciplinary concern about Neonatal Abstinence Syndrome (NAS) and its impact on the care and management of the addicted mother and her baby. In spring 2014, more than 600 individuals attended a symposium sponsored by the Network with support from the March of Dimes and The AmeriHealth Caritas Family of Companies.

NAS [refers to](#) “a constellation of typical signs and symptoms of withdrawal that occurs in infants that have been exposed to and have developed dependence to certain illicit drugs or prescription medications during fetal life.”<sup>25</sup> The constellation of signs and symptoms can be “behavioral and physiological.” An infant with “clinical features of NAS” can experience “neurological excitability” (e.g. tremors, seizures, high-pitched crying, irritability) and/or gastrointestinal dysfunction (e.g., poor weight gain, nasal stuffiness, diarrhea, poor feeding).

<sup>[1]</sup>Chart compiled from annual hospital data specific to Infant/neonatal services and utilization. Information can be retrieved at <http://www.portal.state.pa.us/portal/server.pt?open=514&objID=596752&mode=2>

<sup>[2]</sup> Act 4 of 2014 was signed into law on January 22, 2014 with an effective date of 90 days. Act 4 required reporting of any child, up to age one, affected by “(1) Illegal substance abuse by the child’s mother, (2) Withdrawal symptoms resulting from prenatal drug exposure, (3) A Fetal Alcohol Spectrum Disorder.”

<sup>24</sup> <http://www.paaap.org/programs/papn>

<sup>25</sup> Neonatal Abstinence Syndrome Clinical Management Document, Gateway Health Plan, August 2010. Retrieved at [https://www.gatewayhealthplan.com/sites/default/files/documents/PAMA\\_neonatal.pdf](https://www.gatewayhealthplan.com/sites/default/files/documents/PAMA_neonatal.pdf)

Part of the symposium featured presentations from [Jean Ko, PhD](#), an epidemiologist with the Centers for Disease Control and Prevention (CDC) and [Elisabeth Johnson](#), PhD from the University of North Carolina at Chapel Hill who spoke about the mother-baby dyad.

Johnson framed her presentation by enlisting the words of Donald Woods Winnecott: “There is no such thing as a baby – meaning that if you set out to describe a baby, you will find you are describing a baby and someone. A baby cannot exist alone but is essentially part of a relationship.”

Johnson stressed throughout her presentation that “parents need continued education and support at home” underscoring that the infants can often “be difficult to sooth, irritable, have difficulties transitioning and maintaining sleep.” She also highlighted that parents often return to situations that are “highly stressful,” including returning to a situation where intimate partner violence has and continues to exist.

A panel discussion was held to think through strategies that “will decrease variations in practice and foster safe discharge.” Medical professionals from Magee Womens Hospital, Children’s Hospital of Pittsburgh UPMC, Jefferson University Hospital, Penn State Children’s Hospital, Janet Weis Children’s Hospital at Geisinger Health System, Crozer-Chester Medical Center and UPMC Hamot Women’s Hospital participated.

Both prior to and during the event, 10 hospitals shared data about trends and treatment options. Among the highlights:

- None engage in universal screening of mothers;
- Half offer a “special program for pregnant women who are using narcotics, methadone, subutex, illicit drugs;”
- 6 said they have a postpartum program for “drug using/abusing women.”
- 4 responded that babies may be discharged on medication and all then said that there is “follow-up” when discharged home. Even when a child is discharged without medication, the majority (7) said that there is some follow up with the family;
- Half of the hospital keep an infant in the hospital for observation for five or more days if they have observed “signs and symptoms of NAS.” Three keep the infant in the hospital for 3 or fewer days.<sup>26</sup>
- Five said that they refer “all NAS admissions” to children and youth services, while 4 said they make the referral on “selective NAS admissions.” Among the considerations as to whether the referral is made: use of drugs other than methadone, non-prescription substance abuse, positive neonatal meconium toxicology screen.
- Thomas Jefferson University serve “more than 100 pregnant patients on methadone per year” with 40 pregnant patients treated at any given time.
- Magee Women’s Hospital UPMC treated 200 infants for NAS in 2012, 52 infants were treated in a pediatric specialty hospital at the Children’s Home of Pittsburgh – a program that serves as a “bridge to home.”

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<sup>26</sup> During Dr Ko’s presentation she noted that the “onset of signs” of narcotic NAS may be delayed until 5 to 7 days.

- Penn State had 17 infants admitted with NAS, Geisinger Health System 23, Crozer Chester had 50 and UPMC Hamot Women’s Hospital in the Erie region had 44 NAS admissions in 2013.

It is instructive to look at the data from Tennessee, which has implemented a mandatory public health surveillance reporting system related to infants born with a diagnosis of NAS. By making NAS a reportable disease, TN is gaining ([close to real-time data](#))<sup>27</sup> about the incidence of NAS. The NAS data is tracked by communities permitting more targeted prevention and intervention strategies.

The TN data indicates that approximately 1,000 infants were born with NAS in both 2013 and 2014 and the about 60-70% of these NAS infants were born to mothers who are using “at least one substance prescribed by a health care provider (e.g., opioid pain relievers or maintenance medications for opioid dependency).”<sup>28</sup>

Also of interest is that in 2011, Tennessee’s Medicaid program (TennCare) covered the birth and hospitalization costs of 528 infants born with NAS. Twenty-two percent (n=120) of the infants were in the “custody” of the TN Department of Children Services within a year of the infant’s birth.<sup>29</sup>

PA data retrieved from the Office of Clinical Quality Improvement within the Office of Medical Assistance Programs (OMAP) reveals that in 2012, Medicaid covered the birth and hospitalization costs for 1,122 infants diagnosed with NAS at a total cost of approximately \$17.3 million or average per child cost of \$15,400.00.

### ***Moving from Punitive to Preventative***

In 2011, the federal Administration for Children and Families (ACF) within the Department of Health and Human Services (HHS) answered a question from a state about what entity is responsible for this plan of safe care. ACF noted that the federal statute did not specify whether it is the formal child welfare agency or another entity (e.g., hospital, community-based providers) that develop and implement this plan of safe care. ACF did emphasize, in its response, that this plan of safe care “should address the needs of the child as well as those of the parent(s), as appropriate, and assure that appropriate services are provided to ensure the infant’s safety.”<sup>30</sup>

This response demonstrates the challenge and opportunity in that Congress and subsequent federal guidance suggest there is no concrete directive. Instead there appears to be important flexibility in designing and implementing plan of safe cares beyond the formal child welfare system.

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<sup>27</sup> [http://health.tn.gov/mch/nas/nas\\_summary\\_archive.shtml](http://health.tn.gov/mch/nas/nas_summary_archive.shtml)

<sup>28</sup> Mortality and Morbidity Weekly Report, 2015 Feb 13; 64(5):125-8.

<sup>29</sup> Ibid.

<sup>30</sup> Child Welfare Policy Manual produced by the Children’s Bureau, an Office of the Administration for Children and Families. Question 2.1F.1 CAPTA, Assurances and Requirements, Infants Affected by Illegal Substance Abuse, Plan of Safe Care. Retrieved at [http://www.acf.hhs.gov/cwpm/programs/cb/laws\\_policies/laws/cwpm/policy\\_dsp.jsp?citID=351](http://www.acf.hhs.gov/cwpm/programs/cb/laws_policies/laws/cwpm/policy_dsp.jsp?citID=351)

The Commonwealth should use this flexibility with PFS contracts to more intentionally prioritize the health, safety, well-being and permanency of infants across generations and a continuum of child-serving systems.

Through PFS contracts, Pennsylvania can aid local communities in designing and implementing intentional, measurable, and accountable public/private plans of safe care for infants exposed prenatally to or born affected by maternal drug use and Fetal Alcohol Syndrome Disorders (FASD).

Governor Tom Wolf should harness the urgency surrounding Pennsylvania's drug epidemic to cultivate the use of carefully crafted and measured interdisciplinary plans of safe care within a broader continuum of services aimed at reducing and responding to prenatal exposure. This would aid in achieving the objectives set forth by the PA Department of Drug and Alcohol Programs (DDAP) in its 2014-2015 plan for pregnant women and women with children including:

Pregnant women and women with children: Increase access to care, to reduce the burden and entrance into the foster care system.

DDAP indicated they will work with the Office of Children, youth and Families (OCYF) within PA's DHS "to maximize women and children's drug and alcohol treatment program resources as a more effective alternative solution to breaking up families and placing children in foster care." Also set forth as a Pennsylvania goal to "decrease the risk of addicted babies or fetal alcohol affected babies by increasing use of women and children's drug and alcohol treatment programs for pregnant women in need of residential drug and alcohol treatment."

Pennsylvania has the opportunity to leverage PFS contracts to move beyond simple statutory compliance toward becoming a national leader prioritizing the health, safety, well-being and permanency of infants and toddlers.

Pennsylvania has a special opportunity to consider using plans of safe care as part of a broader continuum of services aimed at reducing and responding to prenatal exposure which significantly affects caseloads in many state and local CYS agencies.

A P4S or SIB model could effectively capitalize on private and/or philanthropic investments at the front-end to expand prevention services. Program outcomes would be calculated over time and the government pays back the principal and a rate of return depending on the level of performance achieved. Ongoing statewide technical assistance efforts supported by the National Center on Substance Abuse and Child Welfare are also focusing on prenatal substance exposure as well as the likelihood that children who have been prenatally exposed will eventually enter the child welfare system and other caseloads.

Implementing a P4S option and expanding the focus on plans of safe care would serve as the first building block in a continuum of care for this population of children who often become students and adults facing significant obstacles to their lifelong economic, social, and cognitive stability. Where needed, such plans could dovetail with the individual family

support plans that are required for all children accepted by early intervention services under Part C of the Individuals with Disabilities Education Act (IDEA).

### ***Criteria for Plan of Safe Care PFS Contracts***

The following criteria warrants consideration as PSF contracts for plans of safe care are envisioned:

1. Provide services within the five-stage framework set forth in the 2009 SAMHSA report on substance-exposed infants, as endorsed by the 2012 ONDCP Strategy document.<sup>iii</sup> While the primary focus is screening during pregnancy and at birth, all five stages need to be part of a comprehensive reform: pre-pregnancy public education, prenatal screening, screening at birth, screening and assessment during infant and toddler stages (0-3 years) and support for pre-school developmental care and education.
2. Develop and implement from an interdisciplinary and cross-systems understanding of the complex, yet inter-related, needs of young children and their parents that extend well beyond the formal child welfare system. This more diverse child protection framing should invite involvement and resources of early childhood, maternal and child health, home visiting, and substance abuse and mental health treatment agencies.
3. Demonstrate vision and capacity to design, implement, and measure plans of safe care that are both child- and parent-focused, recognizing that parents' ability to do their part in carrying out such a plan will be as equally important as any role for public or private services.
4. Require universal prenatal screening for substance use using a validated and reliable tool should be implemented 30 days prior to birth and at birth. A positive toxicological screen 30 days prior to birth or at birth, or enrollment of an infant under the age of one year in the substantiated child abuse and neglect caseload should result in a plan of safe care.
5. Access to continuous screening and assessment, including family risk and safety assessments as well as family strengths assessments to ensure services are coordinated to meet the family's needs.
6. Availability of plans of safe care online with the appropriate privacy safeguards, and an interagency memoranda of agreement should include provisions about sharing data regarding the strengths and needs of this population of children and families.
7. Identify specific details about services needed as well as the availability of those services. These details should be based upon an updated inventory of services within the community including the eligibility criteria to receive those services.
8. Demonstrate understanding of and a plan to connect infants and families to existing publicly funded services (e.g., evidence-based home visiting).

### ***Plans of Safe Care as the Basis for Social Investments***

Including fully implemented plans of safe care, as outlined above, in PFS financing enables communities to better achieve positive and concrete measureable outcomes, thus allowing the pay back of advanced front-end funding to service delivery and avoiding future costs to

public systems. This social financing pay back should include provisions that require the following:

1. Tracking children and parents receiving specific services for longer periods of time, from birth to school enrollment.
2. Decisions about whether time frames of 2-3 years, or time frames as long as 5-10 years, should be used as the basis with appropriate involvement of the full range of state and local agencies collecting the data needed to track child and family benchmarks. At a minimum, this would require maternal and child health and early childhood agencies to join with child welfare and substance abuse and mental health treatment agencies in monitoring an agreed-upon set of outcomes and indicators.
3. Partner and stakeholder agreement on the outcomes to be measured, identifying the agencies and staff responsible for collecting outcome measures, and identifying where the added resources for this monitoring and evaluation will be based. The designation of a lead or convener agency will also be essential.
4. Decisions about the outcomes resulting from fully implemented plans of safe care and utilizing these outcomes to develop a continuum of care for children who have been prenatally substance exposed, including:
  - a. Preventing children from entering or returning to the child welfare caseload (against baselines for such children if they are available)
  - b. Reducing the entry of children in special education caseloads who have been prenatally exposed
  - c. Ensuring children who have been prenatally substance exposed enter kindergarten ready to perform at baseline levels, using school readiness measures already in place in the state, including enrollment in quality early childhood education programs
  - d. Ensuring this population of children have a medical home, have health insurance coverage, and are current with necessary checkups and immunizations (under Early and Periodic Screening, Diagnostic, and Treatment where relevant)
  - e. Ensuring that parents who need substance abuse treatment enroll in either short- or long-term care or services and successfully complete treatment
  - f. Tracking costs of the continuum of care involved with plans of safe care, including cost avoidance, using a compilation of available cost information about Newborn Intensive Care Unit care for prenatally exposed infants, Medicaid costs incurred for such infants, special education and other projected costs based on the cost studies that have been done for the past twenty years in the US and Canada. This cost data is critical to explaining the need for and the potential payoffs from a social financing approach to plans of safe care.<sup>iii</sup>

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<sup>i</sup> Substance-Exposed Infants: State Responses to the Problem. Retrieved from <https://www.ncsacw.samhsa.gov/files/Substance-Exposed-Infants.pdf>

<sup>ii</sup> National Drug Control Strategy 2012. Retrieved from [https://www.whitehouse.gov/sites/default/files/ondcp/2012\\_ndcs.pdf](https://www.whitehouse.gov/sites/default/files/ondcp/2012_ndcs.pdf)

<sup>iii</sup> A compilation of these estimates and cost data is being prepared by CFF.

May 8, 2015

Ms. Traci Anderson  
Governor's Budget Office  
333 Market Street, 18th Floor  
Harrisburg PA 17191 2210

Solicitation: Pay for Success Initiative #OB 2015-1

Dear Ms. Anderson,

TcRn Management, LLC (TcRn) is pleased to submit this RFI response to the Commonwealth of Pennsylvania for its Pay for Success Initiative. There are two initiatives specifically that we would like to propose for consideration under this solicitation.

The first is perhaps more in line with the spirit of this RFI; an online interactive game application that promotes **financial literacy** using social media and if managed correctly will yield economic benefits prospectively. The game is for all ages and well-suited for a pay for performance structure. We will provide greater details by the time the RFP is issued.

The other, "ready now," initiative that TcRn is proposing for consideration is effectively addressing the Commonwealth's **Distress Municipalities**. According to a list of Act 47 Distress Determinations, since 1987 on average every 16 months a municipality in the Commonwealth of Pennsylvania end up on this list, not counting those designated then rescinded Boroughs and Townships.

Municipalities, like the City of Coatesville, received hundreds of thousands of dollars from the government to produce historical research findings on "how we got here." However, the inability to effectively analysis the data and implement strategic and tactical plans jeopardizes the fiscal integrity of the municipality and places the health, safety and welfare of their citizens at risk and a financial burden to the Commonwealth. The Department of Economic Development can provide the opportunity cost associated with the Commonwealth's current approach to address the financial distress.

While TcRn may not be the only firm with bona fide credentials to address the structural complexities commonly found in municipalities in financial distress; we are the only African-American owned firm to have successfully done so in Pennsylvania. To date the City of Coatesville has never lost their AAA credit rating and now receives timely MMO receipts after clearing longstanding audit exceptions associated with comingled pension funds.

TcRn Management is an information technology services consultancy to the federal government and prime contractor firms. We have expanded our expertise from strategic planning, content management, cloud services, telecommunications, CPIC, and enterprise architecture to include business process improvement, internal controls, accounting, cyber security, surveillance and open source intelligence. As a minority owned, small disadvantaged business (SDB) with broad public sector and private sector contacts we have leveraged our ability to partner with Booz Allen Hamilton (BAH) et. al. to cooperatively market and bid opportunities, lead and or support contract engagements, and maximize our participation in the performance of service contracts.

Our management team is results-driven, accomplished executives with over twenty-five years of sustained quality performance with proven leadership, performance, and experienced management, incorporating precision and detail in our networking abilities to rapidly evolve opportunities in competitive environments.

TcRn is made up of individuals with endless enthusiasm, who strive to apply brilliance in their efforts on behalf of our clients. We look to hire employees who are passionate about technology innovations and providing customers with the benefit of their experience, aptitude and integrity.

The key management pool consists of former public and private sector Senior Executives and Managers from the Intelligence and Military community.

### **Key Practice Areas**

- Program & Project Management
- Business Process Reengineering
- Systems and Network Integration
- Enterprise Project Management
- Virtualization Architecture
- Internal Controls Assessment
- Cyber Security Management
- Technical Surveillance Counter Measures (TSCM)
- Open Source Intelligence (Homeland Security, Law Enforcement and Counter Terrorism)

## Core Competencies

- Requirements Analysis
- Business Process Modeling
- Cloud Services
- Investment Review
- Telecommunications
- Strategic Planning
- Program & Project Management
- Alliance & Partnerships
- Performance Metrics
- Enterprise Architecture
- Capital Planning
- Content Management
- Process Improvement
- Budget & Forecasting
- Accounting Services
- Cyber Program Management
- Cyber Security Management
- Acquisition Support Services
- Network Operations -for Intelligence and Law Enforcement
- Technical Surveillance Counter Measures (TSCM)
- Systems and Software Engineering
- Virtualization Architecture
- Systems and Network Integration
- Open Source Intelligence - for Homeland Security
- Law Enforcement and Counter Terrorism
- Information Technology and Security
- Health and Clinical Services
- Planning and Development
- Research and Policy Studies
- Health Informatics
- Program Management and Support
- Peer Review and Grants Management
- Research and Evaluation
- Training and Technical Assistance
- Systems Development and Operations
- Logistics
- Professional Services
- Web Development Services
- Software Engineering
- Systems & Network Integration
- Capital Planning & Investment Control (CPIC)
- Cost Benefit Analysis (CBA)

## **Past Engagements** (prior to the formation of TcRn)

- Department of Justice (OJP, JMD)
- Defense Intelligence Agency (JITF-CT)
- U.S. Department of Homeland Security (OCIO, Department Management)
- Office of the Secretary of Defense (NII)
- U.S. Navy (SeaPort-e)
- Department of State (SASI, WPM)
- Department of Justice (FBI)
- U.S. Department of Defense (DOD)
- Department of the Treasury (DoT)
- U.S. Department of Veteran Affairs (USDVA)
- U.S. Department of Agriculture (USDA)
- U.S. Department of Interior (DOI-BLM)
- Defense Intelligence Agency (DIA)
- U.S. Department of Housing and Urban Development (HUD)
- National Aeronautics and Space Administration (NASA)
- U.S. Department of Health and Human Services (HHS)
- National Oceanic and Atmospheric Administration (NOAA)
- U.S. Postal Service (USPS)
- Library of Congress (LoC)
- City of Philadelphia
- City of Coatesville
- Federal Emergency Management Agency's (FEMA)
- Federal Deposit Insurance Corporation (FDIC)
- Department of Labor (DOL)
- Yellow Pages
- Mars
- Sallie Mae
- Channel Advisor
- Bridgewater Associates

## **Partners**

- Booz Allen Hamilton
- Ross Technologies
- DB Consulting

**Pennsylvania Pay for Success  
Request for Information Response  
Center for Schools and Communities  
275 Grandview Avenue, Suite 200  
Camp Hill, PA 17011  
717-763-1661**

❖ ***What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania?***

Home Visitation: Parents as Teachers (PAT), is a voluntary evidence-based home visiting model that provides parenting education and family support and builds protective factors, especially among families in vulnerable situations. Currently there are 80 Parents as Teachers providers in Pennsylvania implementing the evidence based model. These programs served 9,819 children in 7,123 families through 113,528 home visits in 2013-2014 in Pennsylvania. The waiting list for services was 1,068 among the existing PAT programs in PA. Of all children under age five in PA only 35% are reached by direct impact Early Care and Education Programs. (OCDEL 2011-2012 PA County Reach and Risk Assessment) There is an unmet need for services to families with young children.

PAT's approach and research-informed curriculum focuses on parent-child interaction, development-centered parenting, and family well-being. Professional parent educators strengthen families by providing parents with knowledge, activities, screenings and resources during home visits. Unlike other models which serve only first-time moms, or single parents or teens, PAT engages with families in a much broader way. PAT parent educators work with families as early as during pregnancy and on through kindergarten entrance and that first year of school. The program is culturally adaptable to work in many different environments. For instance, several Early Head Start, and Head Start Centers incorporate or blend PAT with another into their service delivery model. Thirty-five percent of PAT affiliates in Pennsylvania are blended programs. Parents as Teachers programs work with families over a longer period of time, to ensure greater depth of knowledge and increased likelihood of continued positive outcomes.

Independent evaluation has been integral to the success of Parents as Teachers. Researchers have used rigorous research designs, including randomized controlled trials and quasi-experimental methods. Studies published in peer-reviewed journals have shown statistically significant effects of Parents as Teachers, demonstrating that Parents as Teachers achieves its goals and makes a difference in the lives of children and families by producing the following outcomes:

- Increases parent knowledge of early childhood development and improves parenting practices
- Provides early detection of developmental delays and health issues
- Prevents child abuse and neglect
- Increases children's school readiness and school success

Moreover, through its Home Visiting Evidence of Effectiveness (HomVEE) review, the Department of Health and Human Services has conducted a thorough and transparent review of the home visiting research literature and provided an assessment of the evidence of effectiveness for home visiting programs models that target families with pregnant women and children from birth to age five. Parents as Teachers meets the HomVEE criteria, with favorable, replicable and sustainable outcomes in Child development and school success (Drazen & Haust, 1993; Drotar, Robinson, Jeavons & Kirchner, 2009;

Wagner & Clayton, 1999); family economic self-sufficiency (Drazen & Haust, 1993); Parenting practices (Wagner & Clayton, 1999); and reductions in child maltreatment (Drazen & Haust, 1993).

Parents as Teachers is a cost effective intervention. According to a 2014 comparison of costs per family in evidence based home visiting models by Mathematica Policy Research, Parents as Teachers had the lowest average cost per family at around \$2500 compared to over \$8000 for other models. In Pennsylvania the range is \$ 2,000 - \$4,500 depending on the family size, number of visits, program location and transportation costs. Parents as Teachers low short term costs are more than offset by the immediate and long-term benefits through the reduction in the need for special education and remediation, better health outcomes, reduced need for social services, and increased self-sufficiency and productivity among families.

❖ ***What considerations should the Commonwealth take into account in structuring Pay for Success contracts?***

A key element to developing a successful statewide home visiting system is that relevant governance structures operate in a coordinated and inclusive fashion across departments and deploy intentional strategies for maximizing's the benefits of home visiting work. The state's current family support center, home visiting and parent education strategies cross multiple departments, funding entities and local delivery systems. Responsibility for these strategies is diffuse and coordination is limited. Addressing this would have impacts for local providers as they implement programs.

Evidence-based home visitation programs have national and in some cases state training and technical assistance providers which should be included in the Pay for Success structuring contracts. The Center for Schools and Communities is the Pennsylvania Parents as Teachers state office.

Consider risks to the families and communities who may be served. Restrictions on enrollment for instance may have unintentional consequences of reducing services to families in need. Consider the size, capacity and sophistication of the local organizations which deliver services and provide appropriate support services to them to ensure successful implementation of the programs.

Investing in human growth and development is critical to our society, and investors must be made aware of the evolutionary nature of the work. It takes time.

❖ ***What outcomes should the Commonwealth prioritize in Pay for Success contracts?***

Outcomes should be measureable results that have a positive impact with the children and families served, and can result in positive effects within public systems. PAT outcomes could include:

- Timely health and develop screenings of children that serve as an early warning system and provide a basis for referral to early intervention or health services as appropriate. At a minimum, the screenings provide information to parents and care givers about a child's capabilities and temperament that allow them to initiate developmentally relevant activities and respond appropriately to the child's behavior.
- Goal attainment with families that focus on family safety, security and stability. At least 74% of the PAT families who set at least one goal reached that goal within one year in the 2013-14 year.

- Children are ready for school as measured by Kindergarten Entrance Inventory for children whose families participate at least two years of PAT.
- Less referral for child abuse and neglect for families enrolled in PAT compared with general public.

❖ ***Are there opportunities for the Commonwealth to partner with local government entities on Pay for Success contracts that achieve savings and benefits at multiple levels of government?***

Early childhood home visitation programs have natural linkages at county and municipal levels with children and youth agencies, health departments and school districts and/or intermediate units. A cross system approach at a local level can ensure that PAT and other early care and education services (home visiting programs, child care, Head Start, Pre-K Counts and others) are appropriately represented, and can take part in setting and achieving local goals for health, safety and school readiness and success outcomes in children and family strengthening and community stability.

James Heckman, Nobel Laureate in Economics and expert in the economics of human development has conducted ground-breaking research to demonstrate that investing in early childhood education for at-risk children is a cost effective strategy for reducing social costs, promoting economic growth. His research indicates that for every \$1 invested in to early childhood education, the return is between \$7 and \$12. Few investments can boast such a high return.

❖ ***What lessons can the Commonwealth learn from the experience in other states that have implemented Pay for Success contracts?***

Parents as Teachers in Salt Lake City, Utah is currently engaged in a Pay for Success project to address avoidance of special education placement.

❖ ***What other information would be useful to the Commonwealth of Pennsylvania in preparing a formal Request for Proposals for Pay for Success contracts?***

Community based collaboration among families, service providers and schools provides a network of support. Pay for Success ventures should capitalize on coordination and collaboration among stakeholders rather than focus on growing competition among providers.