

## Improving Outcomes through Pay for Success Financing

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 President's 2015 Budget dedicates up to \$382 million to Pay for Success efforts.

**Pay for Success Helps Agencies Better Target Specific Outcomes.** The President's 2015 Budget allows for up to \$82 million to support Pay for Success initiatives across eight programs in the Departments of Education, Justice, and Labor and the Corporation for National and Community Service (CNCS). Because these dollars go primarily to outcome payments for measurable achievements—instead of processes or ineffective programming—government, providers, and other stakeholders can rethink how we provide services in such areas as workforce development, special education, juvenile justice and care of children with disabilities. In addition, the Budget proposes a new demonstration allowing the Department of Housing and Urban Development (HUD) to use Pay for Success to finance energy efficiency retrofits in HUD-assisted housing through reductions in utility costs.

**Pay for Success Creates Incentives for State, Local, and Tribal Governments to Innovate.** The President's 2015 Budget also re-proposes a \$300 million Pay for Success Incentive Fund at the Department of the Treasury to help empower State, local, and tribal governments to adopt Pay for Success. This one-time mandatory appropriation will support Pay for Success projects that achieve savings across programs and across levels of government by providing funds for outcome payments as well as credit enhancement to build investor confidence in this emerging model. The fund would provide State and local governments with stronger incentives to support interventions that yield savings in Federal programs alongside better outcomes in communities.

**Pay for Success Engages Philanthropic and Private Sector Investors to Deliver Better Outcomes.** Under Pay for Success, a State, local, or Tribal government enters into a contract with an intermediary organization or a service provider that specifies outcomes to achieve for a particular population, a methodology to measure results, and payments that government will make for results. Using operating funds primarily provided by philanthropic or other investors, the private sector has flexibility to deliver the most effective services. Pay for Success is suited to support interventions that:

- Have a high probability of success based on prior evidence of impact or promising new approaches;
- Have measurable outcomes accompanied by sound evaluation methodologies;
- Are overseen by experienced managers that have flexibility to adjust their approach as necessary to achieve the specified outcomes;
- Would yield future cost savings to the government, if successful.

**Federal Agencies Are Committed to Improving Results through Pay for Success.** The Administration began implementing Pay for Success in FY 2012 using existing authorities. In September 2013, the Department of Labor awarded almost \$24 million to the States of Massachusetts and New York to increase employment and reduce recidivism among formerly incarcerated individuals through the Workforce Innovation Fund. In September 2012, the Department of Justice awarded a Pay for Success implementation grant to Cuyahoga County, Ohio

and a planning grant to Lowell, Massachusetts under the Second Chance Act as well as a contract to develop a blueprint for governments to use Pay for Success to reduce recidivism.

In the Consolidated Appropriations Act, 2014, Congress authorized the Department of Justice to use up to \$7.5 million of Second Chance Act funding to support Pay for Success, including \$5 million to implement projects using the permanent supportive housing model. Congress also authorized the Corporation for National and Community Service to use up to \$14 million for Pay for Success awards under the Social Innovation Fund.

## Pay for Success in the President's FY15 Budget Proposal

Initiative	Agency	Funding (millions)	Budget Reference
Incentive Fund	Treasury	\$300	<a href="#">Budget in Brief, p. 3 and 17</a> <a href="#">Departmental Offices Congressional Justification, p. DO-15</a>
Workforce Innovation Fund	Departments of Labor and Education	\$10	<a href="#">Training &amp; Employment Services Congressional Justification, p. TES-3</a>
Investing in Innovation (i3)	Department of Education	\$10	<a href="#">Innovation &amp; Instructional Teams Congressional Justification, p. H-39</a>
Fund for the Improvement of Education	Department of Education	\$8	<a href="#">Innovation &amp; Instructional Teams Congressional Justification, p. H-131</a>
Career and Technical Education	Department of Education	\$10	<a href="#">Career, Technical, &amp; Adult Education Congressional Justification, p. O-14</a>
Second Chance Act (Supportive Housing and Offender Re-entry)	Department of Justice	\$30	<a href="#">Office of Justice Programs Congressional Justification, p. 11 and 141-142</a>
Social Innovation Fund	Corporation for National and Community Service	\$14	<a href="#">CNCS Congressional Justification, p. 15 and 48</a>
Project-Based Rental Assistance	Department of Housing and Urban Development	Demonstration Authority	<a href="#">Budget Appendix, p. 629 Sec. 232</a>
<b>Total</b>		<b>\$382</b>	