Pay for Success refers to a performance-based contract between government agencies and service providers, with the government paying only if the provider generates results.\(^1\)

Under a Pay for Success (PFS) deal, also known as Pay-for-Performance or Social Impact Bonds, a government agency enters into a contract with an intermediary organization to achieve specific outcomes that will produce government savings. The contract specifies how results will be measured and the level of outcomes that must be achieved for government to make payments. The intermediary selects one or more service providers to deliver a proven or promising intervention expected to produce the desired outcomes. Funding for service delivery comes from outside investors, often secured by the intermediary. If the desired outcomes are achieved, then government pays the intermediary, which in turn pays investors.\(^2\)

Pay for Success offers innovative ways for governments to deal with ongoing social challenges (such as crime, homelessness, juvenile delinquency, and unemployment), in a more cost effective way with support from private investors. By involving private capital investments, federal, state and local governments can utilize PFS to support and expand much-needed social services, while improving the lives of their residents.

Although multiple PFS projects are currently being developed in the U.S. and around the world, this document summarizes those finalized projects that were implemented as of the date of publication.\(^3\)

**INTERNATIONAL ACTION**

Social Impact Bonds (SIBs) were pioneered in the United Kingdom. The first SIB was launched in 2010 at Peterborough Prison near Cambridge, England to provide rehabilitation services for short-sentence prisoners released to reduce recidivism.\(^4\) To date, a total of 24 SIBs have been launched in the UK on a range of issues, from helping young people attain work to reducing homelessness. From the UK, interest in SIBs has spread across the globe to 8 countries including the United States. As of March 2015, there are 38 established Pay for Success deals around the world.\(^5\)
FEDERAL ACTION

U.S. Department of Labor
On July 22, 2014, President Obama signed the Workforce Innovation and Opportunity Act (WIOA) into law. This new bipartisan law, which authorizes the three largest federal workforce development programs (Youth Workforce Investment program, Adult Employment and Training program, and Dislocated Workers Employment and Training program), includes new provisions which: (1) increase the amount of WIOA funds states can set-aside and distribute directly from 5-10% to 15% and authorize them to invest these funds in Pay for Performance initiatives; (2) authorize states to invest their own workforce development funds, as well as non-federal resources, in Pay for Performance initiatives; (3) authorize local workforce investment boards to invest up to 10% of their WIOA funds in Pay for Performance initiatives; and (4) authorize states and local workforce investment boards to award Pay for Performance contracts to intermediaries, community based organizations, and community colleges.

In September 2013, the U.S. Department of Labor awarded almost $24 million to Massachusetts and New York to increase employment and reduce recidivism among formerly incarcerated individuals through the Workforce Innovation Fund. These grants helped support the launch of two of the earliest PFS deals in the country. Grant funds will be released in installments based on whether the desired outcomes are met. Both states must use rigorous evaluation methods to measure and to demonstrate the results of their programs, which will be independently validated.6

U.S. Department of Justice
In September 2012, the U.S. Department of Justice awarded a Pay for Success implementation grant to Cuyahoga County, Ohio and a planning grant to Lowell, Massachusetts through its Second Chance Act program. The program goals are “to reduce recidivism, provide reentry services, conduct research, and evaluate the impact of reentry programs.” The Department also commissioned the Urban Institute to develop a blueprint for governments wanting to use Pay for Success to reduce recidivism, which was published in June 2014.7 The FY14 and FY15 federal appropriations bills also authorized the Department to invest up to $7.5 million of its Second Chance Act funds in Pay for Success efforts, including $5 million to implement projects using the Permanent Supportive Housing model.8

U.S. Department of Housing and Urban Development
On November 2, 2015, the Department of Housing and Urban Development and the Bureau of Justice Assistance at the Department of Justice launched an $8.7 million demonstration grant to address homelessness and reduce recidivism among the justice-involved population. The Pay for Success Permanent Supportive Housing Demonstration will test cost-effective ways to help persons cycling between the criminal justice and homeless service systems, while making new Permanent Supportive Housing available for the reentry population.9
Corporation for National and Community Service
The FY14 and FY15 appropriations bills authorized the Corporation for National and Community Service (CNCS) to invest up to 20% of Social Innovation Fund (SIF) funds (up to $14 million) in Pay for Success initiatives. In October 2014, CNCS announced the inaugural round of 8 Pay for Success grants. All grantees are tackling challenges within the SIF’s key focus areas of economic opportunity, healthy futures, and youth development. Federal grant dollars must be matched by the grantee with nonfederal dollars and services. The 8 grantees include: Corporation for Supportive Housing; Green & Healthy Homes Initiative, Coalition to End Childhood Lead Poisoning; Harvard Kennedy School Social Impact Bond Lab; Institute for Child Success, Inc.; National Council on Crime and Delinquency; Nonprofit Finance Fund; Third Sector Capital Partners; and University of Utah David Eccles School of Business PFS Lab.

White House Action
In November 2015, the White House launched a Pay for Success Interagency Learning Network to deepen and widen knowledge about how PFS can test innovative ideas, scale what’s working, and drive better outcomes. The Network builds on federal work to date and responds to growing interest among states and communities. A 2015 GAO report recognized the value in more formal interagency collaboration in this field. On November 3, 2015, as part of a Presidential Memorandum on mitigating impacts on natural resources from development and encouraging related private investment, the White House directed five federal agencies, including the U.S. Department of Defense, to use Pay for Success contracts to achieve environmental protection goals. This language marks the first time that Pay for Success has ever been noted in a Presidential directive.

FY16 Federal Budget Request
The Obama Administration’s FY16 Budget request calls for up to $64 million to support Pay for Success initiatives through four programs in the U.S. Departments of Education and Justice and the Corporation for National and Community Service (CNCS). The Budget Request also seeks demonstration authority allowing the U.S. Department of Housing and Urban Development (HUD) to use PFS deals to finance energy efficiency retrofits in HUD-assisted housing through reductions in utility costs. It also re-proposes a $300 million Pay for Success Incentive Fund at the U.S. Department of the Treasury to help empower state, local, and tribal governments to adopt PFS initiatives. This one-time mandatory appropriation would support PFS projects that achieve savings across programs and levels of government by providing funds for outcome payments as well as credit enhancement to build investor confidence in PFS.

Federal Legislation (113th Congress)
In June 2014, U.S. Representatives Todd Young (R-IN) and John Delaney (D-MD) — along with seven other bipartisan cosponsors — introduced the Social Impact Bond Act (H.R. 4885). This legislation would create a one-time $300 million fund at the U.S. Department of Treasury to support the development of new social impact bond deals at the state and local level over the next 10 years. The bill has broad bipartisan support.
In July 2014, U.S. Senators Michael Bennet (D-CO) and Orrin Hatch (R-UT) introduced the Pay-For-Performance Act (S. 2691), a companion bill to H.R. 4885, that would create a $300 million fund at Treasury to support PFS at the state and local level.

**Federal Legislation (114th Congress)**

In July 2015, the U.S. Senate passed S. 1177, the Every Child Achieves Act (ESEA), by a vote of 81 to 17. This legislation includes the following Pay for Success provision, which will help improve education outcomes for our nation's children by making federal education programs more focused on data and evidence. S. 1177 would (1) allow states and local school districts to use their ESEA Title I, Part D (Programs for Neglected, Delinquent, and At Risk Children and Youth) funds for Pay for Success initiatives; (2) allow local school districts to use their ESEA Title IV, Part A (Safe and Drug Free Schools) funds for Pay for Success initiatives; and (3) allow states to use early childhood coordination funds for Pay for Success.

In July 2015, the U.S. House passed H.R. 5, the Student Success Act, by a vote of 218 to 213. The Bill included several provisions to focus on data and evidence. The Pay for Success provision included in Part A (Teacher Preparation and Effectiveness, approximately $2.3 billion in FY15) for Pay for Success initiatives and allow states and local school districts to use Teacher and School Leader Flexible Grant funds (authorized at $697 million) for Pay for Success.

**STATE ACTION**

**New York**

In December 2013, New York announced the launch of the first statewide PFS project in the United States. Through this project, 2,000 formerly incarcerated individuals are receiving evidence-based employment training and job placement services over 4 years through the Center for Employment Opportunities. New York State selected Chesapeake Research Associates as its independent evaluator and Social Finance Inc. (SFI) as its intermediary organization. SFI has brought all of the partners together, structured the investment, and supported the capital raising effort. Bank of America and Merrill Lynch raised $13.2 million from investors of which $1.3 million is being guaranteed by the Rockefeller Foundation. The Robin Hood Foundation invested $300,000. As described above, in September 2013, New York received a $12 million Pay for Success grant from the U.S. Department of Labor and additional funds were also included in the 2013-14 state budget.11

**Massachusetts**

In January 2013, Massachusetts launched a PFS project to help almost 1,000 young men who are in the probation system or exiting the juvenile justice system and have a high risk of re-offending. The 7-year project is being implemented by Roca, Inc. in the Boston and Springfield areas. Third Sector Capital Partners is serving as the project’s intermediary. Goldman Sachs, the Laura and John Arnold Foundation, New Profit, The Boston Foundation, The Kresge Foundation, and Living Cities provided $18 million in grants and loans to fund the deal. If the project successfully decreases incarceration, increases job readiness, and increases employment among the young men served,
Massachusetts will make up to $27 million in success payments to these funding organizations. As stated above, in 2013, Massachusetts received an $11.7 million grant from the U.S. Department of Labor which will enable the Commonwealth to extend the project, should it prove successful, to an additional 391 young men.\textsuperscript{12}

**LOCAL ACTION**

**New York City**
In August 2012, New York City announced the formation of the nation’s first local PFS project. This deal supports a cognitive behavioral therapy program, the Adolescent Behavioral Learning Experience (ABLE), for 16- to 18-year-olds detained at Rikers Island. The goal is to reduce the high recidivism rate for this population by focusing on personal responsibility education, training, and counseling. Goldman Sachs is providing financing, Bloomberg Philanthropies is providing grant support for the effort, and the non-profit organization, MDRC, is overseeing project implementation. The program was designed with The Osborne Association and Friends of Island Academy, who are running the day-to-day operations of this SIB deal. In July 2015, the Vera Institute of Justice released the results of its evaluation, and it found that ABLE did not meet its goal in reducing recidivism rates the City sought to achieve. Although the program will be discontinued on August 31, 2015, it demonstrated that social impact bonds (SIBs) produce positive outcomes by saving taxpayer dollars; allowing a means for government officials and investors to determine metrics and results that are considered successful; and promoting a culture of sound decision-making based on data- and results-driven targets. The experience offered valuable lessons for SIBs and innovative government programs.\textsuperscript{13}

**Salt Lake City**
In June 2013, the United Way of Salt Lake announced the launch of a PFS project to expand early childhood education services for at-risk children in the Granite and Park City school districts. The $7 million initial investment - with up to $4.6 million from Goldman Sachs and $2.4 million from the Pritzker Family Foundation - is being invested in the United Way of Salt Lake's Utah High Quality Preschool Program. The program, which is being run by Utah Voices for Children, is set to expand the spots in the program for 600 more children, in the first year. The 5% top payout to investors will come from anticipated cost savings due to students not needing state-sponsored special education services.\textsuperscript{14} In October 2015, results were released of the first cohort of program participants, showing promising impact. In the 2013-14 school year, 595 low-income 3- and 4-year-olds attended preschool. Based on a predictive standardized test, 110 of the 4-year-olds were identified as likely to use special education in grade school. Of those 110 students, only 1 used special education services in kindergarten. The 110 students will continue to be monitored through 6th grade, generating further success payments based on the number who avoid use of special education in each year.\textsuperscript{15}

**Chicago**
In October 2014, Chicago launched a PFS project to provide pre-K services to over 2,600 children in high-need communities over 4 years. The deal will expand services by the Child Parent Center to preschool children and their parents, and is designed to improve
child development, parenting skills, health and nutrition, and academic achievement. The intervention is being supported by the Goldman Sachs Social Impact Fund, the Northern Trust Company, and the J.B. and M.K. Pritzker Family Foundation, which together will provide nearly $17 million funding. The Finnegan Family Foundation will underwrite a portion of the evaluation costs. Metropolitan Family Services (MFS) will serve as the project intermediary.

**Cuyahoga County, Ohio**

In December 2014, Cuyahoga County, Ohio launched the nation’s first county-level PFS project. The Partnering for Family Success Program will deliver intensive 12-15 month treatment to 135 homeless families over five years to reduce the length of out-of-home foster care placements for their children. FrontLine Service, a comprehensive continuum of care service provider for homeless persons in Ohio, will manage the project. Cuyahoga County will make up to $5 million in success payments for this five-year project, which is supported financially by The Reinvestment Fund, The George Gund Foundation, The Cleveland Foundation, Sisters of Charity Foundation of Cleveland, and Nonprofit Finance Fund.

**Greater Boston, Massachusetts**

In April 2015, the Common Wealth of Massachusetts announced the launch of the U.S.’s first adult education and work force development PFS project. The Massachusetts Adult Basic Education Initiative will serve nearly 2,500 adult learners by combining English language instruction and vocational training. The Jewish Vocational Service (JVS) and Social Finance, the project’s service providers, recognize that lack of access to English language instruction is a main barrier to employment opportunities, college preparedness, and other employment services. Funded by a $225,000 grant from the Nonprofit Finance Fund (NFF) and the larger PFS federal effort backed by the Corporation for National and Community Service’s Social Innovation Fund (SIF), the Initiative’s potential measurable outcomes include increased earnings, improved employment, and post-secondary enrollment.

**CONCLUSION**

Across the nation, demand is growing for improving the effectiveness and efficiency of government services. Pay for Success is one way government has sought to leverage data, evidence, and evaluation to attract greater investment in programs that seek to improve outcomes for vulnerable populations. We are encouraged by the momentum behind PFS and hope that more policymakers will consider implementing this innovative and results-driven financial model in their communities and states.
ADDITIONAL RESOURCES

Individuals interested in learning more about Pay for Success may contact the following organizations, which are helping promote PFS in the U.S. and around the world:

- Harvard Kennedy School Social Impact Bond Technical Assistance Lab
- Nonprofit Finance Fund
- Social Finance
- Third Sector Capital Partners
About the Invest in What Works Policy Series

This fact sheet is part of Results for America’s Invest in What Works Policy Series, which provides ideas and supporting research to policymakers to drive public funds toward evidence-based, results-driven solutions. Results for America is improving outcomes for young people, their families, and communities by shifting public resources toward programs, practices, and policies that use evidence and data to improve quality and get better results.

End Notes

1 For this definition, we are indebted to Third Sector, “Case Study: Preparing for a Pay for Success Opportunity” (Boston: Author, 2013), accessed at http://www.thirdsectorcap.org/wp-content/uploads/2013/04/Third-Sector_Roca_Preparing-for-Pay-for-Success-in-MA1.pdf.


3 Please contact Jeremy Ayers at jeremy.ayers@americaachieves.org with additional information regarding any other PFS initiatives currently in operation.


