Using Data and Dollars to Drive Equitable Outcomes: A New Federal Economic Mobility Outcomes Fund
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Executive Summary

The COVID-19 pandemic created joint public health and economic crises while highlighting the country’s long-standing issues with racial justice. The American Rescue Plan (ARP) gives states and local governments $350 billion to make progress in advancing racial and economic equity and to better support communities that have been left behind. To achieve lasting results, states and localities will need to do two things: use data and dollars effectively right now to drive better outcomes, and at the same time, build the knowledge and infrastructure for more successful investment after this crisis ends.

Recognizing the need to drive outcomes, the Biden–Harris Administration has embraced a data-driven government. They have released groundbreaking memoranda on building and using data and evaluation across federal programs, and guidance that allows ARP dollars to be used for building evidence, including impact evaluations and making impact payments. These orders and guidance recognize smart investments—focused on outcomes, driven by lived experience and data—can achieve lasting gains in the educational, employment, and health outcomes of families. Conversely, ineffective investments, particularly ARP investments, do a disservice to the communities they are serving and sour public opinion on the government’s power to improve lives.

Local governments need tools and incentives to help change old habits and improve outcomes. Perhaps the most important way to drive results is to use smart government contract structures that condition funding on measurable outcomes. Linking dollars to results drives impact, but change is hard and communities need incentives.

A new outcomes fund could be the incentive state and local governments need. A $500 million Economic Mobility Outcomes Fund (Outcomes Fund) housed within The Treasury Department’s Office of Domestic Finance’s Community and Economic Development Fund would provide matching dollars for outcomes-based payments to local governments, as well as the infrastructure and capital to support this shift. Through the Fund, local governments could expand programs funded by ARP, or any other dollars, that are getting results for residents. In addition, the Fund would build data and reporting infrastructure which local governments and their partners could use to improve outcomes even beyond particular funded projects.

Because communities understand their own contexts better than anyone, Outcomes Fund projects would be developed by government and community partners working together. By using a relatively modest $500 million investment to incentivize state and local governments to spend their billions of dollars in recovery funds in a way that drives outcomes, the Fund would have a massive multiplying effect on current efforts to advance racial equity and increase economic mobility.
Introduction

Federal, state and local governments have a unique opportunity to use recovery resources to tackle long-standing racial and economic inequalities while addressing the impacts of the COVID-19 pandemic. The seemingly intractable economic, educational, and health disparities of today reflect centuries-old racial inequities. Social and economic mobility has declined, such that the average American no longer expects to experience greater prosperity than their parents. In much of the country, regional inequities amplify these challenges.

Through the American Rescue Plan Act (ARPA), states and localities are receiving $350 billion in relief funding. In some communities, these dollars will simply allow for the restoration of cuts in important services. In others, it will be possible to invest in new programs that address structural inequities and increase economic mobility. This funding creates an extraordinary opportunity. Investing funds based on the outcomes they deliver can help communities realize these opportunities.

Outcomes-based contracting is an effective, tested, results-based tool that both state and local governments can use to drive impact. Unfortunately, such contracting is often not a part of regular government business operations and contracting processes. Simply delivering services is challenging enough for governments often lacking staff capacity or information technology infrastructure. Data systems needed to track and report on results are often siloed across different programs and baked into legacy systems that do not meet contemporary needs for data sharing and integration. Regular performance-based routines for analyzing and improving results are not the norm. Even when there are improvements in the use of data to monitor outcomes, fundamental incentives do not change -- payment is often tied to cost reimbursement rather than results -- and therefore the outcomes for the communities served do not change. Incentivising state and local governments to invest funds based on outcomes can change the trajectory.

Definitions

Outcome: A goal or long-term result that governments are seeking to achieve through a key procurement, contract, or grant for individuals or population.

Examples of Outcomes: Kindergarten readiness, children who read at (or above) grade level by 3rd grade, high school graduation, post-secondary access and completion, and stable, high-quality employment.

Outcomes-based Contract: A contract in which the payment is tied to measuring and achieving outcomes rather than inputs or outputs; may contain bonus payments for the achievement of specific goals.

Examples of outcomes-based contracts: Pay-for-performance, pay for success, or other results-driven contracting vehicle.

Evidence-based Program: Programs that have demonstrated statistically significant, positive results for the population they serve in independent, rigorous evaluations.

Evidence-based program examples: Reading Recovery; CUNY ASAP; Per Scholas, and Year Up. For example, Year Up’s recent evaluation showed a 30–40 percent increase in earnings across all subgroups four years after graduation—the largest ever for workforce programs evaluated by a rigorous randomized control trial (RCT).
The Outcomes Fund in Action

Outcomes-based funding is nothing new; it has been used as a powerful tool in a diversity of communities.

Consider the recent expansion of high-quality pre-Kindergarten education in Tennessee, one of several states using outcomes funding for this purpose. When the pre-K development grant supporting a pre-K expansion was set to expire, Memphis and Shelby County entered into an outcomes-based contract with First 8 Memphis and local early childhood providers to keep seats open. The City and County currently makes payments based on outcomes that are a priority for the community, including consistent attendance, pre-K skills growth, and kindergarten readiness. The program’s goals have evolved over time in response to demand from families and COVID-19.

Outcomes-based funding also played a central part in a recent expansion in workforce development in Massachusetts. With support from the Commonwealth and investments from private partners, Jewish Vocational Services (JVS) in Boston was able to offer 2,000 immigrants a unique adult education model, combining English language and employment services. The outcomes eligible for payment are program engagement, increased annual earnings, and successful transition into higher education. The program cut long-lasting waitlists and enabled the Commonwealth to unlock an enormous talent pool that Massachusetts employers needed to fill openings, which also raised revenue through income tax collection. Recognizing the success of the initiative, the Commonwealth recently awarded JVS a performance-based contract to operate in multiple locations in Massachusetts.

Yet another important example of outcomes-based funding emerges from an innovative effort to support formerly incarcerated persons in Salt Lake County, Utah. Run by the First Step House, a local nonprofit organization, the REACH program (Recovery, Engagement, Assessment, Career, and Housing) serves formerly incarcerated men who are diagnosed with substance use disorders and are at high risk for additional criminal charges. Built on the research of what works to reduce criminal recidivism, the REACH program offers behavioral health treatment, housing support, and case management services. Success payments are linked to participants gaining employment and housing, as well as establishing stability in the community. The initiative aims to generate 26,800 fewer jail days.

The Texas State Workforce Commission has also recently defined and prioritized both evidence and outcomes for the first time in its agency’s history. The Commission has started awarding building and trades contracts through this new evidence-based, results-driven approach and will eventually award all of its workforce funds in this manner.
Outcomes Fund Program Structure

The Economic Mobility Outcomes Fund would support competitive grants to fund evidence-based programs through outcomes payments. Grantees could use up to 20% of their grants to build capacity to track and report on outcomes. The remainder of the grants would support payments tied to outcomes. These payments would require a one-to-one match as a baseline, but applicants, particularly rural and tribal areas of persistent poverty, would be eligible for a lesser or waived match at Treasury's discretion. Applicants would be free to use any funds – ARP, local, state, federal, or philanthropic dollars – to provide the match.

Driven by Community
Because communities know best how to meet their own needs, local governments would be the primary applicants and grantees, except in rural areas where applicants could span regions. Applicants could seek funding in partnership with nonprofit community organizations and direct service providers, or could plan to use funds to support organizations which they would identify competitively in the future.

Applicants would be required to identify the populations they aim to serve and the goals they aim to achieve. Because different communities will see different paths to enhancing economic ability, the range of fundable projects would be broad. For example, while one community might seek to improve educational achievement among low-income children, another may seek to increase earnings for young men without college degrees. A third might aim to improve housing stability and mental health for vulnerable mothers. These and other programs that contribute to economic mobility would be eligible for funding, informed by local community needs.

Grounded in Evidence
Applicants would also identify the specific interventions they support in order to achieve the specified goals for the target population. Because the program ultimately conditions funding on results, communities will have the flexibility to choose among different types of evidence-based interventions. At the same time, in order to increase the likelihood that interventions prove successful, the Outcomes Fund will prioritize approaches that already have significant evidence of effectiveness. Examples include evidence-based home visiting, pre-school, high-dosage tutoring, workforce development, supported housing, and returning citizen programs, among many others that have developed a track-record of success elsewhere.

Focused on Advancing Equity
Across all strategies and subject areas, the Fund would focus on advancing racial equity and measurably expanding investment in communities historically held furthest from opportunity. Applicants would need to use an equity assessment tool (such as the one created by RaceForward) to ensure they recognize the landscape of disparities, to minimize the role of unconscious bias, and to support establishing specific goals for closing equity gaps. Applications would need to show or plan partnerships with community members.
as well as service providers partners that demonstrate significant levels of resident participation, with a preference for resident employment as well. Data gathered, analyzed, and used through efforts funded with Outcomes Fund dollars would be disaggregated by race, ethnicity, gender, and other categories as appropriate while protecting individual privacy.

**Measure Results**
As part of their applications, local governments would outline an outcomes-based contract for the intervention. Under that proposed contract, Outcomes Fund payments would be made as service providers achieve certain outcomes goals. Depending on the nature of the intervention and the quality of the data available, the measured outcomes could vary. Wherever possible, programs would include measures of ultimate success, like employment and earnings as a result of a training program, or levels of academic achievement and degree completion as a result of an educational intervention. Moreover, programs could measure nearer-term outcomes that are often hard-earned and predictive of future success, such as sustained participation by high-risk individuals in an intervention. Because putting too much weight on one metric introduces a risk of distorting behavior, programs would be encouraged to use multiple measures. They would also be required to include safeguards to ensure broad program participation and prevent the exclusion of individuals who may be harder to serve.

Key to the success of outcomes funding is measurement. Local governments need high-quality data collection, often across different agencies and community partners. The most effective programs use data not only to make a final determination whether they met their goals, but also continuously improve programming in real time. For these reasons, up to 20% of Outcomes Fund grants could be used over the life of the grant to support measurement and reporting. Funds could be used to make different data systems interoperable, to create new approaches to capturing data, enhancing data sharing or to build out regular, actionable reporting about program performance.

**Matching Dollars**
The Outcomes Fund would reward interventions that, with initial funding from elsewhere, have proven successful at achieving results. Thus, the Outcomes Fund could provide an incentive structure and a source of expansion dollars for programs funded through the American Rescue Plan. Match funding could also come from other federal sources, such as Title I of the Elementary and Secondary Education Act (ESSA) or Community Development Block Grants (CDBG), from state and local tax dollars, or from philanthropy. The source of dollars would matter less than the commitment to measure and pay based on the results achieved by those dollars.

**Public–Private Partnerships**
In some cases, these projects may be structured as public–private partnerships where impact investors or philanthropists may provide up–front dollars to cover initial program delivery. These investments would give service providers the dollars they need to operate and take on the financial risk if the program falls short of expected results. In this way, government dollars only pay for what works. Alternatively, the outcomes–based contracts
could be structured with contract advances from public funding sources such as ARP. In this way, the service provider receives up-front advance funding that is repaid over the course of the contract as outcomes are achieved.
Outcomes Fund Governance

Because the program crosses typical sectors it should reside at the Department of Treasury, whose mission is to “create economic and job opportunities by promoting the conditions that enable economic growth and stability at home” and has cross-cutting performance management skills. Specifically, because of the New Markets Tax Credit (NMTC) and the Community Development Financial Institutions (CDFI) Fund, among other programs, the Department of Treasury’s Office of Domestic Finance’s Community and Economic Development program already works closely with locally rooted organizations to establish outcomes-based contracts, data collection, and reporting on investments. The Fund also works on a range of topics, from community development to nutrition. And with the passage of the American Rescue Plan, the same office is now also administering $350 billion in state and local relief. Treasury thus has the expertise and positioning to oversee a new program aimed at supporting state and local governments to accelerate economic recovery and mobility and improving uses of the American Rescue Plan.

Treasury will collaborate with agencies of particular subject-matter expertise (the Departments of Education, Labor, Health and Human Services, etc.) for information about proven interventions, effective data collection practices, and legal constraints in different domains. The agencies together can help to shape the ongoing learning agenda and the evaluation and validation of different programs. In this vein, Treasury would build on the work of the Federal Interagency Council on Social Impact Partnerships established by Social Impact Partnerships to Pay for Results Act (SIPPRA). Collaboration on the Outcomes Fund will also make the federal government more broadly effective.
The new program’s process for distributing Outcomes Fund dollars would be to issue an annual notice of funding allocation for outcomes payments to local governmental entities. Funding would then be allocated through a competitive process, with strong systems to ensure that funding reaches those most in need. The CDFI Fund’s Investment Areas definition would target funding to those communities historically held furthest from opportunity. A minimum of 10% of funding would be set aside to support rural and tribal communities of persistent poverty. Rural would be defined using the U.S. Department of Agriculture’s definition for community facilities loans, or in the context of K–12 education, using the requirements for the Small Rural School Achievement program or the Rural and Low-Income School program. Recognizing that rural regions may be served (as opposed to cities or counties) in rural areas, eligible awardees could be nonprofit organizations in addition to local governments.

After identifying grantees, the Department would enter into contracts, establishing outcome targets for the program and payment amounts. As noted above, up to 20% of grants could be spent immediately in order to support measurement and reporting. Remaining funds would be held until the grantees reported on their outcomes. The Department would review results and then make payments accordingly.

Outcomes Fund Appropriation

The Outcomes Fund would be appropriated $500 million to be available until expended. The expectation would be for approximately 100 grants, such that winning grantees could spend an average of 20% or up to $100 million on data and evidence-building infrastructure and would reserve $400 million for outcome payments. This match could leverage an additional up to $500 million in philanthropic funds.

There would be two set-asides from off the top of the $500 million. To ensure that small and mid-size communities can access the Outcomes Fund in the same manner as communities with greater capacity, $500,000 would be used to provide engagement, education, support, and technical assistance for potential grantees. The goal would be to help small and mid-size communities understand the resources available through the Fund, identify interventions that have the most promise to solve their community challenge, and prepare applications. In addition, $2.5 million would be set aside to help systematically capture the learning from the funded initiatives and to incorporate that learning into future projects. These funds would be used to study projects undertaken with the Fund’s support, to validate that anticipated outcomes were achieved, and to understand any disparities in impacts. All awardees and their service providers would be required to agree to participate in this learning agenda process.
How is the Economic Mobility Outcomes Fund different?

As the examples above indicate, although the Outcomes Fund is related to the path-breaking concepts of linked to "social impact bonds" or “pay for success,” including the SIPPRA, the Outcomes Fund would be more flexible in meeting the needs of state and local governments like those described in examples above. Social impact bonds are often understood to require that a program generate quantifiable financial savings equal to the cost of the investment. In SIPPRA, an investment must generate federal savings equal to its cost. Although this type of federal cost-neutrality may be desirable, it can be hard to prove, and many programs have significant net social benefits because of gains to other levels of government, to individuals, or to society as a whole. The Outcomes Fund is designed to identify promising investments and help them get the results that communities want and need.

SIPPRA also required that programs not only achieve agreed-upon outcome targets, but also be subject to an experimental independent evaluation, with (RCTs) as the default. While this type of evaluation is important and often the standard for academic research, it may not always generate the evidence state and local governments need to make decisions and deliver results, and can be costly and complex to put into place. Impact evaluations -- and specifically RCTs -- play an important role in the spectrum of information that policymakers need to make evidence-based decisions. However, in the context of well-established interventions, the additional knowledge gained from this type of impact evaluation may not be worth a state or local government's time and administrative expense. The Outcomes Fund will encourage measuring and paying for results as its priority using existing administrative data wherever possible to demonstrate improved outcomes for the participants -- for example, job placement, wage increases, improved school performance, etc. This has the added advantage of providing real-time information to inform program design and implementation.
Conclusion

The federal government has a rare opportunity to tackle our country's deepest challenges around equity and social mobility at the community level. The key to our success will be using new resources well to drive measurable, equitable results for communities. The Outcomes Fund can leverage massive new investments throughout the public sector and philanthropic community in order to drive sustainable results for years to come. The Fund could also transform government contracting across the country, scaling a method of government procurement that is not widely spread but has led to measure results. Because of this effort, communities and their residents could enjoy higher earnings, better education, improved health and the economic mobility that has always been the country's promise.

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