# Table of Contents

List of Tables ................................................................................................................................................... iv
List of Figures ................................................................................................................................................... iv
Executive Summary ............................................................................................................................................... v
Introduction ......................................................................................................................................................... 1

- How Do PFS and SIB Initiatives Work? ........................................................................................................ 2
- What Programs Best Fit the PFS Model? ........................................................................................................ 4

Methodology ......................................................................................................................................................... 4
Literature Review ................................................................................................................................................... 5

- Benefits of PFS ................................................................................................................................................ 6
- Criticisms and Challenges ................................................................................................................................. 7
- Filling in the Gaps: Public-Private Partnerships and Government Contracting ........................................... 8

Ideal Conditions for a PFS Program ................................................................................................................... 10

- Government and Community Commitment ................................................................................................. 10
- Program Design and Goals ............................................................................................................................ 11
- Data Capabilities ............................................................................................................................................ 13
- Funding and Capacity .................................................................................................................................... 14

Pay for Success in Madison: Recommendations and Next Steps ................................................................. 15

- Description of Next Steps .............................................................................................................................. 16

Conclusion .......................................................................................................................................................... 20

Appendix A: PFS Case Studies .......................................................................................................................... 22

- Successful Programs ........................................................................................................................................ 22
- Programs Offering Learning Experiences ....................................................................................................... 30
- Case Studies: Discontinued or Flawed Programs ......................................................................................... 33

Appendix B: Additional Resources .................................................................................................................... 38

References ............................................................................................................................................................ 40
List of Tables

Table 1. Comparison of PFS Programs..................................................................37

List of Figures

Figure 1. Principle Stakeholders in a PFS Project .................................................. 3
Executive Summary

Pay for Success is a contracting model in which investors provide monetary support for social programs, with the understanding that a payor will reimburse the investors only if the program meets certain outcome benchmarks. In most cases, the financial investors are private entities, nonprofit organizations carry out the social programs, and the payor for the investors is a body of government. Pay for Success, or PFS, is based on three attractive qualities. First, proponents assert that contracting payments to service providers based on desirable outcomes rather than outputs or volume will create savings for governments. For example, financing a successful program to reduce chronic homelessness will create government savings through reduced need for services. Secondly, the model provides outside funding for important social programs. Finally, with PFS, taxpayer funds are not used for unsuccessful programs, giving governments the freedom to experiment with innovative ideas.

Pay for Success, also known as Social Impact Bonds, is a relatively new funding model that was pioneered in the United Kingdom in 2010. Since that time, municipalities, counties, and states across the United States have begun exploring the feasibility of using PFS to promote social welfare and reduce costs of services. Many of these programs focus on expensive government services where reducing need allows savings to accrue to the same part of government, rather than being spread across several agencies. For example, a program that successfully reduces recidivism will allow the corrections department to save money.

To assess whether PFS is a feasible program model for Madison, we contacted professionals involved with seventeen PFS programs across the United States. Of these, representatives in various roles at nine programs agreed to interviews. We asked our informants a series of questions created based on our initial meetings with City of Madison employees.
From these interviews we learned about the best practices developed by different programs and the challenges they have experienced.

Pay for Success has enabled local governments to partner with community organizations for programs they otherwise might not be able to fund. However, few PFS projects have been completed, and fewer still have successfully met their benchmarks. Furthermore, PFS programs are complicated and require a great deal of commitment from funders, community partners, and local government. Informants identified several factors that they considered essential for the success of a PFS program. These factors included:

- A public official championing the program;
- A wide range of community partners;
- Clear program goals with measureable outcomes;
- An intervention or treatment that has been successfully implemented previously;
- Savings that accrue to the level of government that is the payor;
- An intermediary to coordinate the program and funding;
- A client base large enough to assess the program’s success with confidence and to justify the effort involved in setting up such a complicated funding structure;
- Access to government data;
- Funds to invest in community partners’ data systems to ensure accurate performance measurement and to pay for an intermediary;
- Strong historical data about the problem being studied to create outcome goals;
- Substantial infrastructure to monitor data at both the community partner organizations and at the government level to ascertain whether the community partners are adequately meeting benchmarks;
- Funds set aside to repay funders;
- Capacity for the backer to monitor the program; and
- Funding to cover administrative costs of developing and monitoring the program.

At this time, we recommend the City of Madison explore a Pay for Success program only if these factors are present. In this report, we include our recommendations for next steps should the City choose to pursue a PFS model for social services, and alternative funding models that the City may investigate in place of or in addition to a Pay for Success model.
Introduction

The first comprehensive report of racial disparities in Dane County was produced in 2013 by Race to Equity, an initiative of the Wisconsin Council on Children and Families and the Annie E. Casey Foundation. This report uncovered what had only emerged in small pieces until then: that Wisconsin and Dane County may be among the most racially unequally places to live in the United States (Race to Equity, 2013). The City of Madison is taking action in a number of ways, including developing a strategic management framework, revamping budgetary processes, and improving data management. The City is also looking for ways to fund innovative programs that could help create a more equitable Madison. One possibility that is gaining popularity across the United States is an innovative funding option called Pay for Success (PFS) or Social Impact Bonds (SIBs). This report will explore the City of Madison’s goals, the intricacies of Pay for Success, literature on PFS and related areas, case studies from PFS projects around the United States, and recommendations for next steps.

In light of aforementioned racial equity issues, the City of Madison is “currently in the midst of implementing a strategic management framework seeking to advance Madison’s racial equity goals” (Larsen, February 16, 2016). According to the December 2014 City of Madison Racial Equity & Social Justice Initiative’s (RESJI) Strategy Guide for City Agencies, priority areas are:

1. Equity in city operations (i.e., training on racial equity and social justice, updating hiring practices);
2. Equity in city policies and budgets (i.e., delegate representation to RESJI, engaging in data-informed decision making);
3. Equity in the community (i.e., updating community engagement practices).
To make progress on these priority areas, the City of Madison is implementing a strategic management framework which includes an outcomes-based budgeting process, a new model for data management, and LEAN process improvement (L. Larsen, interview, Feb. 16, 2016). The city is also looking for alternative funding opportunities that will allow for innovation in addressing racial equity goals under increasingly tight budgetary circumstances. Finally, the city is looking for ways to increase collaboration within nonprofits in a more holistic approach, to place more value on outcomes rather than outputs, and to emphasize performance (J. O’Keefe, interview, Mar. 11, 2016).

**How Do PFS and SIB Initiatives Work?**

Pay for Success is a relatively new contracting model in which investors provide monetary support for social programs, with the understanding that a backer will reimburse investors only if the program meets certain outcome benchmarks, thereby “paying for success.” Investors are usually private entities but have also included foundations and federal grants. In most cases the state, county or city government is responsible for reimbursing investors, however in some cases foundations stepped into this role. The terms “Pay for Success” and “Social Impact Bonds” are often used interchangeably, but there is a growing consensus that “Pay for Success” encompasses a broad range of outcomes-based funding models, while SIBs are one among many ways to finance PFS programs (Non Profit Finance Fund, 2016).

The PFS model has been well received across political parties; a recent Forbes magazine headline stated “Social Impact Bonds: Something Republicans and Democrats Agree On” (Forbes, 2016). This support is based on a number of attractive qualities. First, proponents assert that contracting payments to service providers based on desirable outcomes (rather than outputs) will engender government savings. For example, financing a successful program to reduce a
child’s time in foster care will create government savings by diminishing the need for services. Secondly, the model provides outside funding for innovative social programs. Finally, in theory the PFS model ensures that taxpayer funds are used only for successful programs, giving governments the freedom to test new ideas in their jurisdictions.

The key roles in PFS projects are investors, service providers, government payors, intermediaries, and independent evaluators (validators in the figure below). Some projects have additional roles such as advisory boards, secondary intermediaries, and multiple service providers. The figure below from the Corporation for National and Community Service (2016) displays these roles and most interactions well. Although, depending on intermediary, government entities usually have more direct contact with service providers.

![Figure 1. Principal Stakeholders in a PFS Project](image)

Source: Corporation for National and Community Service
What Programs Best Fit the PFS Model?

Many PFS projects in the United States focus on high-expense areas that may be able to accrue savings for the government entity involved. Programs are usually based on interventions that have been previously successful and tested in the intended policy area. So far, many have focused on topics such as supportive housing, recidivism, public health, and foster care.

According to the Non Profit Finance Fund,

PFS/SIBs work best in funding preventative or early intervention programs, particularly those with measureable outcomes and high levels of empirical evidence. To date, PFS agreements have focused predominantly on early childhood education and recidivism. Additional projects focused on child welfare, mental health, housing, maternal/child health, and chronic disease management are developing across the country (Non Profit Finance Fund, 2016)

In the following analysis of PFS programs in literature and around the United States, we will identify other key elements of successful PFS programs.

Methodology

A thorough review of relevant literature formed the foundation of our analysis. PFS is a relatively new idea in modern governance, and there is a limited amount of empirical research available on the topic. Accordingly, we include literature on similar areas of governance to fill in important gaps. Next, we conducted semi-structured interviews with representatives of nine PFS initiatives in the U.S. These representatives included government agents, intermediaries, nonprofit service providers, and evaluators. We gathered information about processes, challenges, surprises, successes, learning experiences, and cautionary tales of PFS, as described in our case studies (see Appendix A).
Finally, we met with three representatives of the City of Madison Finance Department: Laura Larsen, Budget & Audit Manager; David Schmiedicke, Finance Director; and Jim O’Keefe, Community Development Director. Our conversations with these representatives helped direct and refine the scope of this project.

**Literature Review**

The first PFS initiative was implemented in the United Kingdom in September 2010 when the Ministry of Justice, in conjunction with The Big Lottery Fund, promised to pay an organization called Social Finance if it was able to reduce recidivism among prisoners leaving Peterborough prison (Kohli, et al, 2012). The project provided pre- and post-release support to male offenders who had served sentences of less than 12 months. Though a full evaluation of the project’s impact is not yet available, early results show that recidivism was reduced by 8.4 percent, nearly a full percent more than the 7.5 percent goal. This reduction was not large enough to garner an early return on investment, but based on this performance, funders are expected to earn back their contribution. Still, the Peterborough program was phased out in June of 2015 due to a change in approach to probation and rehabilitation in the U.K. (Non Profit Finance Fund, 2014). Many consider the Peterborough program a success, but others point to several shortcomings; for example, although the program made extensive efforts to engage enrollees, longer-term engagement was difficult because most participants disengaged from the service early on (Disley et al., 2013).

Soon after the implementation of the Peterborough initiative, the Obama Administration set aside $100 million in the federal budget for the purpose of exploring social impact investment (MacLaughlin, 2011). The first U.S. project was launched in New York City in 2012, and more than a dozen other initiatives have been announced since. (We explore New York City’s program
and seven other cases in Appendix A.) The movement toward outcomes-based financing models is clearly gaining momentum, but very few PFS initiatives have reached their full term. As a result, empirical evaluations of PFS programs are very limited; most resources focus on perceived best practices for development and implementation as well as some potential pitfalls. After reviewing all available resources on PFS, we identified the core benefits and challenges of this funding model. We then supplemented our literature review with research on public-private partnerships and performance contracting in order to fill in important gaps regarding relationships between private, nonprofit, and government entities, potential pitfalls in contract management, and more.

Benefits of PFS

One of the key benefits of the PFS model is its ability to respond to and tackle difficult social problems by combining nonprofit expertise, private sector funding, and rigorous evaluation. This concept has the potential to address key social problems such as homelessness, juvenile delinquency, and workforce development by funneling more funds into prevention and early intervention initiatives while saving the government money over the long term (Kohli et al., 2012).

Similarly, PFS has the potential to encourage creative solutions to social problems. New and innovative programs that have the potential for success often have trouble securing government funding because it can be difficult to rigorously prove their effectiveness (Liebman, 2011). PFS allows governments to partner with innovative, effective service providers and private foundations or other investors who are willing to cover the upfront costs. Investors and service providers thus assume the risks associated with expanding promising programs; taxpayers are not to pay for these programs unless they demonstrate success. Expected public
sector savings can be used as a basis for raising investment for prevention and early intervention services that improve social outcomes (Travis, 2010).

PFS programs may encourage service providers and investors to be as effective as possible in their service delivery: the larger the impact they have on each outcome, the larger the payment investors will receive. PFS approaches also help embed continuous, data-driven program evaluation into day-to-day operations, which can accelerate the rate of learning about which approaches are most effective. Moreover, the use of independent evaluators ensures transparency and accuracy for all parties, in turn revealing true program impacts (Non Profit Finance Fund, 2014).

Criticisms and Challenges

One of the primary criticisms of PFS programs is that they do not actually create new capital for social programs. Most state and local governments are unable to create liabilities in their budgets without providing matching funds (MacGuire, 2011); moreover, potential PFS investors want to ensure that the funds they are owed pending success will be available regardless of any political changes or other unforeseen circumstances. Therefore, jurisdictions implementing a PFS initiative must set aside all funds they would repay investors if the program is successful. PFS programs can also require additional spending on administrative costs, including data capacity improvements, legal fees, and payment to intermediaries and third-party evaluators. Many argue that these requirements actually increase pressure on budgets and may divert funds from other social programs (Belinsky & Chaskel, 2012; McKay, 2013).

As discussed previously, investors are more likely to select interventions that have a proven record of success, versus new programs that have yet to undergo quantitative evaluation (CAS, 2013). Research shows that the private sector is often uncomfortable with taking on the
risks associated with public service delivery, especially when there is a high possibility of failure (Hodge and Greeve, 2005). As a result, PFS programs may not actually encourage innovative solutions to social problems.

Critics are also skeptical of the impact that PFS may have on nonprofit service delivery and values, arguing that this model will bring more private sector influence, as investors may make stipulations regarding how their money is to be used. The utilization of an intermediary is intended to assuage these concerns. Warner (2015) further argues that these private financial stakeholders can assume a much more influential role in creation of public values, defined as the public benefits that an organization contributes to society. Core public values include equity, efficiency, and democracy. Warner argues that if government agencies want society to recognize the public value in investing in social programs, it is counterintuitive to attempt to do so through private returns on investment (Warner, 2015, p.4).

Finally, some critics claim that PFS may reduce public responsibility by diminishing the government’s obligations and accountability for service delivery. Some PFS schemes, such as the UK’s Peterborough prison program, cede control of service provider selection and outcome evaluation to private investors; this strategy assumes that the risk investors took on is enough to motivate performance, thus reducing the need for government control (Warner, 2015). Concerns regarding accountability can be addressed through the use of third party evaluators and intermediaries, as well as clear articulation of goals and continual communication between stakeholders.

**Filling in the Gaps: Public-Private Partnerships and Government Contracting**

PFS programs can be defined as a type of public-private partnership (PPP). The PFS model opens social service sectors to the kind of financialization seen in investments in physical
infrastructure via PPPs, wherein nongovernmental organizations increase in their size, scope, and political influence. One key element of PFS and PPP models is the transfer of risk to the private sector, meaning that financial risk and accountability is shifted contractually away from the government to private companies and service providers. Historically, however, PPPs have had trouble effectively transferring risk, instead raising costs to the public sector (Whittington, 2012). This issue indicates that, ultimately, financial creativity does not prevent the government from paying for failed projects, even when the risk appears to be on private firms.

Transfer of risk is also a key component of performance contracting, wherein the government selects a private vendor to perform a service and specifies via contract the type and level of performance that the vendor is to achieve. Governments have increasingly preferred this type of contract as a means to ensure achievement (Smith and Lipsky, 1993). However, performance contracting has many pitfalls, several of which can lend themselves to PFS initiatives. Performance contracting can entail low levels of predictability while levels of responsibility are high, particularly in social services, where “producing any kind of real, human result is inevitably more complex than fulfilling the rules of a contract” (Behn & Kant, 1999, 473).

In addition, focusing on performance changes the relationship between the contracting agency and the vendor, payments are now tied to the vendor and the reputations of both the vendor and the government agency. These contracts can, in turn, encourage government agencies to work cooperatively with their vendors to do what is necessary to achieve specified results. In turn, performance contracting may encourage behavior distortion. Service providers may direct their efforts and resources away from their true public purpose, or may distort data through creaming: finding the cheapest, easiest way to meet targets. For example, job placement agencies
may look for those who can most easily be trained and employed while ignoring tougher cases (Behn & Kant, 1999). Performance contracting, like the PFS model, relies on outcomes-based payments; lessons from performance contracting literature show that it can be difficult to measure the outcomes that stakeholders really want to achieve, especially in social services. In some cases, measurement technology cannot accurately reflect what stakeholders truly want to measure; in other cases, actual outcomes may not be known for long periods of time. As a consequence, most systems of performance contracting have to pay vendors for their outputs or some surrogate that approximates the real performance goals the contract seeks to achieve (Rozmek & Johnston, 2005).

**Ideal Conditions for a PFS Program**

Drawing from our review of relevant literature and the insights garnered through our interviews with PFS program representatives, we developed four categories of conditions that PFS programs should meet in order to obtain desired results. Within each of these categories are specific factors that we believe are necessary for a PFS program to be successful.

**Government and Community Commitment**

Research continually demonstrates that a key factor in the success of new programs is the presence of a strong leader who serves as a champion for change (Weick & Quinn, 1999; Hall & Hord, 2006). Case studies demonstrate that a successful PFS program will also have a politically powerful leader, such as an executive or a deputy, to guide staff and stakeholders through natural resistance to change and any other obstacles (CAS, 2013). Moreover, PFS initiatives need buy-in from officials in many different government agencies, including those responsible for the target population, the budget or finance office, and the legal department.
At the community level, service providers also need a strong leader who is focused on coordinating and facilitating partnerships with government agencies and officials (Disley et al., 2013). Service providers need to work with the government at the early development stage onward so that they can best determine how to make the PFS initiative work together (CAS 2013).

Finally, leadership needs to recognize that implementing a new financial tool like PFS is quite complex, and all involved will eventually run up against unknowns and obstacles. The perseverance and focus of all parties on the end goal is key to success (Von Glahn & Whistler, 2011). All stakeholders should be prepared to engage in an ongoing learning process; as Behn and Kant (2011) write, it is essential to “learn, change, improve, and learn again.”

Program Design and Goals

One of the most crucial aspects of a successful PFS program is having a clear vision of program structure and goals. A possible intervention should be a priority issue for the City and also a good candidate for PFS. All parties involved need to clearly understand the goal of the intervention. Given the amount of time and investment required to establish a PFS program and the high level of monitoring and data collection required, lack of vision could lead to mission creep or vague performance metrics.

A strong PFS program will measure success using benchmarks that demonstrate the desired outcomes. Because repayment for the program is based on meeting metrics, there must be outputs that allow program evaluators to measure whether the program is producing the desired outcomes. Performance measures must be strongly correlated with the desired outcome, as using weakly correlated measures might distort program performance (Liebman & Sellman, 2013, p. 18-19).
As discussed in earlier sections of this report, the intervention should have some record of success before being implemented on a large scale. Because PFS is expensive and time-consuming to implement, an intervention must be both effective and efficient if the government is to realize savings. Additionally, metrics of success should be clear to all parties: will the intervention will be considered a success only if it pays for itself in savings to the government, or can it be considered a success if savings do not match the cost of the program but the program created additional non-monetary social benefits (Leibman & Sellman 2013, p. 18)?

Ideally, the savings from a successful PFS program will accrue to the responsible government payor, and this area should have outsized expenditures where savings are possible (M. Reddy, interview, Mar. 3, 2016). For example, in a program aiming to reduce recidivism administered by a city, the city would then save money by not paying for the cost of jailing offenders. This link promotes buy-in and provides an incentive for stakeholders to take part in and support the program. If savings are diffused over several different levels of government, it is harder to justify participation.

Many governments find having the support of an intermediary critical to planning and executing a PFS program. Fraser Nelson of Salt Lake County, who is currently developing the County’s PFS portfolio of projects, stressed that an intermediary is essential; she said that there was “no way” the project could have gotten off the ground without the help of their intermediary, Third Sector (Nelson, interview, Mar. 25, 2016). The failed Salt Lake County Pre-K PFS program used United Way of Salt Lake as an intermediary rather than a firm with expertise in PFS. Because intermediaries play a critical role in developing and administering PFS programs, it is possible that a firm such as Third Sector, Social Finance, or MDRC, which have previous expertise in structuring PFS programs, might have been able to help stakeholders develop more
effective measurements for the desired outcomes. It is worth noting that contracting with an intermediary will require additional funding for the PFS program.

Finally, a PFS program should be executed on a large enough scale that evaluators can judge whether its results are statistically significant, as well as to justify the amount of effort PFS requires. PFS programs must include at least 200 enrollees per year for results to be analyzed with statistical precision (Liebman & Sellman, 2013, p.14). However, given the amount of work involved in planning and launching a PFS program, a program will probably need to be much larger to be worthwhile. Therefore, programs targeted at a small number of high cost individuals are probably not appropriate candidates for PFS.

Data Capabilities

Accurate, accessible, and measurable data is key to nearly every step of the PFS process. Historical data on target goal areas allows essential comparisons to assess improvements, and thereby measure success; this was a key element in Cuyahoga County and New York City (see Appendix A). Historical data also informs the identification of the project’s target group, the associated needs of that group, and the potential financial value of serving the target group more effectively (Third Sector, 2016).

Substantial infrastructure to monitor data at both the community partner organizations and at the government level are necessary to ascertain whether community partners are adequately meeting benchmarks. In some cases, this has required extra funds to equip service providers and sometimes government agencies with the technology and training to ensure accurate performance measurement. The necessary drive for better data in a PFS program could easily be tied to a larger data initiative in government agencies. Additionally, Cuyahoga County suggested that data sharing permissions are often needed between numerous services such as the
prison system, education, welfare services, healthcare, etc. Good data is also critical for third party evaluators to gauge success and improvements.

If good data is not a major priority to all project partners, intended or unintended manipulation may occur, as alleged in the Salt Lake City-Goldman Sachs partnership targeting early childhood education. Poor identification of the target group led to seemingly overwhelming success; in reality, the results reported were not actually possible (Popper, 2015). Goal clarity, excellent current and historical data, and a responsible evaluator can help guard against this issue. Without reliable data, PFS programs are impossible.

Funding and Capacity

Funding requirements for a PFS project go beyond the money required for investor repayments and may include administrative costs, funds to upgrade data capabilities, and the staff capacity to oversee this process. Moreover, most investors want to know that the money to pay them back will be there when the time comes, regardless of a swing in politics. This requires a substantial sum to be securely saved until payments begins. The intermediary and evaluator will also need to be paid, although not usually from the initial sum from investors. Sometimes, as in the case of Cuyahoga County, outside philanthropy groups will pay for these positions. Additional creative funding schemes have been used in Salt Lake County, where a funder pool has been created to reduce risk for a single investor, and in New York State, where the Bank of America’s wealth management platform was used to identify 40 individuals to contribute to the fund. Additionally, the administrative costs at the government level can also be high, often requiring at least a full time employee before project launch.
Pay for Success in Madison: Recommendations and Next Steps

Pay for success is certainly an innovative funding model, and can potentially give the City an opportunity to sponsor preventive programs that might otherwise not receive funding. The need for intense data collection that is central to successful PFS programs also aligns with the City’s efforts to improve data collection.

However, prior to dedicating time, effort, and valuable resources into developing a PFS program in the City of Madison, stakeholders need to carefully consider which potential drawbacks of the PFS model may impact this jurisdiction. This report has outlined the many complexities of the PFS model, and our analysis indicates that PFS programs are not an appropriate strategy to meet the City of Madison’s other goals at this time.

City staff expressed their desire to work with more nonprofit organizations in the community and to create a more collaborative, less competitive environment among nonprofits (J. O’Keefe, interview, Mar. 3, 2016). However, in most PFS programs, the government contracts with a single service provider to carry out the intervention. Additionally, PFS programs generally last longer than the typical contracts the City has used in the past. These two factors might actually decrease the number of nonprofit organizations the City contracts with, and might therefore increase competition between nonprofits.

Furthermore, part of the City’s racial equity goal, though not explicitly mentioned, might include attempts to work with more nonprofits based in minority communities and run by people of color. However, because PFS programs require a great deal of capacity and data infrastructure, smaller nonprofits might be excluded from PFS service provider contracts. A survey of the largest nonprofits found that these organizations are disproportionately led by white men (Joslyn, 2009). While data on the demographics of nonprofit leaders in Madison is not
available, it is possible that pursuing PFS in lieu of a different funding mechanism might exclude smaller nonprofits led by people of color.

Moreover, the City of Madison lacks historical data on its target population, which is a key component of measurement creation. Even with sufficient historical data, it is difficult to define meaningful outcomes and determine appropriate payouts to investors pending success. Outcomes need to be objectively and rigorously measureable in order to correctly assess program impacts; this requires a significant amount of data and capacity.

Finally, due to a limited amount of empirical data, it is unclear of PFS programs actually improve outcomes. At this point, pursuing a PFS program is a great financial risk, especially considering that the City would be required to set substantial funds aside in order to ensure payment to investors pending success. Additional costs would likely include payment to an intermediary and third-party evaluator, investment in data management capabilities, and other administrative costs.

**Description of Next Steps**

As mentioned previously, our analysis indicates that PFS is not an appropriate strategy to meet the City’s goals at this time. However, if the City of Madison chooses to pursue a PFS program, there are many resources available to help plan such a program. Below, we have outlined a summary of the first steps in planning and launching a PFS program. Linda Li of Social Finance, an intermediary firm, suggested a sequential process for developing a PFS program that begins by determining the intervention, jurisdiction, and providers, followed by evaluators and outcome metrics (L. Li, interview, Mar. 30, 2016). She therefore recommends crafting contracts and impact measurements followed by determining the program timeline (or when funds will be returned to investors). Only after this process is completed should the
program begin the contracting phase. There are resources available that include more in-depth discussions of the PFS planning process; for a list of these resources, see Appendix B.

Some governments conducting PFS programs, such as Salt Lake County, have worked with local philanthropists to raise funds to support the process of developing a PFS program. Salt Lake County estimated that they invested $1.5 million prior to the launch of the program in conducting feasibility studies, improving data systems, and helping nonprofit partners build capacity (N. Fraser, interview, Mar. 25, 2016). Likewise, the City of Madison might want to consider seeking funding in addition to eventual program backers to support program development prior to launch.

**Choosing Goals**

The first step in implementing PFS is deciding on an area for intervention and the goals of the program. While the City does not need full details on the exact interventions or benchmarks, staff should have a clear idea of what the broader goals of the program will be. For example, when the City of Philadelphia contracted the intermediary Social Finance to conduct a feasibility study, the City had already decided that the PFS program should improve outcomes related to recidivism and system-involved youth placement (Fogel et al. 2015, p.1). This process can take a significant amount of time; Cuyahoga County took six months to identify its target areas. The Social Impact Bond Technical Assistance Lab at the Harvard Kennedy School recommends determining suitable goals for a PFS program through conversations both within government and in the community; therefore, the City should consider holding community conversations to explore what problems residents see as most pressing.

To determine appropriate areas for a PFS intervention, the City should look for places in the budget with outsized expenditures; according to contacts involved with several PFS programs, these areas are good candidates for a PFS intervention. Additionally, most PFS
programs are implemented in areas where the government payor backing the program will accrue the savings. Some areas that might be appropriate for Madison, depending on the City’s spending and goals, are programs that reduce recidivism, provide early childhood education, or reduce homelessness. When exploring areas where PFS might be appropriate, the City should also consider whether programs in that area support the City’s broader equity goals.

**Determining Feasibility**

Either before or after engaging an intermediary, the City should conduct a needs assessment to determine what an appropriate intervention would look like. Because most PFS program last for several years, the City might need to seek specific approval from the Common Council to pursue a longer contract. The City Budget Office should consult with the City’s legal team to determine whether this is necessary.

It might be useful for the City to contract with a third party to complete a feasibility study that examines these aspects of a PFS program as well as whether these interventions are cost-efficient. An example of such a feasibility study is Fogel et al.’s feasibility study for the City of Philadelphia.

**Selecting an Intermediary**

As previously stated, several governments currently implementing PFS rely heavily on intermediaries. Tasks of intermediaries can include finding funders, studying the feasibility of a PFS program, conducting a cost-benefit analysis of potential interventions, and finding service provider partner organizations to carry out the intervention.

**Designing the Intervention and Determining the Target Population**

The City, intermediary, and potentially service provider partner organizations will need to collaborate to design the intervention and identify the target population. The target population should be as specific as is feasibly possible to ensure that the intervention is appropriate. To
avoid creaming, the target population should include all potential clients in a given category. For example, if the intervention is to provide out-of-work people with job training, the target population should include all people in Madison who are out of work, not just those who voluntarily come to information sessions about job training. Additionally, an intervention will have the best chance of success if it has previously proven to work in similar contexts.

**Hiring an Independent Evaluator and Using Historical Data to Establish Metrics**

Well-crafted metrics are essential to creating a PFS program that leads to a reduction in social harm or does not cost the government. As the Salt Lake County early childhood education program demonstrated, failing to use historical baselines to determine repayment conditions can lead to costs to the government without actually addressing the underlying problem. The intermediary can assist in determining these metrics. Metrics should be highly correlated with the desired outcome. The City will also need to hire an independent evaluator who can assess whether the program is meeting these metrics. Other PFS programs have contracted with universities and research institutions to serve as evaluators.

**Selecting Community Partners and Funders**

With the help of the intermediary, the City should locate potential funders and community partner service providers to carry out the program. When deciding on which organizations to partner with, the City should draw on information gathered from community conversations, and most PFS programs have used a request for proposals process. The process of finding funders and community partners can take place concurrently with other steps.

**Drafting the Contract and Developing Operating Procedures**

With the intermediary’s help, the City will draft a contract, which should include benchmarks for success, timelines, procedures for evaluation, and a schedule for repaying funders if the program is successful. The contract should also include a stipulation that services
will be provided for the full length of the term agreed upon, and should have a grievance procedure for dealing with disputes. In addition, the City should work with the intermediary and community partners to develop operational procedures for documenting client information and handing off the program (Liebman & Sellman, 2013).

Available Resources
Several organizations have created resources for cities and states considering PFS programs. The Social Impact Bond Technical Assistance Lab at the Harvard Kennedy School of Government has published a number of articles and guides with information for interested governments. Notably, the Lab has created a social impact bond guide for governments that offers an overview of SIBs, examples of programs in place in the US, and a step-by-step guide to implementing a PFS program (Liebman & Sellman, 2013). Fogel et al.’s (2015) feasibility study for the City of Philadelphia, created for Social Finance, also provides a description of the planning process for PFS. See Appendix B for these resources.

The Social Impact Bond Lab at Harvard also has several technical assistance fellows who work with governments implementing PFS programs. These fellows represent the interests of the government, as compared to intermediaries who represent the interests of all parties at the table. The Lab reviews applications for assistance on an ongoing basis.

Conclusion
The City of Madison has expressed interest in Pay for Success as a way to pursue its goals of increasing racial equity, fostering a collaborative environment with nonprofit organizations, and improving data collection. PFS is an innovative funding model with several attractive qualities, and many governments across the United States are expressing interest in this model. After a thorough review of available literature on PFS and government contracting, along
with interviews with representatives involved in nine of seventeen current PFS programs in the United States, we have found that PFS is a complex model with many potential pitfalls and hidden costs. We have included best practices in the planning and implementation process and conditions that we believe are necessary to make PFS work well. Based on this information and the goals of the City of Madison, we caution that PFS may not be the best mechanism by which the City can meet its goals. However, if the City chooses to pursue PFS, we have outlined the steps the City should follow in this process.
Appendix A: PFS Case Studies

Successful Programs

This section outlines Pay for Success programs considered successful to date. As few PFS programs have finished in the United States, we deemed a program successful if it is a continuing program, promising early returns, and no major design flaws.

**Boston: Reducing Recidivism with Employment and Counseling**

**Government Entity:** Greater Boston, MA  
**Goal:** Reducing recidivism of young men by 40%  
**Amount:** $18 million in; possible payout of $27 million  
**Project Time Frame:** 7 years  
**Dates:** January 2014 to present  
**Funders:** Goldman Sachs, the Laura and John Arnold Foundation, New Profit, the Boston Foundation, the Kresge Foundation, and Living Cities  
**Service Provider:** Roca, Inc.  
**Evaluator:** Sibalytics LLC and Public Consulting Group  
**Intermediary:** Third Sector Capital Partners  
**Additional Roles:**

The Commonwealth of Massachusetts launched a PFS initiative in January 2014 to combat high rates of recidivism in the city of Boston, where 64 percent of young males reoffend within five years. This initiative had a strong system of support: the Commonwealth received technical assistance in development and implementation from the Harvard Kennedy School Social Impact Bond Lab Commonwealth of Massachusetts and used Third Sector Capital Partners, an expert in social innovation funding, as its intermediary. Moreover, the city received a nearly $12 million grant from the U.S. Department of Labor as part of the Obama Administration’s effort to fund PFS programs. Goldman Sachs contributed $9 million and will receive 5 percent back on that investment annually, regardless of the program’s success. Investments from other private donors increased the program’s budget by several million dollars more.
Roca, Inc. was chosen as the initiatives service provider; their intervention model entails a four-year program for participants including counseling and classes to help enrollees change their behavior and avoid violence. Roca also teaches reading and math and offers vocational training to help participants obtain jobs in trades such as culinary arts and painting (Fernandez, 2014). They also provide intensive life skills, and employment training.

A third party evaluator will measure Roca’s interventions against a control group of at-risk former offenders who are not receiving these services in order to determine whether the program has a true impact. Early results are very promising. As of September 2015, Roca had enrolled 384 young men at risk for recidivism into the program. They report having met or exceeded all internally-set goals in their pilot phase and will continue to processes referrals and enroll participants into their intervention through 2018 (Waters & Golden, 2015).

New York State: Reducing Recidivism Using Employment Training

**Government Entity:** New York State  
**Goal:** Reduce recidivism and increase employment of ex-offenders through comprehensive employment services  
**Amount:** $13.5 million  
**Project Time Frame:** 5.5 years  
**Dates:** 2013-present  
**Funders:** Individual funders and philanthropic organizations  
**Service Provider:** Center for Employment Opportunities  
**Evaluator:** New York State Department of Corrections and Community Supervision Research; New York State Department of Labor Research  
**Validator:** Chesapeake Research Associates  
**Intermediary:** Social Finance  
**Additional Roles:** Harvard Kennedy School Social Impact Bond Technical Assistance Lab (pro bono technical assistance); Jones Day (legal counsel); Rockefeller Foundation (first loss guarantor)

New York State, using the nonprofit firm Social Finance as an intermediary and Center for Employment Opportunities (CEO) as a community partner, launched the first statewide PFS program in December 2013. The goal of the program is to reduce recidivism and increase
employment for ex-offenders in the New York City and Rochester areas, aiming to enroll 1,000 high-risk ex-offenders in Phase I of the program and an additional 2,000 in Phase II. When individuals at a high risk for recidivism are released from prison, CEO enrolls them in a life skills program, followed by a transitional jobs program with a city or the state. Eventually, individuals move into unsubsidized, permanent jobs.

New York State contracted Social Finance to locate funders for the program. Social Finance then worked with the Bank of America to use the Bank’s private wealth management platform to identify 40 individuals who committed funds to the program. Social Finance also solicited support from more traditional philanthropists. New York State is the backer for the program. One additional unique aspect of this program is that, in addition to an evaluator, the program has enlisted a validator, Chesapeake Research Associates, to independently validate the results of the evaluation.

Linda Li and Connor Morrison from Social Finance, the intermediary working with New York State’s anti-recidivism program, emphasized that the organization used a rigorous process to find nonprofit partners, and would not agree to an intervention that had not been proven to have a benefit and save money. They also conducted a feasibility study on potential partners that looked at whether the suggested intervention was evidence-based and whether the organization had capacity to work with the number of participants required for the intervention to save money.

The New York State program requires a significant amount of oversight. CEO works with the New York State Department of Labor and Department of Corrections to enroll and place individuals in the program. The State has an executive committee for the program that meets twice a year and makes decisions about the direction of the program. Li and Morrison estimated
that developing the project took several months, and it required “lots of negotiation” and was a complicated process (L. Li and C. Morrison, interview, Mar. 30, 2016).

Cuyahoga County, OH: The Partnering for Family Success Program

Government Payor: Cuyahoga County, OH (Cleveland)
Goal: Decrease days children spend in foster care placement
Amount: $4 million in, possible $5 million repayment
Project Time Frame: 5 years (8 years with project development)
Dates: 2012 project development, 2015 project start
Service Provider: Frontline, Inc
Housing Provider: Cuyahoga Metropolitan Housing Authority, Famicos Foundation, Emerald Development and Economic Network (EDEN)
Evaluator: Case Western University
Intermediary: Third Sector Capital Partners, INC.
Additional Roles: Project Manager and Fiscal Agent - Enterprise Community Partners, INC.

Cuyahoga County, Ohio, home of the City of Cleveland, was the first county in the United States to implement a Pay for Success program, starting the exploration phase in 2011. After two major corruption cases in 2010, the county government structure was overhauled to an almost city-like structure. The new county executive and council had a mantle of reform and were looking for new ways to make positive changes, and Pay for Success was just reaching the United States.

With financial backing from the George Gund Foundation, Cuyahoga County was able to hire Third Sector Capital Partners, a leading Pay For Success intermediary to help begin their program. With the help of Third Sector and the Gund foundation in 2012, Cuyahoga began a community conversation about Pay for Success with “public convenings,” kickoff meetings with heads of major foundations, their operational people, and a community forum. They also ran an environmental scan with the help of Case Western University looking for high cost areas in the
budget that might be reduced with preventative evidence-based interventions and potential high capability for performance measure rigor. It was also found that children with homeless parents spent an average of one year longer in the Cuyahoga foster care system.

After involving the foundation community in writing a Request for Proposal, the county received fourteen proposals. They decided on two proposals but merged them into one project: permanent supportive housing and a 12 to 15-month intensive training for homeless families to reduce time in foster care for children. “The Cuyahoga Partnering for Family Success Program’s goal is to help families reunify, reaching permanency and stability sooner so that their children spend less time in foster care.” (Third Sector, 2016)

Deal construction among the parties took most of 2013 and 2014. It was agreed that for each day of reduced out-of-home care, the county will pay back funders $75, representing the savings from the foster care system to a maximum of $5 million (Field, 2014). It is almost important to note that in 2014, two full time staff were hired specifically for the project, one at the county and another at the service provider. Previously, most county work had been done by David Merriman. His work load ranged from 50 percent of his time, to only a few phone calls a week and eventually 40 hours per week until a new staff member was hired (D. Merriman, interview, Apr. 7, 2016)

During this time, Case Western University and their Integrated Data Center identified the target population using a twenty-year longitudinal historical data on child welfare and homelessness overlapped with jail system data. The university also played a critical role in assessing the deal and looking for potential pitfalls. In this same period, the service provider conducted a trial to work out any issues with communications and mechanics of the treatment. This trial was not funded with the original money but was from one of the community funders.
There was a considerable ramp-up to the five-year study that was paid for by the Laura and Arnold Foundation.

In spring 2016, Cuyahoga County is now a year into the program and are pleased so far (K. Anderson, interview, Apr. 7, 2016). However, as they are only 20 percent through the trial, it will be another four years before the results of this program will be complete.

Key elements that made Pay for Success a viable option for Cuyahoga included a mandate for change, county executive leading push, strong relationships with area foundations, area philanthropy, and a world-class university with twenty years of related data on the county. The Cuyahoga staff stress the importance of transparency and public engagement, a strong committed public leader, relationships with all project partners, to keep real goals in mind and do no harm, pilot then ramp, and to invest in integrated data systems now.

Salt Lake County: Pursuing Several Programs at Once

**Government Entity:** Salt Lake County  
**Goal:** Reduce chronic homelessness and recidivism and improve maternal health  
**Amount:** TBD  
**Project Time Frame:** TBD  
**Dates:** TBD  
**Funders:** TBD  
**Service Provider:** Parents as Teachers (maternal health); First Step House (recidivism); homelessness service provider TBD  
**Evaluator:** University of Utah Policy Innovation Lab  
**Intermediary:** Third Sector Capital  
**Additional Roles:** Community Foundation of Utah (contracting intermediary)

Salt Lake County is in the process of launching a PFS program, which is currently in development. The goal is to run three programs in tandem, one aimed at addressing chronic homelessness, another aimed at reducing recidivism, and a third trying to improve maternal health. Investors put money funding into all three programs as a portfolio to spread out their risk and to simplify fundraising for the County. Salt Lake County is the first PFS program to use a
portfolio model for investor funding. Third Sector Capital is the intermediary and Salt Lake County is the government payor, and the County and intermediary are currently in talks with investors. The County has announced its partnership with nonprofit Parents as Teachers for the maternal health project and First Step House for the criminal justice program. The County is reviewing proposals for the homelessness project community partner.

Fraser Nelson, the Director of Data and Innovation for the Salt Lake County Mayor’s Office, said that the County decided on these areas based on what services are most expensive for the County to provide. In her opinion, the first step in deciding on what program is a good candidate for PFS is figuring out where the government is spending money and who it’s spending is on. Seventy-six percent of Salt Lake County’s budget goes to criminal justice and social justice, and the County has a very high recidivism rate. Additionally, recidivism is an issue receiving media attention in the county.

Our interview with Ms. Nelson revealed several best practices for PFS programs. Ms. Nelson emphasized that she felt Salt Lake County’s decision to set aside money for a “pre-development fund” helped ensure the program was designed robustly and with adequate support. She estimated that the County had spent $1.5 million on evaluations, intermediaries, and support to community partners before even launching the project. Additionally, the County has created a robust structure of committees and working groups who meet regularly to check in on progress and discuss issues. The steering committee, composed of the mayor, sheriff, county chief financial officer, county council, and county commissioners, meets monthly. A working group for each of the three project areas, composed of Ms. Fraser, the people who carry out the programming, and the people who evaluate whether the program is meeting its goals, meet weekly for one hour to determine what intervention to use for each population and how to
measure success. Finally, a pro bono legal committee creates contracts and other legal documents.

While Salt Lake County has not yet launched the programs, she believes the process of developing the programs and funding structure has already had benefits. First, she says that the conversation about PFS and which programs to pursue has focused the County Council’s priorities. Secondly, the conversations about PFS have helped frame other conversations with members of the Council about the importance of using evidence-based practices and evaluating for outcomes rather than outputs. She feels that these conversations will be helpful both as the PFS programs begin and for deciding which programs the County funds in the future.

Ms. Fraser also discussed difficulties the program has faced. First, she stressed that PFS is complicated and time-consuming. She estimated that while supervising the PFS program is only one of her job duties, it takes up 80 percent of her time. She also estimated that the project required pro bono legal work, the assistance of Third Sector Capital, and about two staff for each of the nonprofit partners. She also noted that the County has invested time and funds in capacity-building for the community partners on this project, as these community organizations are not used to the level of oversight and data tracking required for a PFS program. Finally, to build public support the PFS program and to keep it moving, County Mayor Ben McAdams needed to champion the project and convince stakeholders that it could be successful. Ms. Fraser noted that PFS is a “heavy lift” politically, and the executive office must be on board for the program to succeed.
Programs Offering Learning Experiences

The following section contains PFS programs we deemed mixed success programs. We put individual programs in this category if the design or implementation of PFS was not successful, but the government entity did not end up paying for an unsuccessful program.

Milwaukee: Exploring Pay for Success as One Potential Funding Model

Government Entity: N/A  
Goal: Reducing youth crime and recidivism  
Amount: N/A  
Project Time Frame: N/A  
Dates: N/A  
Funders: N/A  
Service Provider: Community Advocates of Milwaukee  
Evaluator: N/A  
Government Advisor and Transaction Coordinator: N/A  
Intermediary: N/A

Community Advocates of Milwaukee is currently investigating whether its One Summer Plus program, which offers employment and internship opportunities to youth during the summer and school year with the goal of reducing youth crime and recidivism, would be more cost-effective if run as a PFS program. The organization currently has no backers or intermediaries, but is conducting a feasibility study and benefit analysis to determine if PFS is a suitable funding model for the program.

Community Advocates received funding two years ago for youth development in Milwaukee. After exploring programs, the organization became interested in the One Summer Chicago program, which provides youth with summer employment and internship opportunities with the goal of reducing crime and recidivism. Community Advocates worked with the National Council on Crime and Delinquency (NCCD) to provide technical assistance for a feasibility study, and worked with the Boys and Girls Club to pilot a similar program in Milwaukee that
provides youth employment opportunities. The program is not currently using a Pay for Success model, but Community Advocates is exploring PFS for the future.

Kari Lerch of Community Advocates said on PFS that “people are interested, but what we’re starting to hear is pay for success isn’t always the route you need to go.” Due to legislation passed in the 2013-2014 biennium of the Wisconsin legislature, Community Advocates’ preferred backer, the Department of Health Services, is unable to fulfill that role. Community Advocates is currently exploring local funding opportunities.

*New York City: Reducing Youth Recidivism through Cognitive Behavioral Therapy*

**Government Entity:** City of New York  
**Goal:** Reduce youth recidivism by 10% using cognitive behavioral therapy  
**Amount:** $9.6 million  
**Project Time Frame:** 4 years  
**Dates:** 2012-2015  
**Funders:** Goldman Sachs  
**Service Provider:** Osborne Association and Friends of Island Academy  
**Evaluator:** Vera Institute of Justice  
**Intermediary:** MDRC  
**Additional Roles:** Bloomberg Philanthropies (guarantor for Goldman Sachs; payor for MDRC and pilot program)

One of the first social impact bond programs in the United States was New York City’s Adolescent Behavior Learning Experience (ABLE) program. In this program, the nonprofit Osborne Association provided cognitive behavioral therapy to teenagers imprisoned at Rikers Island Jail to reduce recidivism. Goldman Sachs was the primary investor for the program, with Bloomberg Philanthropies acting as a guarantor for part of the investment. MDRC served as the intermediary for the program, and New York City was the financial backer. The Vera Institute of Justice served as the independent evaluator. The program began in 2012 and was completed in summer of 2015.
The ABLE program did not successfully meet its targets for reducing recidivism. MDRC has published a thorough report outlining their experiences with social impact bonds and lessons learned for future SIB programs. As factors in the program’s lack of success, MDRC cited difficulties administering the program due to the unpredictable nature of lockdowns and security issues at the jail, making it hard for participants to attend therapy sessions reliably, and not being able to request more funding midway through the program when circumstances changed.

According to the New York Times, people administering the program also had difficulty keeping teenagers in the control group out of therapy sessions, jeopardizing the performance data from the program. However, MDRC also notes that while funders did not get their investment back and the program failed to reduce recidivism rates, the government did not end up paying for an unsuccessful program, and this fact might have allowed the Department of Corrections to commit to an untested intervention that it would not have tried if government funds were on the line. MDRC views the Rikers Island program as a learning experience in implementing social impact bonds, and argue that there are scenarios in which PFS programs are an appropriate tool for bringing in non-traditional funding for social services.

MDRC’s Timothy Rudd, who assisted with the cost projections for the ABLE program and determining the number of people the program needed to serve, noted that he was able to calculate this information thanks to New York City’s large amount of historic data. He was able to use existing formulas for calculating the costs of housing prisoners to determine the appropriate recidivism targets, and said that calculating this information would have been difficult without historical data.
Case Studies: Discontinued or Flawed Programs

The following section describes Pay for Success programs that either have been discontinued due to unsurmountable problems or had major flaws in program design culminating in perverse results.

**Minnesota**

**Government Entity:** Minnesota State Government and the Minnesota Management and Budget Office  
**Goal:** 2 programs—Recidivism and Supportive Housing  
**Amount:** N/A  
**Project Time Frame:** 3 years  
**Dates:** 2011-2014  
**Funders:** N/A; see below.  
**Service Providers:** N/A did not reach this point.  
**Evaluators:** Pay for Performance Oversight Committee/ Judy Temple, Humphrey’s School of Public Policy  
**Intermediaries:** Greater Twin Cities United Way and Corporation for Supportive Housing

The Minnesota Pay for Success project had a unique beginning. After a few attempts to pass a bill in the state legislature, a bill was passed in 2011 as a mandate for the Minnesota Management and Budget Office (MMB) to start a Pay for Success process. Pay for Success was very new in the United States at the time and so there was little information published. As a result, Minnesota’s projects were in reality more like performance contracting, where the government would pay the service provider after the project was deemed a success. Despite the drastic differences in key elements of PFS, Minnesota’s experience is a good example of some of the major issues that can arise including communication, funding problems, administrative costs, and legislative issues.  

First of all, Minnesota’s legislation took social impact bonds seriously and thought of the process as the government promising providers bonds and then paying them back (B. Reitan, interview, Mar. 8, 2016). Unlike most other programs, there was no outside funding source. This is a key problem in the Minnesota case as upfront costs were a major issue for the providers.
This also puts all the risk on the provider rather than a private entity in other Pay for Success models. The Greater Twin Cities United Way and Corporation for Supportive Housing were the service providers and funders of two programs: job-training and supportive housing.

One key concern was the complexity of government funding streams and the resulting limitations to capture savings. For example, supportive housing may prevent repeat hospital visits, saving the hospitals money but not the state. Similarly, job-training savings might be to the citizen, city, county, state, or even federal government. It can be difficult to flush out projects that would make sense in the target jurisdiction. Eventually, this issue would lead to the job-training project being tabled early on.

Other lessons learned, as noted by Britta Reitan, the Assistant Commissioner and Budget Director of the Minnesota MMB, were the administration costs and time requirements. Reitan was the primary staff on the project for two years, over which time commitments ebbed and flowed, sometimes twenty-five percent to full time for her and twenty-five percent of two other MMB office employees as well. The Minnesota legislation had appropriated $70,000 for administrative purposes, but this was not nearly enough at the government level or for an intermediary (B. Reitan, interview, Mar. 8, 2016).

Both Reitan and Professor Judy Temple, Pay for Performance Committee member and professor at the University of Minnesota Humphrey School of Public Policy, agree on the need for a strong public sector champion (J. Temple, interview, Mar. 23, 2016). By 2014, most of the legislators who had written the language were out of office. During this time, the MMB needed additional legislation to ensure that those in the supportive housing trial would not lose other entitlements they were currently receiving. After this legislation could not pass, the supportive housing project was tabled in 2014.
Salt Lake County is the site of the United States’ first Pay for Success program, a partnership with Goldman Sachs and JB Pritzker, United Way of Salt Lake County, school districts and community organizations, the County of Salt Lake, and the state of Utah to enroll more low-income children in preschool, with the goal of reducing later need for special education. We were unable to secure an interview with stakeholders on this program; however, the media has covered this program extensively. The outcome metrics for the first of four cohorts of students in this program were released in summer 2015. Goldman Sachs claimed that the intervention had prevented 99 percent of children enrolled from requiring special education, and received a payment for each child who was not enrolled in special education (Popper, 2015).

However, the way success is measured in this program seems to be stacked in Goldman Sachs’ favor. Under the program, it is assumed that all children enrolled in the program with a low score on a certain test will later require special education, without evidence that this is the case. Therefore, it seems Goldman Sachs received payment for helping children avoid special education when they would not have required it anyway. Furthermore, according to the contract, Goldman Sachs would be repaid in full, plus five percent interest, if at least 50 percent of children enrolled avoid special education. Historically, 30-40 percent of children in the school
districts where the program took place scored below the threshold predicting whether they would later require special education, and almost none of them did require special education (Popper, 2015).

There are two important lessons to be learned from this case study. First, the Salt Lake County program demonstrates the importance of carefully structuring outcome measurements and repayment contracts so that the outputs being measured reflect the outcomes the program is seeking. Unlike the Rikers Island case, where well-developed measurements prevented the City of New York from having to pay back the investors when the program did not achieve the desired outcome, poorly structured metrics nearly ensured that the backer would be repaying Goldman Sachs.
<table>
<thead>
<tr>
<th>Program Area</th>
<th>Greater Boston, MA</th>
<th>New York State</th>
<th>Cuyahoga County, OH</th>
<th>Salt Lake County 2</th>
<th>City of Milwaukee</th>
<th>New York City</th>
<th>Minnesota</th>
<th>Salt Lake County 1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goal</strong></td>
<td>Recidivism</td>
<td>Recidivism</td>
<td>Homelessness;</td>
<td>Homelessness;</td>
<td>Youth crime and</td>
<td>Recidivism</td>
<td>Recidivism and Homelessness</td>
<td>Pre-K education</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Children and</td>
<td>recidivism;</td>
<td>recidivism and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Families</td>
<td>maternal health</td>
<td>maternal health</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Investment Amount</strong></td>
<td>$18 million in; up to $27 million out</td>
<td>$13.5 million</td>
<td>$4 million</td>
<td>TBD</td>
<td>N/A</td>
<td>$9.6 million</td>
<td>NA</td>
<td>$7 million</td>
</tr>
<tr>
<td><strong>Project Time Frame</strong></td>
<td>7 years</td>
<td>5.5 years</td>
<td>5 years (8 years with project development)</td>
<td>TBD</td>
<td>N/A</td>
<td>4 years</td>
<td>Began in 2011, ended in 2014</td>
<td>4-8 years</td>
</tr>
<tr>
<td><strong>Intermediary</strong></td>
<td>Third Sector Capital Partners</td>
<td>Social Finance</td>
<td>Third Sector Capital Partners, INC</td>
<td>Third Sector Capital</td>
<td>N/A</td>
<td>MDRC</td>
<td>Greater Twin Cities United Way &amp; Corporation for Supportive Housing</td>
<td>United Way of Salt Lake</td>
</tr>
<tr>
<td><strong>Funders</strong></td>
<td>Private Investors and foundations</td>
<td>Individual funders and philanthropic organizations</td>
<td>National and area foundations</td>
<td>TBD</td>
<td>N/A</td>
<td>Goldman Sachs</td>
<td>In this case: Intermediaries</td>
<td>Goldman Sachs, JB Pritzker</td>
</tr>
<tr>
<td><strong>Service Providers</strong></td>
<td>Roca, Inc</td>
<td>Center for Employment Opportunities</td>
<td>Frontline, Inc</td>
<td>University of Utah Policy Innovation Lab</td>
<td>N/A</td>
<td>Community Advocates of Milwaukee</td>
<td>Osborne Association and Friends of Island Academy</td>
<td>N/A Did not reach this point</td>
</tr>
<tr>
<td><strong>Evaluator</strong></td>
<td>Sibyls LLC and Public Consulting Group</td>
<td>NY State Department of Corrections and Community Supervision Research; NY State Department of Labor Research</td>
<td>Case Western University</td>
<td>University of Utah Policy Innovation Lab</td>
<td>N/A</td>
<td>Vera Institute of Justice</td>
<td>University of Minnesota Humphrey School of Public Policy</td>
<td>Multiple Providers. See case study</td>
</tr>
<tr>
<td><strong>Additional Roles</strong></td>
<td>Harvard Kennedy School Social Impact Bond Technical Assistance Lab (pro bono technical assistance); Jones Day (legal counsel); Rockefeller Foundation (first loss guarantor)</td>
<td>Project Manager and Fiscal Agent: Enterprise, INC.</td>
<td>Community Foundation of Utah (contracting intermediary)</td>
<td>N/A</td>
<td>Bloomberg Philanthropies (Goldman Sachs guarantor; payor for MDRC and pilot program)</td>
<td>Pay for Performance Oversight Committee</td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>
Appendix B: Additional Resources


   [http://www.payforsuccess.org/sites/default/files/Pay%20for%20Success_The%20First%20Generation_0.pdf](http://www.payforsuccess.org/sites/default/files/Pay%20for%20Success_The%20First%20Generation_0.pdf)
   A newly published report on the “first generation” of American Pay For Success programs. Please note that this resource is from a Pay for Success specialist and so may be positively skewed.

   A recently published report also on American Pay for Success Programs. Includes a more in-depth look at case studies.

   Cuyahoga County’s call for Pay for Success proposals. This document was six months in the making with collaboration from area foundation heads.

   An example of a Pay For Success contract.

   An example of a Pay for Success feasibility study.

For more information on writing Pay for Success legislation.

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

View further documents from around the country such as contracts, legislation, Request for Proposals, Request for Response, and Request for Information.

9. Lessons Learned Documents:


   Cuyahoga County: (includes partner perspectives)

   Minnesota:  

10. General Information:

    Pay for Success Hub by the Non Profit Finance Fund: http://www.payforsuccess.org/

    Urban Institute Pay For Success Portal: http://pfs.urban.org/
References


Larsen, Laura. (2016, February 16). In-person interview.


Lerch, Kari. (2016, April 1). Phone interview.


“Pay For Success Contract Among Cuyahoga County, Ohio, Mental Health Services For Homeless Person, INC. dba Frontline Service and Cuyahoga PFS, LLC.” (2012).


Reitan, Britta. (2016, March 8) Phone interview.


