Pay for Success: The First Generation

A Comparative Analysis of the First 10 Pay for Success Projects in the United States

A report by
Nonprofit Finance Fund®
April 2016

Introduction

Imagine a world where we were better able to direct resources to the programs doing the most good for people in need. Where nonprofits, philanthropists, governments and private-sector partners shared incentives to address our society's most pressing problems. Where our commitment to creating lasting change for those facing incredible challenges led to a better understanding of what is moving the needle, and why. Pay for Success (PFS) is part of a movement toward getting better at doing good. PFS is an approach to contracting that ties payment for service delivery to the achievement of measurable outcomes. All have been accompanied by a form of social innovation financing, often referred to as a Social Impact Bond, in which investors provide upfront financing for the delivery of services and are repaid only if the services achieve a pre-agreed upon set of positive outcomes.

Pay for Success: The First Generation provides a look at the ten Pay for Success projects that have launched in the United States–projects that have finalized contracts and financing, and initiated service delivery as of March 2016. It offers detailed comparison of U.S. PFS projects and synthesizes observations on the market's development to date. It is informed by Nonprofit Finance Fund's unique and central vantage point in the U.S. Pay for Success arena. This report pulls from PFS contracts and other publically available documents, interviews with stakeholders, and incorporates information and observations gleaned by NFF through its more than five years of experience as a field builder, funding intermediary for PFS project development, and investor. It examines project goals and project design; the partners and stakeholders involved; the underlying data, evidence, and evaluation plans; the governance and investment structures, including repayment terms and investor profiles; and project costs. The report also provides key definitions for some terms, in an effort to further a common language for the PFS field.

The ten projects summarized in this report are diverse. There are few generalizations or conclusions that can be made about them, or about the PFS field more broadly given its early and rapidly evolving nature. Still, after almost five years of market development, it is an opportune moment to reflect on how these projects are coming to life in various communities, and to do so in a way that allows for comparison across projects. We have developed this report for anyone looking to understand the PFS model, as well as those actively exploring or developing PFS projects. We hope that this report spurs ongoing conversations about early lessons learned, and how these lessons might inform the evolution of PFS and the broader shift toward linking funding to outcomes.

As a Community Development Financial Institution with more than 35 years of experience financing mission-driven organizations, Nonprofit Finance Fund is committed to improving the financial health of nonprofit organizations so that they can sustainably deliver high-quality services to enhance lives and communities across the Unites States. NFF has been a field builder in the Pay for Success space in the U.S. since 2010. NFF's work in this area is focused on helping service providers, investors, and governments understand and build readiness for productive participation in a U.S. social sector where providing and accessing capital is increasingly tied to the achievement of meaningful and measurable outcomes. To this end, Nonprofit Finance Fund administers the Pay for Success Learning Hub, www.payforsuccess.org, the leading national repository for education and information on Pay for Success. NFF also intermediates philanthropic and federal grant funds to support the exploration and development of PFS projects and has invested in PFS projects. NFF has conducted more than 200 PFS trainings, presentations, webinars, workshops, and convenings across the country for service providers, governments and investors.

Section 1: Market Overview

- **State of the PFS Market:** As of March 2016, ten Pay for Success Projects have launched in the United States. These projects are the fruits of PFS activity by early pioneers of the model who started exploring the use of PFS as early as 2011. To date, the project development timeline has been about two years, on average. After a flurry of activity near the end of 2014, 2015 was a slow year, with only one new project launched. But catalytic investments in project feasibility assessment and transaction structuring by the federal Social Innovation Fund's Pay for Success program in late 2014 should result in an invigorated pace of new project launches in 2016, 2017 and 2018.

- **Leading issue areas:** Projects to date have clustered in three issue areas: criminal justice and recidivism; early childhood education; and homelessness. This reflects several characteristics of the PFS model, as it was originally framed: to provide upfront sources of capital to fund preventive or early intervention services with the potential to interrupt entrenched cycles of negative social and economic outcomes, and by doing so, realize cost savings to the public sector. Recidivism and homelessness have emerged as leading PFS issue areas because of the high cost associated with frequent and repetitive use of jail, prison, emergency rooms and shelters, and baseline outcomes which are bad enough that even marginal change would be notable. Early childhood education is widely recognized as one of very few interventions demonstrated to have a long-term impact on a range of educational and social outcomes. The prevalence of these issues in early PFS projects is likely also a response to increasing national attention to the persistent issues of income inequality, affordable housing crises, criminal justice reform, and calls for more effective and sustainable solutions than what the status quo offers.

- **Project size:** There is great variation in the size of PFS projects, both by number of individuals served and size of investment raised. Nevertheless, there is emerging consensus in the field that somewhere between $5 and $10 million is appropriate minimum threshold for a PFS project, given both the relatively high transaction costs and the interest of investors (particularly commercial ones) in larger investment opportunities. The relatively small size of most projects, in terms of numbers of individuals served, has led some observers to question whether or not PFS is capable of addressing the issue of scale, a challenge endemic to many social service interventions.

- **Early results:** 2015 marked an important milestone for the field when the first two U.S. Pay for Success projects announced their first evaluation results and determined investor repayment. In July, after three years of service delivery the NYC ABLE Project for Incarcerated Youth announced that the evaluation of the first cohort of youth served at Rikers Island jail showed no difference from historical data in their rates of recidivism over the two year period following their enrollment in the PFS-funded program. As a result, no success payments were made to Goldman Sachs, the sole investor, which triggered the use of a 75 percent guarantee by Bloomberg Philanthropies, acting as the guarantor. Goldman Sachs decided not to continue funding for a fourth year of services, a right defined in the project contract. As a result, the project was ended. In contrast, in October the Utah High Quality Preschool Program announced the first set of interim results at the end of the kindergarten year for the first cohort of students served. The results demonstrated that all but one student of those evaluated as likely to require special education services when they entered preschool actually required those services. As a result, Goldman Sachs—also the senior investor in this project—received an interim repayment based on avoided cost per student. These overwhelmingly positive interim results raised many questions about the validity of the evaluation method, the project's costs and the appropriateness of the success metrics. Still, despite these criticisms and the different outcomes for investors in these projects, many observers of the PFS field took away the same message from both projects: that the Pay for Success model worked as intended, and risk was shifted to the private sector to the benefit of the taxpayer.

Table 1: Market Overview

	NYC ABLE Project for Incarcerated Youth	Utah High Quality Preschool Program	Increasing Employment and Improving Public Safety	Massachusetts Juvenile Justice PFS Initiative	Child-Parent Center Pay for Success Initiative	Partnering for Family Success Program	Massachusetts Chronic Homelessness Pay for Success Initiative	Project Welcome Home	Housing to Health Initiative	South Carolina Nurse-Family Partnership
Year Launched	2012	2013	2013	2014	2014	2014	2014	2015	2016	2016
Service Delivery Term (Years)	4 (projected) 3 (actual) [Note 1]	5	4	7	4	4	6	6	5	4
Motivation for Project	Nearly half of all adolescents incarcerated at Rikers Island jail will return within one year of being discharged.	Children from low-income families have limited access to high-quality early childhood education.	44% of formerly incarcerated individuals who are under community supervision and without employment return to prison within two years.	55% of young adults who age out of juvenile justice system or are on probation will return to prison at least once within three years. Only 30% are employed within one year of their release from prison or jail.	Chicago Public Schools serving low-income families have a shortage of publically-funded, high-quality pre-kindergarten seats available.	Children of families who struggle with homelessness experience longer stays in foster care.	1,500 chronically homeless people in Massachusetts lack access to stable housing and are high-cost users of temporary shelters, Medicaid and other emergency services.	More than 2,200 chronically homeless individuals in Santa Clara County lack access to stable housing and long-term supportive services.	The City of Denver spends $7 million annually on emergency and criminal justice services for 250 chronically homeless people who lack access to affordable housing and supportive services.	27 percent of children in South Carolina live in poverty, which can be harmful to a child's cognitive development, health, school performance and social and emotional well-being.
Project Objective(s)	Reduce recidivism by at least 10 percent	-Increase school readiness and academic performance -Reduce the need for special education services	-Increase employment by at least 5 percent -Reduce recidivism by at least 8 percent	-Reduce incarceration by 40% -Increase job readiness and employment	-Increase school readiness and academic performance -Reduce the need for special education services	Reduce the length of stay in foster care and achieve permanency and/or family reunification	Provide 500 units of stable supportive housing for up to 800 chronically homeless individuals	End homelessness, increase stability and improve health by achieving 12 months of housing stability	-Achieve housing stability -Decrease jail bed days	-Support the health and development of first-time mothers and their children -Build a pathway to sustainability for NFP in South Carolina -Evaluate effectiveness of efficiencies in NFP model
Individuals Served	17,287 (projected) 4,000 (actual)	3,500	2,000	929	2,620	135 caregivers and their families	800	150-200	250	3,200 mothers and their children
Geography	New York City, NY	Salt Lake County, UT	New York City and Rochester, NY	Boston, Chelsea and Springfield, MA	Chicago, IL	Cuyahoga County, OH	Commonwealth of MA	Santa Clara County, CA	Denver, CO	South Carolina
Issue Area	Recidivism	Early Childhood Education	Recidivism	Recidivism	Early Childhood Education	Child Welfare	Homelessness	Homelessness	Homelessness	Maternal and Child Health
Initial Private Investment ($ millions) [Note 2]	$9.6	$7.0	$13.5	$21.7	$16.7	$4.0	$3.50	$6.9	$8.7	$17.5

Table 1: Notes

[1] The NYC ABLE project was designed as a four year project, but gave the investor the option to continue funding for the fourth year based on results for the first year of participants after a two-year evaluation period. This interim evaluation demonstrated no impact on recidivism, so the program was ended after the third year of service delivery.

[2] This category captures the initial private investment raised to support the project that has the potential to be repaid if the project achieves its pre-determined outcomes. Many projects, particularly those in the supportive housing and health arenas, leverage existing public resources, such as subsidized housing and health insurance, to achieve program impact; the value of these resources is not included in these dollar values but are discussed in more detail in Sections 7, 8 and 9 of this report.

- **Multi-stakeholder partnerships present an opportunity for cross-sector collaboration.** PFS projects are, by nature, multi-stakeholder partnerships, with each type of stakeholder fulfilling a distinct set of roles and responsibilities (as defined in Table 2 and below). PFS projects also rely on the partnership and robust participation of many sectors: government, nonprofit, private, philanthropic, and academic. Most project roles are filled by organizations or companies with expertise or experience that translates directly to the PFS project, but there is a significant learning curve for all parties involved when it comes to understanding the PFS model and its applicability in the local context, establishing shared goals, and finding a common language to negotiate project terms.

- **Stakeholders must reconcile different, and sometimes shifting, motivations.** PFS projects are only possible when the diverse stakeholders involved can find alignment in their goals and priorities, and the project development process (including earlier exploration and feasibility assessment phases) is the process through which this alignment emerges, or is negotiated. Nevertheless, project participants are motivated by different elements of the PFS model, and these motivations can change during the life of the project. For service providers, the initial draw to PFS is often the opportunity to access unrestricted, multi-year funding—a powerful alternative to the cycle of annual or biannual contract negotiations with government funders. Alternately, or over the life of the project, service providers may see PFS as an opportunity change how government buys social services, in both what they prioritize and what they pay for these services. For example, Center for Employment Opportunities hopes that PFS will lead it to a pay-for-performance contract with the state Department of Corrections and Community Supervision that covers their full cost of services, so for them the PFS experience is a chance to pilot this potential arrangement and demonstrate its value to state partners. Also, while initial conversations about the PFS model in the United States emphasized the model's suitability for services that can realize cost savings to government, Santa Clara County has been explicit that their chronic homelessness project may not achieve savings over the course of the project term. Nonetheless, achieving stability and improved health for the chronically homeless population is valuable, and more important, the project will demonstrate that the permanent supportive housing model is more effective than the status quo of services the county provides. Thus, the county was willing to assign a dollar value to a successful outcome.

  Still, for most governments cost savings and avoided costs remain a powerful motivation for governments for pursuing PFS, though over the course of project development and implementation, they may come to value the opportunity that PFS projects offer to address chronic community needs in a data-driven and results-oriented way.

- **Transaction coordinators manage the complex project development process.** The scope of duties of a transaction coordinator can include: general project management and stakeholder engagement; definition and valuation of target outcomes and success payments; evaluation design; investment capital structuring and raising; development and negotiation of project contracts and investment agreements; and development of program operational plans and repayment schedules. Transaction coordinators also often conduct the initial feasibility assessment to determine the viability of the PFS model for a particular issue area, organization or geography. Social Finance US and Third Sector Capital Partners are both early proponents of the PFS model in the United State and have developed their business models around filling the transaction coordinator role. But the transaction coordinator role has also been filled, in whole or part, by community development financial institutions (Enterprise, IFF and CSH), a research and evaluation organization (MDRC), and philanthropy (United Way organizations in Utah and Massachusetts). Several projects have also had partnerships of several organizations fulfilling the transaction coordinator role. The diversity of organizations acting as transaction coordinators is a reflection of the scope of tasks and responsibilities captured in the transaction coordinator role. It also demonstrates that there are skill sets and expertise from other sectors that PFS project development requires. For example, CDFIs and other funding intermediaries can bring experience in capital raising and structured finance, while a research and evaluation organizations can bring experience with program design and monitoring.

- **In the project implementation phase, most projects retain an intermediary organization as a project manager.** Generally speaking, the project manager is the lead contractor with the payor and contracts directly with the other parties providing services or funding to the PFS project: the service provider, the investors, the technical assistance provider, legal counsel, and/or evaluator. In most cases, the project manager is the same entity that served as the transaction coordinator. Project managers are responsible for reporting to both the investors and the payor, and play a leadership role in convening the committees and working groups that make up the project's governance and monitoring structure. Some project managers also play an active role in performance management. For example, in the New York State Increasing Public Safety and Employment Project, Social Finance US meets with the service provider and the parole bureau on a regular basis to review key program outputs, such as referrals and enrollments, and identifies and supports implementation of possible course corrections. Project managers may also play the role of fiscal sponsor, or may contract for these services. The fiscal sponsor manages the project's cash flow and accounting.

- **Most PFS activity is at state or county level, with government at that level acting as the payor for outcomes at the end of the project service delivery period.** To date, no project has had a federal agency as the payor, though federal government played a catalytic role in two early projects: the New York State Increasing Public Safety and Employment Project, and the Commonwealth of Massachusetts Juvenile Justice PFS Program. In both cases, the state received grant funds through the Workforce Innovation Fund, a competitive process sponsored by the U. S. Department of Labor to incentivize the use of PFS to address the related issues of recidivism and unemployment. Grant funds received through this process are being used in whole or part to fund outcome payments, in combination with resources committed by the states themselves

- **Technical assistance is a critical part of the project development and implementation phases.** In particular, support from the Government Performance Lab has been integral to most early projects. The Government Performance Lab (formerly the Harvard Kennedy School SIB Lab) offers a technical assistance model that embeds a full-time staffer within government to provide expertise on the PFS model as well as added capacity for data analysis, project design and evaluation. Government Performance Lab fellows also act as the liaison and coordinator for day-to-day activity during the exploration, feasibility assessment and/or transaction structuring phases of project development, thus providing critical focus to the project in the capacity-constrained environment of government where competing political priorities can make it difficult for staff to devote time to PFS. The work of the Government Performance Lab and its fellows has been supported by philanthropy since its inception, and more recently, by the federal Social Innovation Fund, and has acted as an in-kind contribution to early projects. In the project implementation phase, technical assistance is mostly directed to service providers for the purposes of ensuring fidelity to an evidence-based program model and/or maintaining a culture of performance management and continuous improvement in order to deliver on project outcomes. This type of assistance has a role in projects that are scaling existing programs, or transplanting programs from other locations or service providers.

Table 2: Project Partners

	NYC ABLE Project for Incarcerated Youth	Utah High Quality Preschool Program	Increasing Employment and Improving Public Safety	Massachusetts Juvenile Justice PFS Initiative	Child-Parent Center Pay for Success Initiative	Partnering for Family Success Program	Massachusetts Chronic Homelessness Pay for Success Initiative	Project Welcome Home	Housing to Health Initiative	South Carolina Nurse-Family Partnership
Service Provider(s) [Note 1]	-Friends of Island Academy -The Osborne Association	-Granite School District -Park City School District -Guadalupe School -YMCA of Northern Utah -Children's Express -Lit'l Scholars	Center for Employment Opportunities	Roca Inc.	Chicago Public Schools Child-Parent Center	FrontLine	Massachusetts Housing and Shelter Alliance [Note 11]	Abode Services	-Colorado Coalition for the Homeless -Mental Health Center of Denver	Nurse-Family Partnership [Note 12]
Payor(s) [Note 2]	New York City Department of Corrections	United Way of Salt Lake; Salt Lake County (cohort 1) State of Utah (cohorts 2-5)	New York State Department of Labor US Department of Labor [Note 9]	Commonwealth of Massachusetts US Department of Labor [Note 9]	City of Chicago Board of Education of City of Chicago [Note 10]	Cuyahoga County, Ohio	Commonwealth of Massachusetts	Santa Clara County, California	City/County of Denver, Colorado	South Carolina Department of Health and Human Services
Transaction Coordinator(s) [Note 3]	MDRC	United Way of Salt Lake	Social Finance US	Third Sector Capital Partners	IFF	Third Sector Capital Partners	-Massachusetts Housing and Shelter Alliance -CSH -United Way of Massachusetts Bay and Merrimack Valley	Third Sector Capital Partners	-Enterprise Community Partners -CSH -Social Impact Solutions, Inc.	Social Finance US
Evaluator [Note 4]	Vera Institute of Justice	Utah State University	-NYS DOCCS Research -NYS DOL Research	-Sibalytics LLC -The Urban Institute	SRI International	Case Western Reserve University	Root Cause Institute	University of California, San Francisco School of Medicine	Urban Institute	J-PAL North America
Validator [Note 5]	none	none	Chesapeake Research Associates	Public Consulting Group	none	none	none	none	TBD	none
Project Manager [Note 6]	MDRC	United Way of Salt Lake	Social Finance	Third Sector Capital Partners	IFF	Enterprise Community Partners	Massachusetts Alliance for Supportive Housing [Note 12]	none	-Enterprise Community Partners -CSH	Social Finance US [Note 14]
External Legal Counsel [Note 7]	Debevoise	-Holland & Hart LLP -Mannatt	Jones Day	-Goulston & Storrs P.C. -Nixon Peabody LLC -Goodwin Procter LLC -Ropes & Gray LLC	-Kirkland & Ellis LLP -DLA Piper -Chapman and Culler LLP	Kutak Rock	-Nixon Peabody LLC -Goulston & Storrs -Weil, Gotshal & Manges LLP	-Fenwick & West LLP -Gibson, Dunn & Crutcher LLP -Miles & Stockbridge P.C.	Kutak Rock	-WilmerHale -Nelson Mullins -Riley & Scarborough LLP
Technical Assistance Provider(s) [Note 8]	-MDRC -Correctional Counseling, Inc.	-Voices for Utah Children -Granite School District	Government Performance Lab	-Government Performance Lab -Chapin Hall	-Government Performance Lab -Metropolitan Family Services	-University of Maryland -Third Sector Capital Partners	-Government Performance Lab -CSH	-Third Sector Capital Partners -Palantir Technologies	Government Performance Lab	Government Performance Lab

Table 2: Notes

[1] Delivers program interventions to target population over the course of the PFS contract

[2] Makes payments when pre-determined outcomes have been met

[3] Designs and structures PFS project and financing model; raises capital; manages stakeholders

[4] Design and implement plan for determining whether outcomes have been met

[5] Verify accuracy of data used in evaluation plan, or evaluation plan itself

[6] Intermediary during service delivery phase, and/or fiscal sponsor for project funds

[7] Provide assistance in drafting, reviewing and negotiating PFS contracts

[8] Provide support and expertise to project stake-holders in the project development and/or project implementation phases

[9] Both New York State and the Commonwealth of Massachusetts were the recipients of grant funds from the United States Department of Labor, awarded through a competitive process through the Workforce Innovation Fund. Grant funds received through this process are being used in whole or part to fund outcome payments, in combination with resources committed by the states themselves. In both cases, the PFS contract is held by the state, so the federal agency is not the payor of record.

[10] The City of Chicago and the Board of Education of the City of Chicago (Chicago Public Schools) are both payors but are paying for different success outcomes. City of Chicago is paying for outcomes related to kindergarten readiness and third-grade literacy, while Chicago Public Schools is paying for an outcome related to avoided special education costs.

[11] Massachusetts Housing and Shelter Alliance is the lead service provider, responsible for contracting with a number of its member organizations for PFS project implementation. Organizations eligible to participate are named in the contract with the Commonwealth of Massachusetts and include: Action, Inc.; Boston Public Health Commission; Commonwealth Land Trust, Inc.; Eliot Human Services; Father Bill's & Mainspring; Friends of the Homeless; Heading Home, Inc.; Hearth, Inc.; HomeStart, Inc.; Housing Assistance Corporation/Duffy Health Center; Lynn Shelter Association; Mental Health Associates; Pine Street Inn; and South Middlesex Opportunity Council.

[12] Massachusetts Alliance for Supportive Housing (MASH) is a wholly-owned subsidiary of the Massachusetts Housing and Shelter Alliance with its own staff and governance board. MASH contracts with the United Way of Massachusetts Bay and Merrimack Valley as the fiscal agent for the project and CSH as the technical assistance provider; both organizations are members of MASH.

[13] Implementing agencies for the South Carolina project are: Spartanburg Regional Health Care System; Greenville Health System; Carolina Health Centers, Inc.; SC DHEC Low Country Region; SC DHEC Pee Dee Region; SC DHEC Midlands Region; SC DHEC Upstate Region; McLeod Home Health; SC Office of Rural Health Orangeburg Healthy Start.

[14] The Children's Trust Fund of South Carolina is the fiscal agent for the project.

- **Early conversations about the PFS model defined it as a tool to scale proven programs,** or programs with some degree of evidence demonstrating their effectiveness. To date, most PFS projects have fit this model: all but three projects have used PFS funding to finance an increase in the number of people served by a particular program or service provider. In this way, PFS can be a powerful tool to address a trend that many service providers report in Nonprofit Finance Fund's State of the Nonprofit Sector Survey: that demand for services in their communities exceeds their capacity to respond.

- **In several cases, PFS projects have introduced new services.** The most notable example of this is the NYC ABLE Project for Incarcerated Youth, the first-ever PFS project in the United States. This project introduced a therapeutic intervention to juvenile offenders held at Rikers Island jail; previously, there were no therapeutic services available to this population while in jail. The intervention, a type of cognitive behavioral therapy called Moral Reconation Therapy (MRT), had been used and studied with other demographics and in other settings. Transplanting what are considered best or promising practices from other locations and target populations speaks to an appetite in the social and public sectors to replicate and refine existing programs instead of designing new ones. This philosophy is at the heart of the federal Social Innovation Fund, a catalytic supporter of PFS activity, which describes its goal as "finding what works, and making it work for more people."

- **In other cases, PFS projects have combined services.** In Cuyahoga County, the Partnering for Family Success program combines a set of services, all of which had evidence of effectiveness supporting them but which had never been studied in combination. The core intervention that all participants receive is Critical Time Intervention, which has been subject to two randomized control trials for similar, but not identical, target populations; the other interventions, which are to be provided based on the unique needs of each participant, are also supported by different levels of evidence. Similarly, in Denver, the Housing to Health initiative uses two well-researched interventions, permanent supportive housing and Assertive Community Treatment, in combination. Both projects rely on very specific and intentional identification of the target population, so an added element of what is being demonstrated through the PFS model is the effectiveness of this targeting in achieving the target outcomes for the project.

- **PFS projects can allow for rare flexibility in program design and delivery.** In the NYC, Cuyahoga County and Denver projects, a PFS model allowed for flexibility in designing and delivering services that standard government contracts for social services do not usually allow for. This speaks to a large, and unmet, demand for funding sources that can support transformation in social service delivery.

- **There is an ongoing debate in the growing PFS community about whether PFS is most appropriate as a tool to scale or replicate proven models, or to introduce or adapt services to new settings.** Early experience suggests that there is room for both approaches and that the question of scaling versus transplanting will be resolved on a project-by-project basis as part of the process of project development. How the question is resolved is a reflection of local needs, service provider landscape and capacity, and government and investor priorities and risk tolerances. However, using PFS to transplant interventions or demonstrate the effect of new combinations of services underscores the need for robust feasibility assessment to determine the likelihood that an intervention can be implemented successfully with a new population or in a new location, and often some adjustment of expected outcomes to reflect a more conservative estimate of impact given the unknowns around the new target population or geography. This iterative analysis can lengthen project development timelines. PFS models which transplant practices from elsewhere also must consider the capacity of local service providers to implement service models with fidelity, which can involve technical assistance or monitoring from expert providers or consultants.

- **For programs that are scaling using PFS, the level of evidence supporting the intervention varies.** Even the most studied social service interventions do not have more than a handful of rigorous experimental evaluations. This is a testament to the relative paucity of studies of social programs. And, it seems that payors still value data drawn from the local context above all else. For example, though there are several decades of research on the impacts of early childhood education, the Utah and Chicago projects used studies of their respective interventions to estimate impacts for their projects. Similarly, the Massachusetts Chronic Homelessness PFS project relied primarily on a longitudinal data on the Home and Healthy for Good program to model PFS program impact, though the permanent supportive housing model has many decades of research on its impacts and cost-effectiveness. To be sure, the larger bodies of evidence surrounding these interventions played a reinforcing role, but having local data on past performance can serve as a risk mitigation factor for government and investors. Given the scarcity of studies on social programs, it will not be feasible in most settings and would exclude most service providers and programs from participating in PFS projects if having local evaluation data became a qualifying factor to developing projects and selecting partners.

- **Project implementation necessitates a changed, and deepened, relationship between the public sector and the service provider.** This is an innovation in itself, and is a part of all PFS projects, regardless of the level of evidence underlying the project. Government must work closely with service providers to define, identify, and in many cases, refer the target population for services so that the outcomes and impacts prioritized by the payor have the greatest likelihood of being achieved. This partnership takes different forms: regular meetings of stakeholder working groups; government sending a list of priority individuals to a service provider for their outreach and recruitment; or a dedicated staff member in government who coordinates the referral process. In any scenario, the resources and time dedicated by the government partner is critical to project success in a way that it is not in standard government contracts or grants to service providers.

Table 3: Evidence and Program Design

	NYC ABLE Project for Incarcerated Youth	Utah High Quality Preschool Program	Increasing Employment and Improving Public Safety	Massachusetts Juvenile Justice PFS Initiative	Child-Parent Center Pay for Success Initiative	Partnering for Family Success Program	Massachusetts Chronic Homelessness Pay for Success Initiative	Project Welcome Home	Housing to Health Initiative	South Carolina Nurse-Family Partnership
Service Intervention(s) Model and/or Type	Cognitive Behavioral Therapy: Moral Reconation Therapy	Half-day preschool: Utah High Quality Prekindergarten Program model	Transitional Work: CEO Transitional Work model	Transitional Work and Case Management: High Risk Youth Intervention Model	Half-day preschool: Child-Parent Center	-Critical Time Intervention -Child Parent Psychotherapy -Trauma Adapted Family Connections	Home and Healthy for Good Program	-Permanent supportive housing -Assertive Community Treatment	-Permanent Supportive housing -Assertive Community Treatment	Nurse-Family Partnership
Evidence base for intervention	Meta-analysis of Cognitive Behavioral Therapy [Note 1]	2 comparative studies [Note 2]	-1 RCT -Provider performance data	Provider performance data	1 longitudinal study, quasi-experimental design	Critical Time Intervention: 2 RCTs, 1 experimental research design [Notes 4 and 5]	-Provider performance data -Medicaid data analysis [Note 6]	-Permanent Supportive Housing: 15 experimental/ quasi-experimental studies [Note 7] -Assertive Community Treament: 27 experimental/ quasi-experimental studies [Note 8]	-Permanent Supportive Housing: 15 experimental/ quasi-experimental studies [Note 7] -Assertive Community Treament: 27 experimental/ quasi-experimental studies [Note 8]	3 RCTs
Has effectiveness of the intervention for PFS project target population been evaluated?	No	Yes	Yes	Yes	Yes	Partly [Note 4]	Yes	Yes	Yes	Yes
Has the service provider provided this intervention previously?	No	Partly [Note 3]	Yes	Yes	Yes	Partly [Note 5]	Yes	Yes	Yes	Yes
Is PFS project: **-scaling** an existing intervention by replicating at a larger scale? **-demonstrating** the effect of a new program model or combination of services? **-transplanting** an existing intervention(s) to a new target population and/or service delivery setting?	Transplanting	Scaling	Scaling	Scaling	Scaling	Demonstrating; Transplanting	Scaling	Scaling	Demonstrating; Scaling	Scaling

Table 3: Notes

[1] The estimated impact of the ABLE Program was based on a meta-analysis of 58 evaluations of different models of cognitive behavioral therapy programs serving different subsets of a criminal offender population in different settings. Moral Reconation Therapy (MRT), the intervention used by the ABLE Program, is a type of cognitive behavioral therapy. MDRC conducted a literature review that determined that all of the models of CBT achieved comparable results as long as they were implemented as originally intended by program designers. MRT was selected as the type of cognitive behavioral therapy to implement at Rikers Island based on existing evidence as well as fit of the model with the unique conditions and operational challenges of the jail setting. For more information, see MDRC's Financing Promising Evidence-Based Programs: early lessons from the New York City Social Impact Bond (http://www.mdrc.org/sites/default/files/Financing_Promising_evidence-Based_Programs_FR.pdf).

[2] The Utah High Quality Preschool Program was evaluated as part of the U.S. Department of Education's Early Learning First program. The research design was a two-group comparative design with pre-, mid- and post-assessment, and compared students in 15 classrooms receiving the program with twelve classrooms deemed to be at a similar risk level. The project was conducted over three academic years, 2006-07 to 2008-09, with an independent evaluation each year of the project. Another study funded by the W.K. Kellogg Foundation compared students receiving the Utah High Quality Preschool Program with students not receiving preschool services in the 2012-12 school year.

[3] The Granite School District developed and has implemented the Utah High Quality Prekindergarten Program since 2006. Some of the independent service providers had been implementing the intervention prior to the PFS program with grant funding through Voices for Utah Children.

[4] Critical Time Intervention has been subject to two randomized control trials. Both studied the impact of C.T.I. on individuals with severe mental illness; one study population was exclusively male. A modified randomized trial studied the impact of C.T.I. on episodically homeless families. While none of these study groups is an exact match to the target population for the Partnering for Family Success program—caregivers experiencing homelessness whose children have been placed in foster care—there is some overlap with the populations served in the three studies.

[5] All of the participants in the Partnering for Family Success program receive C.T.I., which Frontline staff is experienced in providing. The other interventions are to be provided on as-needed basis to meet clients' specific needs; Frontline Staff is not experienced in implementing all of these interventions.

[6] The Home and Healthy for Good has been contracted to the Massachusetts Housing and Shelter Alliance by the Commonwealth of Massachusetts since 2006. As a condition of funding, MHSA reports on the self-reported usage of health and social services and quality of life outcomes for participants served by the program; participants are surveyed monthly, and in some cases, quarterly. State Medicaid analysts have also reviewed billing claims for a subset of participants to determine their actual Medicaid costs in the year prior to and after moving into housing. This local data informs the design of the Massachusetts PFS project, although the larger body of evidence supporting permanent supportive housing's cost-effectiveness and impact were also weighed in making the case for this project.

[7] The evidence base for permanent supportive housing is summarized by the Washington State Institute for Public Policy, which includes a cost-benefit analysis based on studies using a comparison and treatment group, available at: http://www.wsipp.wa.gov/BenefitCost/ProgramPdf/284/Supported-housing-for-chronically-homeless-adults

[8] The evidence base for assertive community treatment is summarized by the Washington State Institute for Public Policy, which includes a cost-benefit analysis based on studies using a comparison and treatment group, available at: http://www.wsipp.wa.gov/BenefitCost/ProgramPdf/283/Assertive-Community-Treatment. These studies are not all specific to a chronically homeless population.

- **Evaluation is a central component of PFS.** Program evaluation, whether interim or final, triggers repayment of the initial PFS investment, and any additional payments tied to higher levels of impact or success. Evaluations can be paid for by either funds raised through the PFS financing process, or separately by philanthropy or government. In either scenario, payment for the evaluation must not be tied in any way to the achievement of the outcomes, nor can the evaluator have a financial interest or stake in the project.

- **PFS offers the opportunity to build the evidence base for social service interventions.** Most social service interventions are unstudied or understudied, particularly with the level of rigor that is routine in other fields like medicine. Thus, PFS projects provide an important opportunity to build the base of research for existing programs. And, many hope that the use of rigorous experimental evaluation methodologies will go beyond answering the relatively simple question of whether or not an intervention works, and address questions of how, why and for whom it works.

- **A slight majority of projects to date have used a randomized control trial (RCT),** considered the gold standard of evaluation design. An RCT relies on comparison to a group of individuals randomly assigned to a control group that does not receive the services being evaluated. For government, an RCT may be seen as the best possible way of ensuring that they are paying for outcomes that would not have been achieved otherwise; likewise, some investors and stakeholders in the PFS market feel strongly that the use of an RCT is critical in order to establish the rigor of the PFS model. Some service providers embrace the opportunity to undergo an RCT because they see it as a way of demonstrating their impact, confidence in their approach, and willingness to subject themselves to broader scrutiny.

- **There is a growing consensus on how critical it is to involve the project evaluator as early as possible in the program design process.** An initial assessment of a program's evaluability, or its ability to be tied to a set of outcomes which can be observed in reasonable period of time, is often part of the feasibility assessment phase of project development. Projects which are not evaluable, for reasons of complexity, correlation, or lack of obvious concrete and measurable outcomes, are not a likely fit for PFS. Early engagement of an evaluator in program design comes at a cost, which adds to the overall cost of the project development process. In early 2016, the Urban Institute started providing in-kind support for early evaluation work to PFS projects under development, through a grant from the Laura and John Arnold Foundation. Local and regional universities and research centers have also played a key role in early-stage evaluation design.

- **Data used in evaluations tends to come from government, and in some cases service providers**. The use of administrative data, or data which is routinely collected or generated by government, in PFS evaluations is considered a promising practice for the field for several reasons. First, administrative data is critical to demonstrating the fiscal impact of PFS program success; for example, administrative data on jail bed days used can be document that there was reduced bed utilization, which results in cost savings or avoided costs. Second, use of administrative data is one way of reducing the cost of project evaluation, particularly for experimental or quasi-experimental designs which are longitudinal and/or rely on comparison to a control group; the alternative of collecting data from participant and control groups through surveys or interviews is much more time-consuming and expensive, and more likely to result in incomplete data sets. Concerns about the relatively high cost of evaluation (and RCTs in particular), and the diversion of PFS funds away from direct service delivery, have motivated exploration of low-cost approaches to RCT design and the use of administrative data is a key feature of these efforts.

- **Access to administrative data is also required in the project development phase in order to establish baselines and model potential outcomes.** Often, this data is confidential or sensitive, and may be governed by regulations around privacy; for example, medical data is strictly governed by HIPAA requirements, and many states restrict access to wage data. In order to finalize project models, transaction coordinators must secure data-sharing agreements with government, often with several agencies or departments. In some cases, public agencies and departments must also enter into intra-governmental data sharing agreements. Securing the necessary data-sharing agreements has proven to be a source of delays to many projects under development. And, the magnitude of the task of extracting and sharing data should not be understated, even with the proper agreements in place. Access relies on partners within the government who understand what the goals of the project are, and have the capacity and time to pull the data and, if necessary, present it in a format that protects individuals' confidentiality.

- **Many projects are actually tracking multiple indicators and outcomes, though success payments have been tied to no more than four outcomes per project.** Those outcomes tend to be ones that can be most easily tied to available administrative data for the reasons cited above. Despite differences in projects, only a handful of outcomes have been used: namely, utilization of jail or prison beds; academic readiness and achievement; and stable tenancy in housing. Still, projects define these outcomes with different metrics and methods of measurement.

- **PFS program evaluations also have the potential to tell a more robust story about program impact, beyond whether or not outcomes tied to success payments were achieved.** This is important given the limited universe of studies and evaluations of most social service interventions; PFS projects can be another way of building the evidence base and can hopefully provide valuable data and insight that allows for deeper analysis of not just whether or not a project met its intended outcome, but perhaps, why it was or was not effective. Further, these evaluations can counterbalance the concern that many service providers have about PFS or other outcomes-based financing mechanisms: that the impacts they have on their clients' lives will be reduced to just one or two measures, and that less tangible, or harder to measure, impacts will be ignored.

- **Being subject to any rigorous third-party evaluation bears considerable reputational risk for a service provider, and this risk is higher in a PFS project.** Depending on how the evaluation is set up and how results from a PFS project are messaged and communicated, the failure of a project to repay investors can quickly be interpreted to mean that a service provider and/or intervention is ineffective. These labels or conclusions can carry forward without an appreciation for other effects produced by a service providers' work, even beyond those captured or tracked in the program evaluation. This further underscores the important role that program evaluations can have in telling a full story about program effect, as well as the important and challenging work to be done by the field in developing messaging and communications around PFS program results.

Table 4: Evaluation

	NYC ABLE Project for Incarcerated Youth	Utah High Quality Preschool Program	Increasing Employment and Improving Public Safety	Massachusetts Juvenile Justice PFS Initiative	Child-Parent Center Pay for Success Initiative	Partnering for Family Success Program	Massachusetts Chronic Homelessness Pay for Success Initiative	Project Welcome Home	Housing to Health Initiative	South Carolina Nurse-Family Partnership
Evaluation Design Methodology	Quasi-experimental: regression discontinuity using historical baseline	Longitudinal study	RCT	RCT	Quasi-experimental: Propensity Score matching	RCT	Validated data	-Validated service provider data -RCT [Note 4]	-Validated service provider data -RCT [Note 5]	RCT
Data Source(s) for Evaluation	-New York City Department of Corrections -New York City Office of Management and Budget	Granite School District	-New York State unemployment insurance database -NYS Department of Corrections and Community Supervsion -Service provider	-Massachusetts unemployment insurance database -Service provider	Board of Education of Chicago Public Schools	- Homeless Management Information System -Statewide Automated Child Welfare Information System	Service providers	Santa Clara Valley Health and Hospital System, Homeless Management Information System; Criminal Justice Information Control; service provider	-Service providers -Denver Sherriff Department	-Service providers -State of South Carolina
Outcomes Tied to Success Payments	1) Number of participants served 2) Total jail days avoided	1) Use of special education and remedial services	1) Number of jail/prison bed-days 2) Engagement in transitional job [Note 1] 3) Increases in employment	1) Number of jail/prison bed-days avoided 2) Job readiness [Note 2] 3) Increases in employment	1) Kindergarten readiness 2) Avoided use of special education services 3) Third Grade Literacy	1) Days in out-of-home placement for children	1) Stable housing for at least one year	1) Months of stable tenancy	1) Housig stability 2)Jail bed days	1) Reduction in preterm births 2) Reduction in childhood hospitalization and emergency department use due to injury 3) Increase in health spacing between births 4) Increase in number of first-time moms served in high-poverty ZIP codes
Outcomes Tracked, Not Tied to Success Payments	-Intensity/dosage of service and progress through program stages; -Number of safety incidents/conflicts	-Math and reading proficiency -Secondary and post-secondary school completion -College readiness -Connection to health insurance and health care provider	None	-GED/High School completion -College enrollment	-Student mobility and retention -Improvements in social-emotional learning -Parent engagement -School attendance	Family reunification (Note 3)	-Health care service usage -Number of nights spent in shelter -Number of days incarcerated	Health care, social service and criminal justice system utilization	Emergency services, shelter and criminal justice system utilization	TBD
Length of Evaluation Period	4 years (projected) 3 years (actual)	12 years	5.5 years	7 years	17 years	5 years	5.25 years	6 years	5.25 years	7 years

Table 4: Notes

[1] Transitional, or subsidized, work, is central to the Center for Employment Opportunities' intervention model as a critical step toward achieving employment and avoiding recidivism.

[2] Job readiness is measured by the intensity of engagement and level of participation that a participant demonstrates with their assigned service provider staff person during a given period.

[3] Evaluator will also conduct a two-year implementation study to determine how different components of the program implementation relate to reduction in out-of-home placement days.

[4] The evaluator will use data generated by the service provider to determine whether stable tenancy has been achieved. This is what triggers investor repayment. The RCT will be used to examine differences in health services, social services and criminal justice system utilization, as a means of determining the impact of the PFS program beyond its effect on housing stability, including how permanent supportive housing generates efficiencies and economic benefit for Santa Clara County.

[5] The evaluator will also implement a process study to collect data on program implementation. Data collected through this study will be used to institute mid-course corrections as necessary and help interpret results of the RCT.

- **All types of stakeholders can be, and usually are, involved in early learning and exploration of PFS at the local level.** The mechanism for bringing service providers into almost all projects to date has been a government procurement process, usually in the form of one or more requests for proposals (RFP) to solicit the services of a transaction coordinator and a lead service provider. The two exceptions are the Utah and Chicago projects, where PFS is being used to expand programs already operating in public schools. In some cases, governments have issued earlier requests for information (RFI), to solicit ideas of potential areas for PFS application.

- **PFS offers service providers the opportunity to deepen impact and advance their missions by accessing hard-to-come-by capital for organizational growth and/or innovation.** But, participating in a PFS project demands a lot from a service provider. To date, service providers that have been selected for PFS projects have been predominantly single-issue or single-model organizations with decades of experience in implementation, and many have invested at least a decade in developing and refining their service delivery models, performance management and data collection systems, human capital and strategic planning. Many observers of the field, including many service providers, feel that the bar is too high, and that most service providers will not be able to meet these standards. Thus, there is a danger that PFS becomes a solution or option for only the smallest number of organizations and perpetuates an inequity in the social service sector. On the flip side, there is the danger that service providers jump at the chance to participate in a PFS project without a full consideration of the financial and reputational risks of participation, or a full understanding of their program delivery costs, infrastructure needs and the time it will take from high-level staff to be involved in program design and ongoing monitoring during the implementation phase.

- **Service providers are excited about continuous improvement.** As mission-driven organizations, many service providers are eager for opportunities to better understand their impact on the communities and populations they serve, so they are excited by the potential that PFS offers to pursue longer-term and more rigorous evaluations of their program models in a way they have not been able to do before. This should spark conversations in the field about how to increase investment in a broader array of service providers who are eager to invest in their capacity to deliver and track outcomes, not just for those who are pursuing PFS opportunities.

- **Expansion and rapid growth can be challenging for service providers, even with an infusion of upfront capital.** One way to address or mitigate this challenge is a program design involving multiple service providers, with each adding a marginal amount of capacity. Multiple service providers can also be practical for projects working in a larger geographic region, like the Massachusetts chronic homelessness project which provides services in a number of communities spread across the state. Looking ahead, there are a handful of projects proposing a collective impact approach, whereby multiple service providers are able to offer a more holistic or comprehensive set of services. An individual service provider can thus play to their own strengths and experiences, and refer clients to other partners for services that they themselves do not offer. Ultimately, this is to the benefit of the client, who receives a combination of services that is most suited to their needs. Multi-provider models do create an added layer of work in the project development and management phases, as there must be a uniform process for eligibility assessment, recruitment and referrals processes, as well as centralized systems for data management.

- **"Business as usual" versus innovation in service delivery.** In most cases, services provided with PFS funds are nearly identical to "business as usual" for service providers. However, the recruitment or enrollment process for program participants often relies on a new or deepened partnership with government on the front-end of service delivery for referral and enrollment. This is because demonstrated success is tied to the ability to recruit and serve the population that a back-end payor has prioritized. Thus, there is a level of innovation as well as operational risk that is not part of "business as usual" for service providers. One way to mitigate this operational risk, which is increasingly common in PFS projects, is a ramp-up period that allows project partners a chance to operationalize and refine systems for referrals, enrollments, randomization (if there is an RCT evaluation), and data tracking, and/or phase-in services until the project reaches the target scale. Ramp-up periods take different forms: they can be either before or after formal project launch; they can be funded as part of the PFS transaction or separately by philanthropy; and individuals served may or may not be included in the project evaluation. An additional function of ramp-ups is that it allows projects to take advantage of timing of availability of other resources that are critical to project success, if there is a mismatch in timing with PFS project launch; this was the case in the Massachusetts and Denver housing projects, where service delivery started in advance of project financing being finalized so that service providers could take advantage of available housing units.

Table 5: Service Provider Characteristics and Service Delivery

	NYC ABLE Project for Incarcerated Youth	Utah High Quality Preschool Program	Increasing Employment and Improving Public Safety	Massachusetts Juvenile Justice PFS Initiative	Child-Parent Center Pay for Success Initiative
Single or multiple service providers?	Multiple	Multiple	Single	Single	Single
Service provider type(s) (nonprofit, government, private)	Nonprofit	-Public -Nonprofit -Private -Charter school	Nonprofit	Nonprofit	Public
Service provider OR site selection method	RFQ to shortlist of local organizations	Existing sites, plus expansion sites selected by intermediary	Solicited as partner by successful bidder to state RFP for transaction coordinator	RFR from state for criminal justice service provider	Expansion sites elected by Chicago Public Schools based on demographics and need
Service Provider Experience with PFS Intervention	1 of 2 service providers had extensive experience running other cognitive behavioral therapy programs	Public and nonprofit providers had already been implementing program with grant support	PFS intervention is proprietary to service provider	PFS intervention is proprietary to service provider	Existing implementation sites, plus expansion sites
Referral Method for PFS Target Population	Mandatory for all 16-18 year olds attending school while detained at Rikers Island	De facto enrollment for all students at PFS program sites	Voluntary enrollment by participants identified as high-risk by parole bureau given directive to participate in program as special condition of parole	Voluntary enrollment by participants identified as high-risk by evaluator and referred to service provider for outreach	De facto enrollment all students enrolled at PFS program sites
Did the project have a ramp-up phase? (Y/N; brief description)	Yes: 11 month period operating at half-scale (4 months prior to 7 months post-project launch); services during pre-launch period provided in-kind	No	No	No	Yes: 1 year service ramp-up period after PFS transaction launch; only outcomes for students enrolled for full year counted in program evaluation

	Partnering for Family Success Program	Massachusetts Chronic Homelessness Pay for Success Initiative	Project Welcome Home	Housing to Health Initiative	South Carolina Nurse-Family Partnership
Single or multiple service providers?	Single	Multiple	Single	Multiple	Multiple
Service provider type(s) (nonprofit, government, private)	Nonprofit	Nonprofit	Nonprofit	Nonprofit	-Quasi-public -Nonprofit -Public
Service provider OR site selection method	Alternative procurement method	Selected by project manager from list of qualified providers pre-approved by state	RFP	RFP	RFP for service provider intermediary
Service Provider Experience with PFS Intervention	Experienced with Critical Time Intervention (core intervention)	Existing sites for Home and Healthy for Good model	Experienced with ACT and permanent supportive housing (PSH); currently operates 30+ PSH programs	Experienced providers of ACT, permanent supportive housing and other health and supportive services	All existing NFP implementing agencies in South Carolina included in project
Referral Method for PFS Target Population	Voluntary enrollment of participants identified through a process led by county	Voluntary enrollment with referrals made through providers' outreach and networks; participant eligibility determined using uniform risk/needs assessment	Voluntary	Voluntary enrollment of participants identified by Denver Police Department with referrals coordinated by Denver Crime Prevention and Control Commission	Voluntary enrollment; referrals made by state Medicaid office; direct marketing to potential participants
Did the project have a ramp-up phase? (Y/N; brief description)	Yes: 6 month service ramp-up period prior to PFS transaction launch; 28 families served; grant-funded	Yes: 6-month early-start clause to allow for service delivery before financing was finalized; 2 year ramp up to get to full housing unit capacity	Yes: 3 month ramp-up period prior to PFS transaction launch; county-funded	Yes; 6-month pilot period after project start date, prior to transaction launch; Individuals engaged during pilot period included in only housing success payments	Yes: 3-month pilot period prior to project launch; paid for with non-PFS funds; participants tracked but not included in evaluation

- **As multi-stakeholder agreements, PFS projects must have clearly-defined structures for project oversight and governance.** These structures are typically laid out in the main PFS contract, which is held by the project manager (or, in many cases, a special purpose vehicle wholly owned and managed by the project manager). Project oversight breaks out into two basic categories: operational and executive.

- **The operational oversight role focuses on regular monitoring of project progress**. This can include review and troubleshooting of operational components of the project, and identifying and implementing any necessary course corrections identified in the process. Generally, operational oversight is handled by a committee that includes stakeholders involved in, or most closely tied to, project implementation, including service providers, and staff representatives of the government agencies or departments most closely aligned with the project's target population or the source of repayment. Project managers often play a lead role in organizing and convening these committees and their regular meeting schedule. Data management systems to track and easily generate reports on program outputs and indicators are an important asset to these committees. Indicators or data points tracked at this level of oversight could include things like number of referrals made, number of participants enrolled, or days of services provided. These data points are more similar to the outputs tracked in a traditional government contract, and not necessarily indicative of project success or impact. Still, monitoring these outputs is important as these projects often have a good deal of implementation risk due to changed or deepened partnerships with government around referral and enrollment, and the ability to demonstrate positive impact is tied to service providers being able to hit targets for enrollment and levels of service provided.

- **Executive oversight is typically handled by an executive or steering committee that monitors project progress through reports made by the project manager and/or operational committee.** The executive or steering committee has decision-making authority over the PFS project, including for any changes in who fills the project manager and/or service provider roles. This committee is also the level at which any termination events or rights are exercised. Though the composition of the operating and executive committees looks similar in terms of the mix of stakeholders represented, there may be differences in who participates; the executive committee is more likely to have higher-level leadership, and the involvement of political appointees.

- **Investors do not have decision-making power in PFS governance structures**. They are, in some cases, allowed access to meetings of the operations or executive committees as non-voting members and typically have project termination rights that are defined in the PFS contract. Investors may receive reports on project progress as frequently as monthly. Reporting to investors is typically handled by the project manager.

- **There are significant implementation risks in these projects.** These risks are elaborated during the PFS contract development phase and can be incorporated as termination events in the contract. In most PFS contracts, there is at least one project-specific termination event, in addition to and distinct from the standard terms and language that are part of most contracts—PFS or otherwise. Some of these implementation risks are related to performance and capacity of project stakeholders, so there may be clauses for replacement of service providers or project managers, as well as clauses for contract termination and project wind-down if stakeholders are terminated but not replaced. There may also be termination events related to program design elements that are critical to project success but beyond the control of a project's service providers or project manager. This is most apparent in the Cuyahoga, Santa Clara County and Denver Housing to Health projects, which both rely on access to or commitments of publically-funded housing resources and, in the Santa Clara and Denver cases, Medicaid reimbursement for services provided. These resources are funded outside of the PFS transaction, but are integral to project design and intended impact. In cases like these, termination events can be exercised in the event that a public partner fails to commit adequate resources to ensuring project success.

- **The potential failure by the back-end payor to fulfill its repayment obligations is often highlighted as a concern of investors.** In reality, the repayment risk for a PFS project is not that different from that borne by a service provider in a multi-year contract with government. But, entering into agreements with private investors is a diversion from business as usual for government when it comes to contracting for social services; this practice is standard in municipal finance for public infrastructure and capital projects. Given the newness of the model, addressing appropriations risk has been an instrumental part of increasing investor confidence in early projects. The method of accomplishing this has varied by geography, and often requires legislative authority. The most common method is a set-aside account or sinking fund, where back-end payments are appropriated in whole or part; failure to do so can be grounds for contract termination in some cases. The most extreme example is Massachusetts, which has established a Social Innovation Financing Trust Fund backed by the full faith and credit of the Commonwealth.

Table 6: PFS Project Contracting and Governance

	NYC ABLE Project for Incarcerated Youth	Utah High Quality Preschool Program	Increasing Employment and Improving Public Safety	Massachusetts Juvenile Justice PFS Initiative	Child-Parent CenterPay for Success Initiative	Partnering for Family Success Program	Massachusetts Chronic Homelessness Pay for Success Initiative	Project Welcome Home	Housing to Health Initiative	South Carolina Nurse-Family Partnership
Operational Oversight Structure [Note 1]	Operational Committee made up of project manager and service providers' staff	United Way of Utah as project intermediary manages day-to-day operations of program and reports to School Readiness Board	Management Committee made up of NY State Depts. of Corrections and Community Supervision and Labor representatives, service provider, project manager and Government Performance Lab	Operating Committee includes representatives of project manager; Commonwealth Department of Youth Services, and Executive Office of Administration and Finance; service provider; intermediary; evaluator by invitation	Steering committee includes payors, project manager, technical assistance provider and local education experts	Operating Committee includes service provider, project manager, county representative and evaluator	Board of Managers includes two representatives of project manager, and one representative each of fiscal agent and technical assistance provider	Operating Committee includes 1 County representative and service provider staff	Operating Committee includes Denver Department of Finance and Division of Behavioral Health Strategies, service providers, evaluator, and project manager	Not available
Frequency of meetings	Every 1- 2 weeks	n/a	Monthly	Monthly	Monthly in first year, quarterly thereafter	1-2 times/month	Monthly	Monthly	2 times/month for first six months of project; monthly thereafter	Not available
Executive Oversight Structure [Note 2]	Program monitoring committee made up of New York City Department of Corrections and Mayor's Office, service providers and project manager	School Readiness Board housed within Governor's Office of Management and Budget includes Dept. of Workforce Services and Board of Education representatives, appointees of State Charter School Board, and state House of Representatives and Senate leaders	Executive Steering Committee made up of state officials from executive branch, Depts. of Corrections and Community Supervision and Labor, and project manager; service provider participation as special advisor/observer	Oversight Committee includes representatives of project manager, intermediary, service provider executive director, commissioner of Dept. of Youth Services, and secretary of Executive Office of Administration and Finance	Not available	Governance Committee includes service provider, project manager and county	Includes representatives of Commonwealth Department of Housing and Community Development and Executive Office of Administration and Finance, and Government Performance Lab	Executive steering committee includes 2 county representative and 2 service provider representatives	Governance Committee includes City of Denver Chief Financial Officer, evaluator, service providers, project manager and investors	Not available
Frequency of meetings	Monthly	Quarterly	Periodically, with quarterly updates	Quarterly	Not available	Quarterly	Quarterly	Quarterly	Quarterly	Not available
Investor role in project governance?	None	None	None	Can attend quarterly meetings of Oversight Committee, and up to two meetings of Operating Committee, as non-voting member	Can attend any operational or governance meeting by request	Can attend any operational or governance meeting by request	Can attend any operating or steering committee meeting as non-voting member [Note 5]	Can attend any operating or steering committee meeting as non-voting member [Note 2]	-May attend any operating committee meeting -Included in governance committee	Not available
Frequency of reporting to investors	Monthly reports; Quarterly meetings	Quarterly	Quarterly	Quarterly	Annually	Quarterly	As needed, with quarterly reports to state	Quarterly	Quarterly	Not available
Non-standard Contract Termination Events [Note 3]	1) Non-performance by service provider or intermediary	None	1) Termination of project manager by state for non-responsibility with no replacement of project manager by state	1) Commonwealth and Senior lender have termination rights if cumulative program attrition exceeds Roca historical baseline by 350% or more at end of year 2 or 3	None	1) Insufficient referrals or enrollments 2) Unavailability of adequate housing 3) Medicaid contract downsizing or termination 4) Increase in labor costs	1) Availability of 200 housing units by end of year 2 2) State failure to allocate housing and Medicaid resources 3) Low retention of participants in housing	1) Insufficient referrals/ underenrollment 2) Insufficient supply of adequate housing 3) Substantial reduction in Medi-Cal funding	1) Inadequate volume of referrals or housing units/ subsidies 2) Changes to Medicaid 3) Policy changes that affect jail bed days 4) Housing stability rate <50% by end of year 3	Not available
Appropriations Risk Mitigation Strategy [Note 4]	None	Annual appropriation earmarked through legislation, reserved in restricted fund	Multi-year budget appropriations	Success payments backed by full faith and credit of Commonwealth	Annual Appropriations into Escrow Account	Annual Appropriations into set-aside account	Success payments backed by full faith and credit of Commonwealth	-Annual appropriations part of county baseline budget -Service provider can terminate contract for cause in case of annual appropriations failure	Success payments held in set-aside account	Not available

Table 6: Notes

[1] Committee or working group involved in regular and/or day-to-day monitoring of project progress

[2] Oversight and decision-making body for PFS project

[3] Events which allow stakeholders to exit their contractual obligations, beyond those typically found in loan agreements and contracts

[4] Means by which to mitigate risk that funding is not available for investor repayment

[5] CSH and the United Way of Massachusetts Bay and Merrimack Valley are both investors in the project. They are also part of the MASH Board of Directors as members of the project intermediary and the technical assistance provider and fiscal agent, respectively.

[6] Under certain circumstances, investors can direct the service provider not to approve a certain course of action recommended by the operating or steering committee. This is articulated in the agreement between the investors and the service provider, which was not available for this report.

- **Contracting mechanism vs. financing structure.** Increasingly, there is a distinction made in the PFS field between PFS as a contracting mechanism, and the way contracted services are financed. PFS as a contracting mechanism refers to the means by which an end payor contracts for the delivery of outcomes-based services. PFS financing that involves third-party, upfront investment as a source of funding for the outcomes-oriented service delivery is often referred to as social impact bonds, a term borrowed from the United Kingdom that has proven confusing. It is possible that a PFS contract could exist without financing from a third-party. But most service providers, who are predominantly nonprofit organizations, do not necessarily have strong enough financial positions to cover the upfront cost of service delivery over the life of a PFS contract, particularly with the risk of not being repaid. Further, one of the most exciting aspects of the PFS model when it was first introduced was its potential to attract new sources of capital to the social sector. Traditionally, private and nonprofit investors have focused their social sector investments in real estate, through direct lending and the low-income housing and new markets tax credits, and to a lesser extent in working capital loans and small business development. PFS financing presents the opportunity for direct investment in the outcomes produced by preventative and early intervention services—a largely untapped opportunity. It also provides an opportunity to align diverse stakeholders while enabling them to play to their core strengths: for service providers, this is delivering high-quality services; for investors, this is assessing and assuming financial risk.

- **PFS financing mechanisms have not been structured as bonds, but rather as direct loans.** This is the source of confusion about the term social impact bond, noted above. Most projects to date have involved multiple investors, and the most common arrangement emerging is a layered capital stack with investments divided into senior and subordinate positions. Traditionally, senior investors have their capital repaid first and thus bear less risk than subordinate lenders; in exchange for this lower risk position, they are compensated with a lower potential rate of return. Subordinate investors are compensated with higher returns for agreeing to be repaid only after the senior investors. In PFS financing, this model has been inverted: most subordinate investors are bearing more risk by accepting repayment after senior investors, and a lower rate of return. On the continuum of impact versus financial return, this casts subordinate investors as "impact first" participants. This makes sense, given that subordinate lenders in deals to date have been philanthropies—entities accustomed to prioritizing impact above financial return with their investing and giving.

- **There is little precedent or methodology for adjusting financial returns according to risk for social service program outcomes.** As a result, the distinctions between senior and subordinate investors on projects to date have been highly negotiated and reflect the relative differences in risk tolerance between investors. Most deals to date have offered relatively modest returns for all investors, so the real distinctions between investor classes have been around priority and timing of repayment and, in Santa Clara County and Denver, payment on different outcomes. In both Denver and Santa Clara deals, one class of investor will be repaid on a shorter (and presumably less risky) success metric of housing stability, which is presumed to be a safe proxy for longer-term positive impacts.

- **The pool of investors in PFS projects to-date is small, with some repeat investors, but has included a range of investor types:** commercial banks, private, corporate and family foundations, philanthropic intermediaries (mainly United Ways), community development financial institutions (CDFIs) and high net worth individuals. High net worth individuals and institutional investors seeking impact investment opportunities remain largely untapped as sources of capital. Notable exceptions are: the New York State project, which used Bank of America Merrill Lynch's private wealth management platform to raise money from individual investors; and an investment from Boeing, in the South Carolina project. The relatively small size of investments may be an impediment to attracting these types of investors, as well as other sources of commercial investment. A next frontier of this work may be to create pools, or portfolios of projects, which could absorb larger infusions of capital and spread money (and risk) over multiple projects. But, this requires having a robust pipeline of projects, and would also create additional administrative and management costs.

- **There is very little consistency across PFS projects in terms of the size of investment, composition of the capital stack, and the relative investment size of investors by type.** Capital raised for PFS projects ranges from $3.5 million to $21.6 million. Some transaction coordinators also report the commercial investors are looking for larger investment opportunities than most early projects have offered. Senior investment does tend to account for the greatest share of investment, though there has been a notable shift away from this trend in recent deals in Cuyahoga County, Massachusetts and Santa Clara County. This may be a reflection of a positive trend of more investors being interested in participating in PFS financing, or a less positive scenario of a limited, and risk-averse, pool of senior investors interested in PFS.

Alternately, it may be a response to the economics of the PFS projects themselves, where the relatively narrow margin between total project costs and the maximum repayment committed by the back-end payor requires most investors to be repaid at a lower rate. In any scenario, having multiple investors—as many as eight in the Denver Housing to Health project—creates the added challenge of investor coordination during the due diligence, underwriting and contracting process. Transactions that rely on larger numbers of investors may need to identify new ways to more efficiently coordinate investor activity during the final stages of project development.

- **PFS financing may be designed to leverage other public resources.** Notably, the five most recent projects—Cuyahoga County through South Carolina—have relied on the leveraging and targeted use of public resources in the form of housing subsidies and vouchers, and Medicaid-funded health services. Thus, the project budget for achieving the target outcomes is larger than the capital raised through the PFS financing mechanism. But, the financial modeling for the project—and the amount of money which is eligible for repayment—is limited to the capital raised from private sources.

- **CDFIs have been involved in five of the first ten projects,** including Nonprofit Finance Fund, CSH, TRF, Enterprise and IFF. CDFIs have filled a number of roles in the project development and implementation phases: not just as investors but also as transaction coordinators, project managers and technical assistance providers. The PFS investment opportunity provides CDFIs with the chance to apply their experience as financing intermediaries and lenders to the social sector, and respond to the needs of the sector in a new way. Some see the PFS market as a natural extension of their work in community development financing, with Community Reinvestment Act investing, low income housing and new markets tax credit investing and pooled investment funds. Still, the learning curve for all investors in PFS projects is steep, given that they are underwriting service provider performance rather than cash flow (or collateral), which involves a fundamentally different set of risks where outcomes are influenced by a lot of factors outside the control of the service provider. Most investors have limited experience in evaluating outcomes-based contracts and the corresponding type of risks that PFS projects present, including implementation risk related to program delivery, reliance on government for referrals and other resources critical to program success (e.g. housing, health care), varying degrees of evidence supporting interventions, and appropriations risk. Further, there are more possible outcome scenarios for PFS projects which can make calculating the likelihood of repayment difficult. Lastly, traditional community development investing is typically done to support capital projects and is secured by real estate and sometimes, cash, receivables, future revenues or other personal property of the borrower. In PFS financing, the investors may only be secured by a lien on the account where project funds are held, and perhaps an assignment to partial repayment in the event of early project termination.

- **Philanthropy has played a role in all projects to date,** and many early projects would likely not have been possible without significant philanthropic subsidy in the form of funds to support project development, subordinated investments, grants or guarantees, all of which essentially act as a form of credit enhancement to senior investors by providing increased assurance of repayment. This is an addition to critical philanthropic support for service providers for their ongoing service delivery, as well as capacity building efforts that enable them to participate in PFS projects. Philanthropy has also participated in PFS projects outside of the contract financing by funding evaluation or providing ongoing support to service providers and project managers. Some foundations have made their investments in PFS projects as program related investments (PRIs), which are defined as below-market rate investments whose primary purpose is charitable and not financial. For this reason, subordinate investments in PFS projects are a good fit for PRIs and may be used more frequently as foundations pursue impact investing strategies that broaden their traditional grant making activities.

Table 7: Investors

	NYC ABLE Project for Incarcerated Youth	**Utah High Quality Preschool Program**	**Increasing Employment and Improving Public Safety**	**Massachusetts Juvenile Justice PFS Initiative**	**Child-Parent Center Pay for Success Initiative**	**Partnering for Family Success Program** [Note 5]	**Massachusetts Chronic Homelessness Pay for Success Initiative** [Note 6]	**Project Welcome Home** [Note 7]	**Housing to Health Initiative** [Note 8,9]	**South Carolina Nurse-Family Partnership** [Note 10]
Senior Investor/ Lender and Total Senior Investment ($MM)	Goldman Sachs ($9.6)	Goldman Sachs ($4.6)	Bank of America Merrill Lynch ($13.5) [Note 11]	Goldman Sachs ($9)	-Goldman Sachs ($7.33) -Northern Trust ($5.33) ($12.66 total)	The Reinvestment Fund ($1.575)	-Santander Bank ($1) -United Way of Massachusetts Bay and Merrimack Valley ($1) -CSH ($0.5) ($2.5 total)	-The Reinvestment Fund ($0.5) -CSH ($0.5) ($1 total)	**Housing Stability Outcome:** -Northern Trust ($3) -Walton Family Foundation ($1) Piton Foundation ($0.5) **Jail Bed Day Outcome:** -Nonprofit Finance Fund ($0.435) -Laura and John Arnold Foundation ($1.7) -Walton Family Foundation -Living Cities ($0.5) -Colorado Health Foundation ($1) -Denver Foundation ($0.5) ($8.6 total)	-The Duke Endowment ($8) -Consortium of private funders ($4) -BlueCross BlueShield of South Carolina Foundation ($3.5) -The Boeing Company ($0.8) -Greenville, SC First Steps ($0.7) -Laura and John Arnold Foundation ($0.49) ($17.49 total)
Subordinate Investor/Lender and Total Subordinate Investment ($MM)	None	J.B. and M.K Pritzker Family Foundation ($2.4)	None	-The Kresge Foundation ($1.5) -Living Cities ($1.5) ($3 total)	J.B. & M.K. Pritzker Family Foundation ($4)	-George Gund Foundation ($1) -Nonprofit Finance Fund ($0.325) -The Cleveland Foundation ($0.750) -Sisters of Charity Foundation of Cleveland ($0.2) ($2.275 total)	None	-The Sobrato Family Foundation ($1.5) -The California Endowment ($1) -The Health Trust ($1) -The James Irvine Foundation ($0.28) ($3.8 total)	None	None
Deferred Fee Source and Total ($MM) [Note 1]	None	None	None	-Roca Inc. ($3.26) -Third Sector Capital Partners Inc. ($0.05) ($3.76 total)	None	None	None	Abode Services ($0.5)	None	None
Recoverable Grant Source and Total ($MM) [Note 2]	None	None	None	None	None	Sisters of Charity Foundation of Cleveland ($0.15)	None	-Google.org ($0.5)	None	None
Non-recoverable Grant Source and total ($MM) [Note 3]	None	None	None	-Laura and John Arnold Foundation ($3.7) -New Profit, Inc. ($2) -The Boston Foundation ($0.3) ($6 total)	None	None	-Santander Bank ($0.25) -United Way of Massachusetts Bay and Merrimack Valley ($0.75) ($1 total)	Laura and John Arnold Foundation ($1)	None	None
Guarantor and Guarantee ($MM) [Note 4]	Bloomberg Philanthropies ($7.2)	None	Rockefeller Foundation ($1.3)	None	None	None	None	None	None	None

Table 7: Notes

[1] Deferred fees are delayed payments for the services provided by service providers, transaction coordinators and/or project managers. Deferred fees are one way of structuring projects so that more stakeholders have a financial interest in ensuring project success.

[2] Philanthropies can use either their regular grant making protocols, or protocols for program-related investments (PRIs), to contribute to PFS capital stacks. If a foundation does not use a PRI, their investment may be structured as either a loan or a recoverable grant. The distinction between the two is in the expectation of repayment. A loan, even if from a philanthropic source, is expected to be repaid, and structured accordingly. A recoverable grant does not bear the same expectation of repayment.

[3] Non-recoverable grants are traditional grants contributed to capital stacks; if the project is successful and generates full repayment, the non-recoverable grants can remain with the service provider or project manager, or be recycled by the original funder.

[4] Guarantees were used in early projects as a credit enhancement for senior investors. Guarantees limit potential investor loss by repaying a certain portion of the investment in the case that repayment is not retriggered by project outcomes. Guarantees are not considered as part of the total capital stack, or PFS transaction funds.

[5] The success of the Pay for Success intervention in Cuyahoga County relies on connection to stable housing. The Cuyahoga Metropolitan Housing Authority (CMHA), Emerald Development & Economic Network, Inc. and Famicos Foundation are local housing providers that will provide public housing and/or voucher-based housing resources for the program's families. CMHA created a high-priority public housing preference for caregivers enrolled in the PFS program. The value of these housing units and vouchers is not included in the project budget or initial capital raised.

[6] Massachusetts Chronic Homelessness PFS Project leverages $18 million in public funding including $7 million for 145 project-based housing vouchers allocated by the Massachusetts Department of Housing and Community Development, and $11 million in health care services reimbursed by managed care entities.

[7] Project Welcome Home leverages $7.7 million in Medicaid-reimbursable mental health services and $4 million in County-subsidized housing units and vouchers.

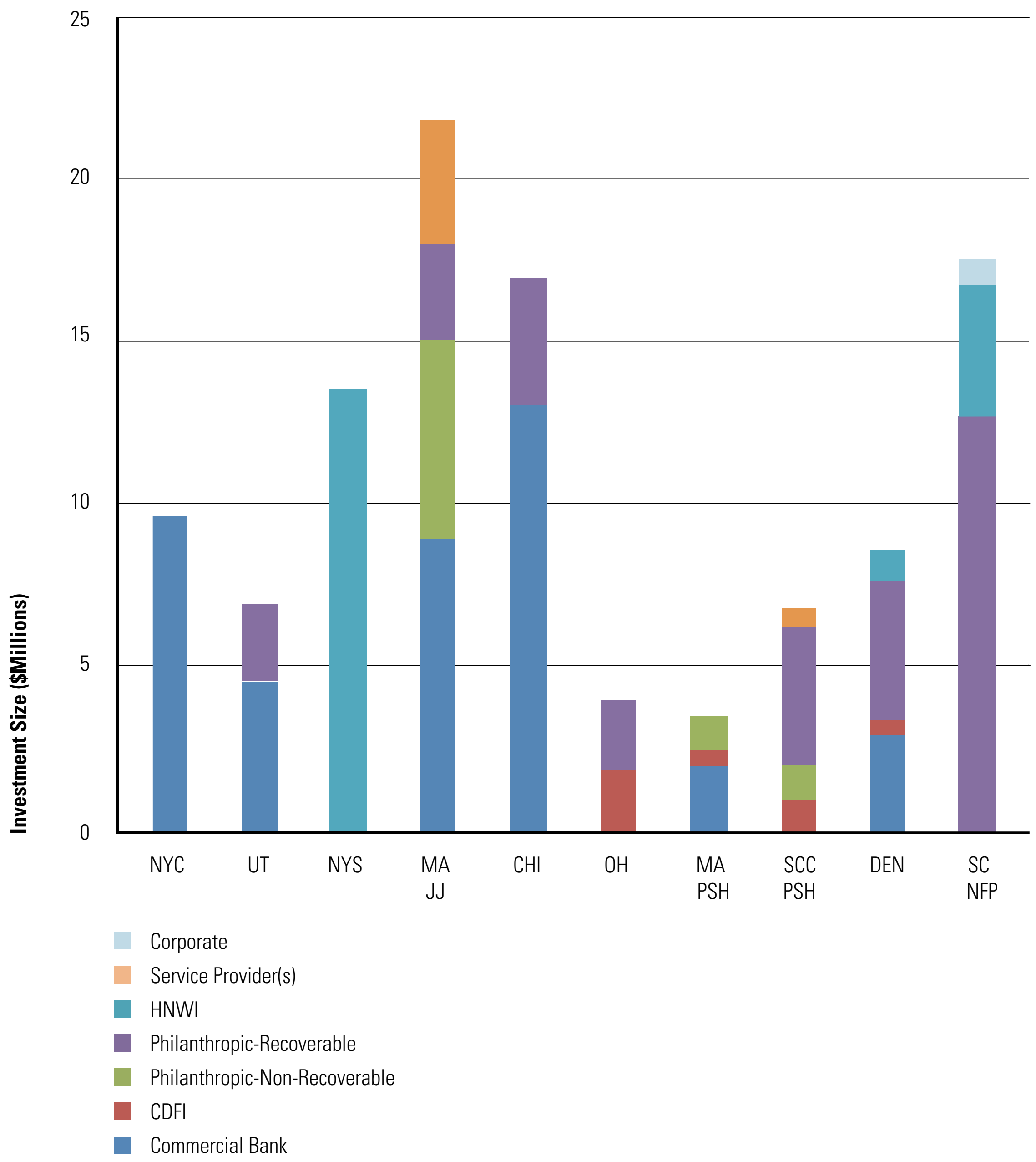
[8] The Housing to Health Initiative assumes leverage of an additional $16.15 million in public resources to support project service delivery, split as follows: $5.17 million in Medicaid funding; $5.42 million in housing vouchers from the Colorado Department of Housing; $5.42 million in housing vouchers from the Denver Housing Authority; and $143,000 in SSI/SSDI funding. In addition, the project relies on the construction of 210 new housing units, financed with a $2.7 million low-income housing tax credit allocation and $3.2 million in gap financing from the city and state.

[9] The Housing to Health Initiative did not use a senior/subordinate structure, but created two tranches of investors. The first tranche, listed here as senior, receives payment on an outcome related to housing stability, and on an annual basis throughout the life of the project starting in year 2. The second tranche, listed here as subordinate, receives payment on an outcome related to jail bed day reduction, which is only measured at the end of the project period.

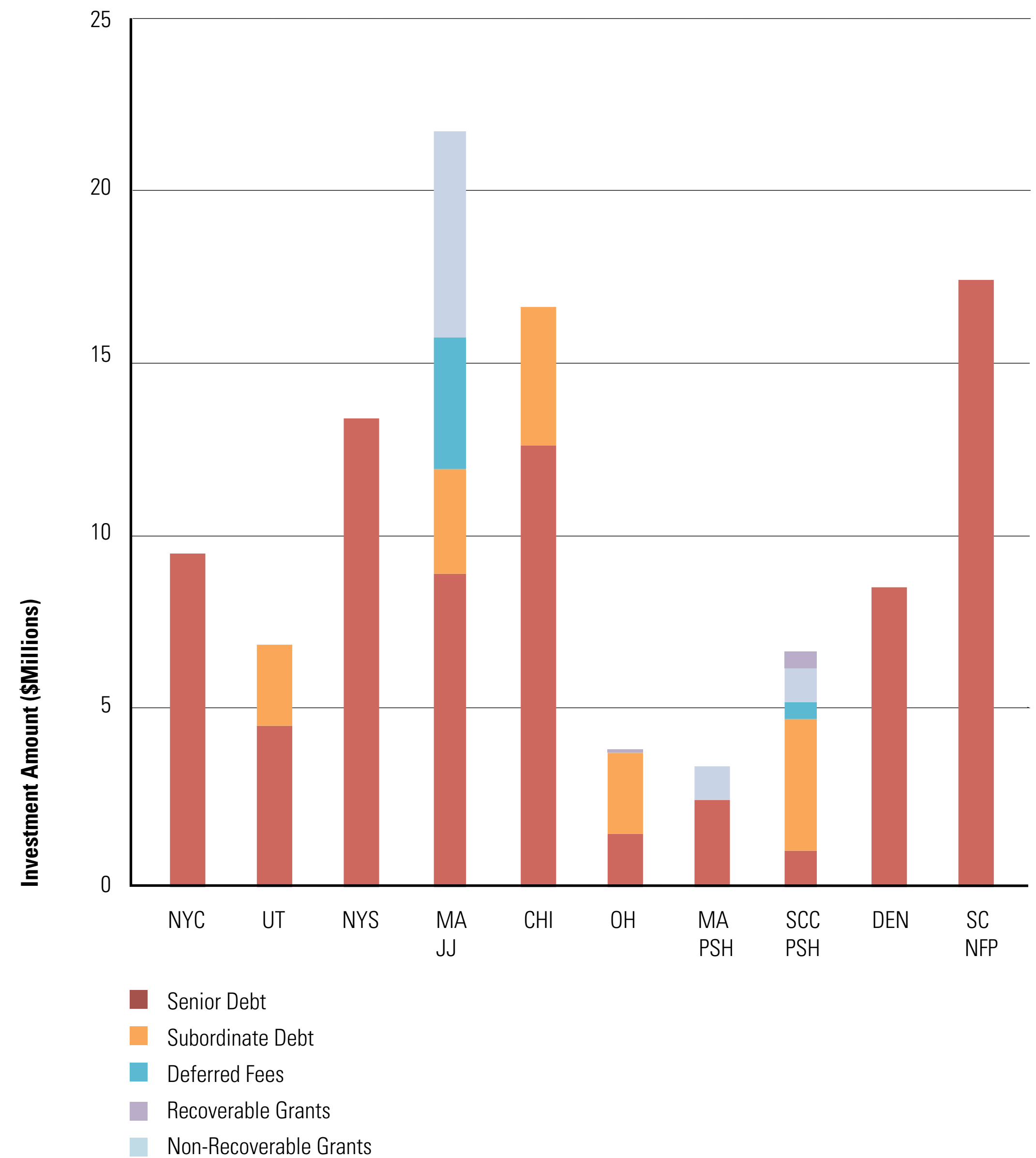
[10] In addition to the $17 million raised from private sources, Medicaid will fund approximately $13 million via a 1915(b) Medicaid Waiver, awarded to the South Carolina Department of Health and Human Services by the federal Centers for Medicare and Medicaid Services.

[11] Bank of America Merrill Lynch raised $13.5 million through its private wealth management division. The investor group included 40 individuals, foundations, and family foundations. Several of the large foundations included in the investor group, including the Robin Hood Foundation, are not eligible for credit enhancement from the Rockefeller Foundation, the guarantor, but are otherwise subject to the same repayment terms as other investors.

Capital Stack by Investor Type



Capital Stack Composition by Investment Type



- **There can be up to three types of payments to investors in a PFS transaction: annual interest; repayment of investment or principal; and return on investment.** Annual interest can be paid regardless of project performance or outcomes, while capital repayment and success payments are tied to performance of the service provider and the achievement of pre-agreed upon outcomes, as measured and confirmed by the project's evaluator. Investor repayment can occur throughout the life of the project's implementation, after the project's conclusion, or both. In some projects, the timing of repayment is the differentiating factor between senior and subordinate investors, with senior investors getting repaid first.

- **Repayment may be based on observed differences between the project's treatment and control group, or on outcomes observed for individual participants served.** This can be observed in the different events that trigger repayment. For example, in the New York City, New York State, Cuyahoga County and Denver projects, there is a minimum threshold of difference between the treatment and control or comparison groups which must be met in order for any repayment of principal to be made. In contrast, other projects make repayment based on any observed positive outcome amongst the treatment group using a set per person or per outcome rate.

- **In most cases, investors can be partially repaid their principal,** with full repayment of upfront investment, as well as any potential return on investment, tied to higher rates of outcomes being achieved. Rates of return may also vary according to level of outcome achievement, as in the Massachusetts Chronic Homelessness project. There is no standard methodology for calculating investor return, and the methodology for doing so is agreed upon investor contracts which are not available publically and were not included in this report's analysis. Projects may use return on investment (ROI) or internal rate of return (IRR) methodology to determine repayment calculations. In general, rates of return are below market. This can actually be an enabling factor for philanthropies who are using PRIs, which are defined, in part, as below-market investments.

- **The timing of investor repayment varies based on the type of outcome, evaluation methodology and investor class**. Most PFS projects have service delivery periods in the range of four to six years, but the horizon for investor repayment is often longer because the period of observation over which to measure the target outcomes extends longer. Indeed, this longer time horizon is linked to the core tenet of PFS of tying funding to outcomes. By definition, outcomes are observed in a longer time frame than outputs, which can be tracked in real-time. For example, a workforce development program could report on a number of outputs within the short term: individuals who completed a job training program, received a skills certification, and found a job. But, a success outcome might be the number of people who find and keep a job for a period of several years, and exhibit sustained and increasing earnings; this would be indicative of longer-term stability in their lives. For this reason, there is often a lag between when the service delivery period ends, and final repayment is announced based on evaluation results. Early childhood projects, in particular, can have a long "tail" in terms of investor repayment because evaluations may involve longitudinal tracking of students. Both the Chicago and Utah projects track students through sixth grade; for subordinate investors, who are only repaid if and when the senior investors have been fully repaid, this can result in very long horizons for full repayment: 17 and 12 years, respectively.

- **Recent projects have also used different outcomes to trigger repayments to senior and subordinate investor groups,** or tranches of investors in the case of the Denver Housing to Health Initiative. This is a reflection of differences in risk tolerance, and is only possible for interventions where there exist some strong short-term proxy measures that can be linked by strong evidence to longer term measures of success. For example, in housing projects, housing stability for one year with minimal interruptions is considered to be a strong indicator of longer term stability and retention in housing, with the associated positive benefits of improved health, and reduced use of emergency services and criminal justice systems. Similarly, for early childhood education programs, measures such as kindergarten readiness can be correlated to greater rates of academic achievement continuing through primary and secondary school, based on existing longitudinal studies.

Table 8.1: Basic Repayment Structure

	NYC ABLE Project for Incarcerated Youth	Utah High Quality Preschool Program	Increasing Employment and Improving Public Safety	Massachusetts Juvenile Justice PFS Initiative	Child-Parent Center Pay for Success Initiative	Partnering for Family Success Program	Massachusetts Chronic Homelessness Pay for Success Initiative	Project Welcome Home	Housing to Health Initiative	South Carolina Nurse-Family Partnership
Initial Investment ($Millions)	$9.6	$7.0	$13.5	$21.76	$16.9	$4.0	$3.5	$6.9	$8.6	$17
Maximum Repayment Funds Committed by Payor ($Millions)	$11.7	Not available	$21.6	$27.0	$34.0	$5.0	$6.0	$12.0	$11.4	$24.5
Full service delivery term (years)	4 (projected) 3 (actual)	4	4	7	4	4	5	6	5	4
Full repayment period (years)	4 (projected) 3 (actual)	12	5.5	7	17	5	6	6.25	5	5
Interim outcomes reported? Tied to payments?	Yes/Yes	Yes/Yes	Yes/No	Yes/Yes	Yes/Yes	No/No	Yes/Yes	Yes/Yes	Yes/Yes [Note 6]	Not available
Sustainability/Recycling of Funds	Any unspent portion of guarantee to be used by intermediary to facilitate future transactions	None specified	None specified	1) State could serve an additional 390 individuals if the project is successful, using federal grant funds 2) Any repaid philanthropic support will be invested in future PFS projects and/or service provider scaling	None specified	Philanthropic funding could be remitted to service provider if repaid as success payment	1)Housing vouchers and Medicaid services will remain with participants	1) Recoverable grant will be reinvested into service provider for capacity building 2) Nonrecoverable grant will be reinvested in county	None specified	Philanthropic supporters will invest any sucess payments in service provider for sustained service delivery

Table 8.2: Detailed Repayment

	NYC ABLE Project for Incarcerated Youth	Utah High Quality Preschool Program	Increasing Employment and Improving Public Safety	Massachusetts Juvenile Justice PFS Initiative	Child-Parent Center Pay for Success Initiative	Partnering for Family Success Program	Massachusetts Chronic Homelessness Pay for Success Initiative	Project Welcome Home	Housing to Health Initiative	South Carolina Nurse-Family Partnership
Interest	None	None	None	5% (senior) and 2% (subordinate) base annual rate	Not available	5% (senior) and 0% or 2% (subordinate) annual rate	0 – 5.33% annually, based on success rates [Note 5]	5%; (senior); 2% (subordinate/ PRI); 0% (Philanthropic)	None	Not available
Trigger for initial repayment of principal [Note 1]	8.5% reduction between control and treatment	Any difference between predicted and actual use of special education services for treatment group	1)Employment outcome: 5% increase in 4th quarter employment compared to control group 2) Recidivism and transitional work outcome:~37 day decrease in average incarceration days compared to control group	1)Jail Bed-Day Outcome: 5.2% decrease in days incarcerated 2)Job readiness outcome: Participant engages with youth worker ≥9 times in one quarter 3) Employment outcome: Participant earnings ≥$1,000 in one quarter	1)Special Education Outcome: Any positive difference between treatment and control group 2) Kindergarten Readiness Outcome: Any positive difference between treatment group and national averages 3) Third Grade Literacy: Same as above.	2% difference between treatment and control groups in out-of-home placement days	40% rate of 12 months of housing stability	Client achievement of three months of housing stability	1) Housing Stability: Client achievement of 12 months of housing stability 2) Jail Days: 20% reduction	Not available
Threshold for full repayment of principal	10% reduction between control and treatment	~90% avoidance of special educationfor students deemed at-risk	10% reduction in recidivism	40% reduction in incarceration days	Not available	25% reduction in out-of-home placement days	80% rate of 12 months of housing stability	Not available	1) Housing Stability: 83% 2) Jail Days: 30% reduction	Not available
Threshold for full repayment of principal plus maximum success payments	20% reduction between control and treatment	Not available	40% reduction in recidivism	70% reduction in incarceration days	Not available	40% reduction in out-of-home placement days	94% rate of 12 months of housing stability	83% of clients achieve 12 months of housing stability	1) Housing Stability: 100% 2) Jail Days: 65% reduction	Not available
Repayment timing	Year 3 (Final)	Senior: annually, years 3-10 Subordinate: after senior investment repaid	Year 4; Year 5.5	1)Incarceration outcome:Bi-quarterly starting in year 5 2) Job readiness outcome: Bi-quarterly starting at Q7 3)Employment outcome: Bi-quarterly starting in year 5	Senior: annually, year 2-9 Subordinate: annually, year 10-17	Year 5	Year 6	Annually, starting at the end of year 1	1) Housing Stability: annually, starting after quarter 6 2) Jail Days: after year 5	Not available
Return to Investor [Note 2]	11% to 22%	5% + municipal money market rate, with a maximum rate of 7.26% [Note 4]	~13.2%	-11% maximum (senior lenders) -18% maximum (subordinate lenders)	6% (average)	Success payments up to $1 million to subordinate lenders	See Note 5	Not available	3.5% (expected rate of return)	Not available
Success Payment to Other Stakeholders? [Note 3]	No	No	Yes: Project manager	Yes: Service provider and project manager	Not available	See below	No	Yes [Note 6]	No	Yes: Service provider [Note 8]

Table 8.2: Notes

[1] Initial repayment does not equate to full principal return. Investors may recover only part of their principal if projects do not meet a certain level of success.

[2]] There is no standard methodology for calculating investor return. These numbers are what is publically reported, and comparing from one project to another may not be an apples-to-apples comparison for the reason of potentially different calculation methodologies. Calculation methodologies may be provided in investor agreements which are not available publically and were not available for this report's analysis.

[3] Success payments for other stakeholders such as project managers and service providers create a financial incentive for project success.

[4] For the first cohort of students, investors will be repaid an additional $1,040 per student year for avoided special education services after principal has been fully repaid.

[5] Private investors receive interest at a rate calculated and paid annually, starting at the end of year 2, based upon level of success that is achieved by service providers.

[6] Success payments for higher rates of success are made to the service provider, who in turn will pay 25 percent of any success payments received to investors.

[7] Housing stability outcomes are reported starting in year two and tied to repayment. An interim report on observed jail bed days for the first three years of program implementation will be released in late 2018, but not tied to repayments.

[8] Success payments will be reinvested in service delivery.

- **The project development process is long and time-intensive.** This is unsurprising, given the newness of the model, but many stakeholders hope to see the development process shorten as there are more examples in the field to draw on and more expertise available to help expedite project structuring. To date, projects have had development timelines ranging from 18 months to three years and have relied on active participation from all stakeholders in order to reach project launch. The costs incurred by stakeholders are largely provided in-kind to the project or supported by grant funding, and therefore neither compensated using funds raised through PFS financing, nor accounted for in any accounting of project costs.

- **Transaction coordinators are typically compensated for their services during the project development phase.** Payment may come through a contract with either the government sponsor or the service provider, or in some cases with philanthropic support. Alternately, some transaction coordinators are pursuing a model of being paid retroactively at project launch using funds from the capital raise. This is typical in traditional structured finance and real estate development deals so it is a model familiar to many investors and financial intermediaries. Further, for some PFS leaders, this arrangement is a way to make the field self-sustaining, and not as reliant on philanthropic funding. A project manager's role during implementation is also covered using transaction funds. This has implications for the size of the overall project investment as well as the project's financial model and budget.

- **All transaction coordinators to date are philanthropically-funded organizations,** in whole or part, which has allowed them to absorb excess costs through their regular business models. Many stakeholders hope to see the reliance on philanthropy and Social Innovation Fund grants decrease as the market matures, which would signify greater sustainability of the field. Still, some degree of philanthropic support will likely continue to be useful to transaction coordinators, who want to retain the ability to engage in project development for projects they find compelling but where project stakeholders might not be able to support the upfront cost of project development. Nevertheless, the need for philanthropic support is one barrier to entry for new entrants to the PFS market. One innovation in the project development phase are development loans, a product developed by Living Cities, to cover project development costs and be repaid by the investment raised for the project. This is supporting a handful projects currently under development.

- **Negotiating program contracts and fundraising are within the regular scope of work for service providers, but the time required by PFS projects has far exceeded initial expectations of all stakeholders and cannot be overstated.** Further, PFS project development and negotiation requires the time and attention of high-level staff, including chief executive and financial officers and program directors. Few organizations have been fortunate enough to receive dedicated funding for this work, with the exception of several early recipients of Social Innovation Fund support and in a few communities where PFS exploration has been driven by, or in partnership with, the philanthropic community. This was the case in Santa Clara County and Cuyahoga County, where philanthropic support of government, transaction coordinators and/or service providers was critical to the project exploration and development processes. There is also an opportunity cost to pursuing PFS and some service provider leaders have raised the question of what opportunities they missed during the time that their senior leadership was focused on PFS. These costs are difficult to quantify and weigh against the benefits of participating in PFS, which can also be much bigger and farther-reaching than the dollar value of the PFS transaction. For example, many service providers report that the PFS opportunity served as a forcing mechanism for them to focus more intently on connecting program delivery to outcomes, and they see that this heightened focus can help them deepen their impact and mission fulfillment and also potentially open new doors for funding that have not previously been available to them.

- **Transaction costs for early PFS projects have been high and have raised concerns from various stakeholders.** There is no agreed-upon definition for what constitutes a transaction cost, but we use it here to describe the expenses that exist by virtue of a project using a PFS contracting and financing approach, and which would not exist in a more traditional philanthropic grant or government contract. Generally included in the transaction cost category are costs associated with: evaluation design and implementation; legal services for contract development and review; auditing and accounting of the entity or special purpose vehicle that serves as the fiscal sponsor for PFS financing; transaction coordination in the project development phase; and project management by an intermediary in the project implementation phase. It is difficult to compare transaction costs from project to project because there has been significant variation in what is covered by the PFS transaction versus other sources of funding, and what is provided in-kind. As a result, there is no strong or clear consensus on the average or acceptable dollar amount of transaction costs, or the target share of transaction costs as a percentage of total capital raises. Additionally, any accounting of project costs begs for deeper dissection to determine how much of what is referred to as project costs are narrowly tied to PFS project development, versus broader, and overdue, investments in government and service provider capacity and infrastructure for data tracking and outcome measurement.

- **All projects have relied on sources of support not covered by the PFS transaction in the project development phase as well as in the project implementation phase**. In the project development phase, the most common sources of uncompensated support are pro bono legal services, and technical assistance from the Government Performance Lab in the form of a dedicated government fellow to support project development. An emerging best practice is to have evaluators involved as early as possible in the project development process, which also creates an added cost. In recognition of this, the Laura and John Arnold Foundation made a grant to the Urban Institute in 2015 to provide pro bono technical assistance around evidence and evaluation; this was used in the Housing to Health Initiative.

- **In the project implementation phase, there are also often additional costs for resources or program elements that are critical to successful program implementation,** particularly in projects with a housing or health care component. In fact, these projects are designed to leverage existing public resources such as housing vouchers and Medicaid/Medicare expenditure, and allocate them in an efficient and targeted way so as to meet the needs of vulnerable, high-need populations. While these resources are not usually included in the reported project cost or budget, they are critical to project success. Related to this idea of PFS as a tool for achieving more efficient allocation of resources, many government PFS advocates highlight that the cost of PFS project development and associated transaction costs is really the cost of government innovation and behavior change, and that investments made in specific projects will actually have much farther reaching consequences for how governments contract for social services. Thus, as difficult as it is to get to the full picture of project costs, it may be even harder to measure the full benefits produced by PFS work.

- **As can be expected with any new product or process, the project development and transaction costs for early projects are high because the learning curve is steep for all stakeholders and there are few examples or templates to draw from.** As the field develops, the time and associated cost of project development may decrease, as there are more examples, resources and experienced stakeholders. Still, it remains to be seen whether the changes to the cost structure will be marginal, which would likely limit the growth of the PFS field, or substantial enough to enable streamlining and mainstreaming of the PFS contracting and financing mechanisms. Alternately, early projects may offer proof of concept or sufficient evidence of program effectiveness to empower government to fund proven programs in their own municipalities without the complexity of the PFS structure.

Table 9: Project Costs

	NYC ABLE Project for Incarcerated Youth	Utah High Quality Preschool Program	Increasing Employment and Improving Public Safety	Massachusetts Juvenile Justice PFS Initiative	Child-Parent Center Pay for Success Initiative	Partnering for Family Success Program	Massachusetts Chronic Homelessness Pay for Success Initiative	Project Welcome Home	Housing to Health Initiative	South Carolina Nurse-Family Partnership
Project Development Costs *Not* Covered by PFS Capital Raise	Transaction coordinator fees	-Transaction coordinator fees -Technical assistance provider	-Government Performance Lab Fellow -Legal services	-Government Performance Lab Fellow -Legal services	Government Performance Lab Fellow	County and service provider costs for project development	-Government Performance Lab Fellow -Legal services	-Feasibility assessment -Transaction coordinator fees	-Evaluation design -Evidence review -Legal services -Government Performance Lab Fellow -Transaction coordinator fees	-Government Performance Lab Fellow -Transaction coordinator and service provider intermediary fees -Legal services
Funding source(s) for project development costs, if any	Bloomberg Philanthropies	United Way of Salt Lake	Pro bono legal support	Pro bono legal support	Not available	-George Gund Foundation -Cleveland Foundation -Sisters of Charity Foundation	Pro bono legal support	-Health Trust -James Irvine Foundation -Social Innovation Fund -Santa Clara County	-Urban Institute (partial in-kind services) -Pro bono legal support -Social Innovation Fund -The Piton Foundation -Denver Foundation -Kaiser Permanente -Rose Community Foundation	Pro bono legal support
Project Implementation Costs not covered by PFS Capital	-Evaluation -Project Intermediary	-Evaluation -Project Intermediary	-New York State project and data management costs for evaluation -Validator -Project Intermediary	Not available	Evaluation	-Medicaid reimbursements -Housing vouchers and units -Ramp-up period	-$7 million in housing vouchers -$11 million in Medicaid services	-$7.7 million in Medicaid services -$4 million in housing units and vouchers	-$10.8 million in housing vouchers -$5.2 million in Medicaid funding -Evaluation	-$13 million in Medicaid-funded services -Project pilot period
Funding sources for implementation costs not covered by PFS capital	Bloomberg Philanthropies	State of Utah	-US Department of Labor -Social Finance (in-kind project management)	Not available	Finnegan Family Foundation	-Laura and John Arnold Foundation -Cuyahoga County -Public and private housing providers	Commonwealth of Massachusetts	-Santa Clara County -State of California	-State of Colorado -City of Denver	South Carolina Department of Health and Human Services (via 1915 (b) Medicaid waiver)

Conclusion

Since Pay for Success was first introduced to the United States in 2010, the PFS market has established itself as a small but rapidly growing and evolving feature of the social sector landscape. Ten projects have gone from concept to implementation, and there are dozens more in development. When PFS was first introduced, it was defined fairly narrowly as a tool for scaling proven interventions that could demonstrate cost savings. While the use of evidence and the potential for cost savings remain two powerful motivators, they are not the only reasons why PFS is used. Early projects demonstrate that practitioners have applied the tool creatively, and in ways that depart from the initial construct of PFS, to help advance solutions to persistent community issues and needs.

We do not expect that the first generation of PFS projects, detailed in the report, will serve as a "how to" guide or template for future projects but we do expect that these early projects will help spur even greater momentum around outcomes-based contracting and financing approaches. Further, there may be lessons and opportunities that early projects can offer that can reduce the cost and complexity of future projects by introducing efficiencies in the project development phase. Finally, early projects can inform funders and service providers looking to be more strategic in how they allocate their limited resources in order to achieve better outcomes for the communities they serve. The first ten PFS projects only scratch the surface when it comes to the greater potential that PFS has to spark innovation in delivery, evaluation, contracting and financing. The proliferation of interest in PFS from governments at all levels and in all corners of the United States speaks to the potential of the PFS model as one tool to further much larger, and far-reaching, changes in how social services are provided and funded in this country, by both the public and private sectors.

Already we have seen that PFS efforts require adaptation and collaboration on the part of all stakeholders involved. We anticipate that the next five years of the market's development will bring even greater diversity to the PFS market as stakeholders continue to adapt the model, as more communities that strive to achieve a better alignment between their goals and their deployment of resources. PFS is but one front in a movement toward an outcomes-oriented social sector that better delivers high-quality, effective services to communities in need. Collaboration between service providers, foundations and governments is imperative to navigate this systemic shift. Our challenge—and opportunity—in the next phase of the PFS market's development is not to advance a particular financial innovation, but to collectively improve our ability to deliver better results.

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Acknowledgements
NFF would like to acknowledge the many partners who contributed to this report by sharing their expertise about the projects detailed herein. We have made our best effort to incorporate input from many sources in a succinct way that allows for project comparison while still capturing the nuances of individual projects; any inaccuracies or omissions are our own. Many thanks go to: David Butler, MDRC; Caitlin Reimers Brumme and Nirav Shah, Social Finance US; Gretchen Anderson, State of Utah; Bill Crim and Chris Ellis, United Way of Salt Lake; Joe Schmidt, IFF; Caroline Wagner, Enterprise Community Partners; David Merriman, Cuyahoga County, OH; Ryan Moser and Stephanie Mercier, CSH; Thomas Brigham, Massachusetts Alliance for Supportive Housing; Greta Hansen, Santa Clara County, CA; Erin Bogue, Nurse-Family Partnership.

This report was made possible with the generous support of the Corporation for National and Community Service's Social Innovation Fund (SIF). NFF is honored to be part of the Social Innovation Fund's first-cohort of Pay for Success grantees. For more information on the Social Innovation Fund, and NFF's work as a SIF grantee, please visit:

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