

Improving Outcomes through Pay for Success Financing

February 2016

Pay for Success (PFS) financing is a strategy for directing funds towards projects that result in positive social benefits, including measurable outcomes for communities, families, and individuals as well as the environment. The President's 2017 Budget builds upon the Administration's commitment to testing the PFS model in diverse areas through continued execution of existing authorities and with up to \$345 million in funding.

How Does Pay for Success Work?

Through PFS, the government (or another payor) specifies concrete, measurable outcomes that it would like to achieve—such as increased employment, improved housing, or reduced recidivism—and enters into a contract to pay for these results once they are demonstrated for specific people or communities in need. Non-profits and other organizations that have a proven track record for producing results in a particular area, or that have designed interventions that are promising, receive up-front financing from philanthropies or other investors, who are then repaid if specified outcomes are demonstrated. By structuring payments around measurable outcomes rather than a specific set of program inputs, PFS financing approaches can provide flexibility for communities to implement evidence-based solutions, carefully test promising innovations, and scale proven programs.

How Does the Federal Government Support Pay for Success?

This Administration helped launch some of the earliest PFS projects and continues to support states and localities in developing, implementing, and evaluating projects. Examples include:

- **The Department of Labor** provided roughly \$24 million to Massachusetts and New York for potential outcome payments related to employment for justice-involved individuals. Project results will be available in 2019.
- **The Departments of Justice and Housing and Urban Development (DOJ and HUD)** are working to stabilize the lives of those who cycle between homelessness and jail by expanding permanent supportive housing, preventing returns to homelessness and reducing recidivism among the reentry population. The agencies are offering a total of up to \$8.7 million for PFS feasibility studies, transaction structuring, outcomes evaluations, and outcome payments related to the proven permanent supportive housing model.
- **The Corporation for National and Community Service** has dedicated \$12 million to building a robust pipeline of projects through its first PFS competition under the Social Innovation Fund (SIF). As of January 2016, SIF grants and subgrants are supporting the development of over 40 State and local PFS projects with more awards coming soon. These PFS efforts target issues from reducing preventable asthma episodes to improving outcomes for youth involved in both the criminal justice and child welfare systems. With FY 2015 and 2016 funds, SIF expects to award up to \$24 million in additional grants supporting PFS.

How Does the FY 2017 President's Budget Enhance Support for Pay for Success?

The Budget proposes additional funding for PFS projects, maintains support for existing PFS grants, and enables the use of PFS authorities that Congress has recently granted.

- The Budget continues to propose the **\$300 million Pay for Success Incentive Fund at the Department of the Treasury**, which would provide a central fund to support a wide range of State, local, and tribal projects while monitoring the value that projects provide to government. The Fund would also maintain strong evaluation standards to ensure that government only pays for the results that the projects produce.
- The Budget **more than doubles PFS funding for DOJ** to \$20 million to support projects addressing reentry initiatives, including up to \$10 million to continue working with HUD on permanent supportive housing approaches.
- The Budget proposes **\$15 million for ED** to test a range of innovative approaches, including PFS models as well as others, to increase early screening and early intervention services for infants and toddlers with disabilities.
- The Budget maintains current funding of up to **\$10 million for the Social Innovation Fund** to encourage the implementation of PFS projects to enhance the reach and impact of innovative community-based solutions in low-income communities.

Agencies may also carry out PFS-related authorities that Congress has recently enacted. Specifically:

- Under the newly passed Every Student Succeeds Act, States and districts will be able to use their funding under Neglected and Delinquent grants and Student Support and Academic Enrichment grants to support PFS.
- The Fixing America's Surface Transportation Act enables HUD to conduct a PFS demonstration using third parties to make energy and water conservation improvements in certain HUD-assisted multifamily housing properties.
- The Workforce Innovation and Opportunity Act allows local areas to engage in PFS-like contracts that support improved workforce outcomes, according to certain specifications.

How Is the Administration Helping the Field Grow and Mature?

The Administration has provided critical leadership by convening stakeholders to learn from one another, including through White House Regional Summits held around the country. In addition, the Administration has developed an Interagency Learning Network with representatives from 10 federal agencies to share lessons, hone policy, and strengthen implementation.