

SECTION 736: PAY FOR SUCCESS

Section 736 sets out the terms and conditions that would apply to funds made available for “Pay for Success” projects, which promote innovative strategies to reduce the level of government investment needed to achieve successful outcomes. In “Pay for Success” projects, state and local governments enter into binding agreements with third parties under which payments—often using Federal dollars—would be made only upon the achievement of previously agreed-upon outcomes. The provision extends the period of availability for Federal funds so that payments can be made for outcomes achieved after funds would normally expire. In addition, funds not used for a project could be deobligated for use on related program priorities.

For too long, Government has funded programs based upon metrics that tell us whom we’re serving but little about how we are improving their lives. From education to employment, government programs provide essential services for people in need, and we need innovative approaches to ensure that public dollars are used to produce the right outcomes. At a time when fiscal responsibility is more important than ever, we also need to provide programs with mechanisms to accomplish better outcomes with fewer resources. Building on strategies currently being implemented as far away as the United Kingdom and Australia and as close as the State of Massachusetts, Pay for Success is an innovative way of partnering with philanthropic and other investors to create incentives for service providers to deliver better outcomes at lower cost—which increases the return on taxpayer investments.

Pay for Success Financing Engages Philanthropic and Private Sector Investors to Deliver Better Outcomes.

In this constrained budget environment, we must be particularly vigilant in seeking out methods of service delivery that achieve measurable and positive outcomes. Pay for Success financing leverages philanthropic and other private investors to provide services that measurably improve the lives of individuals while also more wisely spending taxpayer dollars. The government would work with a financing organization where private investors provide up-front funding to help achieve a specific, measurable result for a target population. The government then pays if the agreed-upon goal is actually achieved—thus paying for success.

Pay for Success Financing Minimizes Risk and Maximizes Return on Investment for the Government.

Because government pays for demonstrated results, philanthropic and other investors agree to bear the primary financial risk until the outcomes are achieved. This will increase the government’s return on investment in social programs.

Pay for Success Financing Can Help Achieve Better Outcomes in Many Program Areas.

The Budget allows for up to \$105 million to fund Pay for Success initiatives across eight programs, in such areas as workforce development, education, juvenile justice and care of children with disabilities. Additional amounts for Career and Technical Education will be

determined through congressional reauthorization of the Perkins Act. These funds are part of innovation funds within the Department of Education, the Department of Justice, the Department of Labor and the Corporation for National and Community Service. In each of these areas, there are substantial opportunities to rethink how we provide services, with a focus on achieving clear results. Federal funds used for Pay for Success are intended to support outcome payments, evaluations that measure achievement of outcomes, or in limited circumstances, co-investments in services.

Pay for Success Financing Supports Better Outcomes for Federal, State, Local, and Tribal Governments.

Under Pay for Success, a State, local, or Tribal government enters into a contract with a financial intermediary or a service provider that specifies a population to be served, outcomes to be achieved, a measurement methodology to be used, and payments to be made for results. The private sector is given flexibility on how to deliver the services, using operating funds primarily provided by philanthropic or other investors. This approach can have significant benefits for Federal, State, local, and Tribal governments as well as private investors when used to support interventions that:

- Have a high probability of success, based on prior evidence of impact or promising new approaches;
- Have measurable outcomes, which can be measured with sound evaluation methodologies;
- Are overseen by experienced managers that have flexibility to adjust their approach as necessary to achieve the specified outcomes;
- Would yield future cost savings to the government, if successful.

Special Funding Provisions Will Allow Existing Programs to Support Pay for Success Financing.

Traditionally, appropriations bills make funds for grant programs available for limited periods. The Budget extends the availability of funds obligated for Pay for Success purposes, enabling future disbursement after achievement of outcomes is measured and providing the financial resources that a grantee would need to help assure future payments under a performance contract. The Budget also includes appropriations language allowing unused Federal funds (e.g., if a Pay for Success pilot does not achieve results) to be de-obligated and re-obligated for other high priority programs.

What Is the Administration Already Doing to Pursue Pay for Success Financing?

The Administration is launching a few Pay for Success pilots in FY 2012 under existing legislative authority. For example, the Department of Labor plans to use up to \$20 million from its existing Workforce Innovation Fund (WIF) for Pay for Success and will release a solicitation for grant applications in April 2012. The Department of Justice is planning to give priority funding consideration in Second Chance Act grant solicitations to highly qualified applicants who

incorporate Pay for Success financing models in their program design. The special funding provisions proposed in the Budget would enhance these and future efforts by enabling programs to support sound projects that require additional time to measure results and to redirect any unused funds to other high priorities.

What Programs Are Likely Candidates for Pay for Success Financing?

In addition to the pay for success projects already underway at the Departments of Labor and Justice, there are numerous examples of prevention strategies with strong evidence of impact that, if successfully replicated and scaled, could reduce future demand for government funding. These include:

- Multi-systemic therapies to reduce recidivism by offenders.
- Early childhood interventions that reduce costly long-term special education placements of children whose mild learning disabilities or behavioral problems could be better treated early on.
- Summer academic programs for disadvantaged students to accelerate and maintain academic gains.
- Transition services for youth with disabilities, to enable them to enter postsecondary education and obtain employment.

Pay for Success References

- 2013 Government-wide General Provisions (see Sec. 736, p. 5): www.whitehouse.gov/sites/default/files/omb/budget/fy2013/assets/ggp.pdf
- 2013 Agency Appendices:

Appropriations Account	Program	Maximum Funding (millions)	Budget Reference
Title V General Provisions (covering ED and DOL)	Workforce Innovation Fund	\$20	DOL Appendix— Federal Budget (pgs. 814, 854)
ED/Innovation and Instructional Teams	Investing in Innovation	\$10	Education Appendix— Federal Budget (pg. 380)
ED/Career, Technical, and Adult Education	Career and Technical Education	To be determined through congressional reauthorization of the Perkins Act.	

Appropriations Account	Program	Maximum Funding (millions)	Budget Reference
ED/Rehabilitation Services and Disability Research	Disability Innovation Fund	\$20	Education Appendix— Federal Budget (pgs. 383-384)
ED/Higher Education	FIPSE	\$10	Education Appendix— Federal Budget (pg. 388)
ED/Special Education	PROMISE	\$15	Education Appendix— Federal Budget (pg. 383)
CNCS/Operating Expenses	Social Innovation Fund	\$10	CNCS Appendix— Federal Budget (pg.1304)
DOJ—State and Local Law Enforcement Assistance	Second Chance Act (Offender Re-Entry)	\$20	DOJ Appendix— Federal Budget (pgs. 800-801)
Total		\$105	

The Administration is also considering support for Pay for Success strategies through the Community College to Career Fund and Labor’s Reintegration of Ex-offenders initiative (pgs. 117-128), but specific dollar amounts are not yet determined.