HHS/GO COMM #1
June 30, 2015

Discussion

MEMORANDUM

June 26, 2015

TO: Health and Human Services (HHS) Committee
Government Operations and Fiscal Policy (GO) Committee

FROM: Linda McMillan, Senior Legislative Analyst LMc

SUBJECT: **Discussion with Congressman John Delaney regarding Social Impact Bonds**

At this session, the Joint HHS and GO Committee will receive comments from and discuss with the Honorable John Delaney, Congressman for Maryland's 6th District, Social Impact Bonds. Uma Ahluwalia, Director of the Department of Health and Human Services, and Joe Beach, Director of Finance will also be present for this discussion.

Social Impact "Bonds" are not really bonds. The term refers to a financial mechanism to leverage private and philanthropic resources for long-term investment in programming that must show a successful outcome for the investor to be paid.

H.R. 1336

On March 4, 2015, Congressman Todd Young (R-Indiana) and Congressman John Delaney (D-Maryland) re-introduced social impact financing legislation. This new bill, H.R. 1336 the "Social Impact Partnership Act," is similar to legislation introduced in the previous Congress. H.R. 1336 is intended "to encourage and support partnerships between the public and private sectors to improve our nation's social programs, and for other purposes." The stated purposes are:

1. To improve the lives of families and individuals in need in the United States by funding social programs that achieve real results.
2. To redirect funds away from programs that, based on objective data, are ineffective, and into programs that achieve demonstrable, measurable results.

3. To ensure Federal funds are used effectively on social services to produce positive outcomes for both service recipients and taxpayers.
4. To establish the use of social impact partnerships to address some of our nation's most pressing problems.
5. To facilitate the creation of public-private partnerships that bundle philanthropic and other private resources with existing public spending to scale up effective social interventions already being implemented by private organizations, non-profits, charitable organizations, and State and local governments across the country.
6. To bring pay-for-performance to the social sector, allowing the United States to improve the impact and effectiveness of vital social services programs while redirecting inefficient or duplicative spending.
7. To incorporate outcomes measurement and randomized controlled trials or other rigorous methodologies for assessing program impact.

The Act would allocate $300,000,000 that could be used for up to 10 years to make payments to State and local governments for successful outcomes. There must be clear goals and metrics for a targeted population and a description of the expected long-term savings. Independent evaluation is required. The Act would establish the Federal Interagency Council on Social Impact Partnerships.

An article from the Social Innovation Center and news release from Congressman Young's office on H.R. 1336 are attached at © 1-3. In addition, information from Congressman Delaney's office on H.R. 4885, considered in the last Congress, is attached at © 4-5. A copy of H.R. 1336 is attached at © 29-58.

Background

The effort to increase the use of "Pay-for-Success" contracting in education and social services can be implemented in a variety of ways. The goal for any of these methods is to link pay to outcomes instead of a reimbursement for the delivery of service. Social Impact Bonds or Social Impact Partnerships work to enhance these efforts by bringing in resources from private sector and philanthropic investors to expand the capacity of government to fund programs that are expected to have long-term savings to taxpayers and improve the conditions of residents. Investors take on risk as they are paid based on the success of the program. Payment is generally structured to reflect expected savings.

Two critical components to this type of arrangement are up-front feasibility studies that identify a specific problem and agreed to outcomes and the use of an independent evaluator. The independent evaluation is the basis for determining whether the program is successful and investors are paid.

There are several Social Impact Partnerships under development, but few that are actually in place at this time. Information on two examples is attached to this memo. It is important to note the time it can take to implement these models and that changes may be needed to laws or regulations to allow for this new model of financing and future payments.

Cuyahoga County – Homelessness and Foster Care
(Social Innovation Research Center Brief at © 6-9)

This initiative brings $4 million in private funding for housing and other supportive services to 135 homeless parents with children. The goal is to reduce out-of-home foster care placements for children with homeless mothers. Foster children cannot be reunited with families unless they have a safe and stable home environment. The program, Partnering for Family Success, places the homeless parent in housing in the first 30 days and then provides support services. The maximum caseload per worker is ten families. The program also has trauma therapists with a maximum caseload of 15 families. There was a one-year pilot program for 28 families with the full program starting in January 2015.

The evaluation will compare the 135 families enrolled in the program with another 135 families in a control group receiving standard services. There will be an interim study after two years and a final evaluation after five years. The county will only repay the funders if the project reduces out-of-home placements compared to the control group. The county will pay $75 per reduced day of foster care up to $5 million. Any additional savings accrue to the county. The break-even point for investors is a 25% reduction. The payments will be made from the county's new Social Impact Financing Fund that will be allocated $1 million per year for five years.

There were five initial partners: the Division of Children and Family Services, Frontline Services (lead service provider), Cuyahoga Metropolitan Housing Authority, Case Western University (evaluator), and Third Sector (project feasibility, deal construction, and financing).

Utah High Quality Preschool Program
(Goldman Sachs/J.B. Pritzker Fact Sheet © 10-11; United Way Press Release © 12-15)

A 2006 assessment showed that 33% of 3 and 4 year olds entering the preschool program were so far behind that they would likely need special education services. After participating in the high impact program, 95% of those students avoided special education services with an estimated cost savings of $2,607 per student per year. The Social Impact Investment Partnership provided $1 million to allow 600 children to participate in this intensive preschool program in 2013-2014 and the Year 2 investment of $1.063 million allowed 750 children to participate in the 2014-2015 school year.

The evaluation will be based on the Peabody Picture Vocabulary Test for the predictive model to indicate who is likely to need special education and remedial services.

Every year that this cohort does not use special education services there will be a "success payment." The payment will be 95% of the annual savings with 5% retained by the State of Utah. Payments will be made through 6th grade for each student.

Expanding the Use of Pay-for-Success

The Corporation for National and Community Services' Social Innovation Fund has selected pay-for-success intermediary grantees that will provide assistance to sub-grantees to move forward with pay-for-success projects. Attached at © 16 is an announcement that shows the range of these organizations and the types of problems and programs that are being targeted. Attached at © 17-20 is information from the Harvard Kennedy School and at © 21-22 from the Institute for Child Success that describes their work and the work of the sub-grantees they have chosen.

Note: A June 24, 2015 posting by the Social Investment Research Center said that the Investing in Innovation (i3) and Social Innovation Fund programs have been defunded in appropriations legislation moving in the House and Senate.

Concerns about Social Impact Financing

While Social Impact Bonds/Financing Partnerships provide tremendous opportunity to bring in new sources of funding to implement effective programs, there are questions about the level of risk that is really being undertaken, the rate of return to investors, and whether this model could limit providers to those with upfront capital. Attached at © 23-28 is an article from Nonprofit Quarterly written in response to a June 2014 discussion on WAMU's Kojo Nnamdi Show.

Social Impact Bond Legislation Introduced in the House

Posted on March 5, 2015 by Patrick Lester

Reps. Todd Young (R-IN) and John Delaney (D-MD) yesterday introduced legislation in the House (H.R. 1336) that would establish a $300 million federal fund for state and local initiatives that base their payments on results.

"Too often, Washington focuses on inputs instead of outcomes," said Young in a statement. "We spend too much time talking about how much or how little to spend on social safety net programs, and not enough time talking about whether or not we're improving lives."

"This bipartisan legislation offers a new solution that improves government services, helps those in need and reduces taxpayer costs," said Delaney.

Companion legislation is expected soon in the Senate. "Chairman Hatch plans to introduce a similar bill this Congress," said Aaron Forbes, press secretary for Sen. Orrin Hatch (R-UT).

Sen. Michael Bennet (D-CO) is expected to be a cosponsor. "These public-private partnerships represent a shift to a model of government where results matter and where we pay for competence," said Bennet. "Supporting targeted early interventions will help improve outcomes in health care, education, job training, child care, and a range of other government services."

The Obama administration has also supported a similar proposal in its proposed budget for FY 2016, released last month.

As introduced, the bill:

- Authorizes $300 million through a one-time mandatory appropriation for states and/or local governments that launch pay-for-performance initiatives.
- Specifies 21 types of allowable projects, including increasing work and earnings, increasing high school graduation rates, and reducing rates of asthma, diabetes, or other preventable diseases.
- Authorizes payments only if agreed upon outcomes are verified by independent evaluations "using random assignment or other research methodologies that allow for the strongest evidence of effectiveness possible." Savings to the federal, state and local government are among the factors that must be considered when approving local partnerships.
- Establishes a Federal Interagency Council on Social Impact Partnerships to oversee the initiative and issue related regulations. The Council would be composed of one designee from 10 agencies or departments, including the Department of Health and Human Services and the Department of the Treasury. It would be chaired by the Director of the White House Office of Management and Budget (OMB).
- Authorizes OMB to spend up to $2 million each year for federal technical assistance in the development or support of social impact partnerships and $10 million to cover up to half of the cost of state/local feasibility studies. The bill reserves up to $45 million (15% of all funds) for evaluations.
- Permits bank investments in social impact partnerships to be considered as part of the bank's requirement under the Community Reinvestment Act (CRA) to help meet the credit needs in their communities.
- Sunsets after 10 years.

The bill is somewhat different from previous proposals (bill text). It uses the term "social impact partnerships" to describe pay-for-performance agreements commonly referred to as social impact bonds or "pay-for-success" by the Obama administration. It also assigns oversight and payment authority to OMB, whereas the similar Obama administration proposal assigns such authority to the Treasury Department.

Original cosponsors of the bill include Reps. Tom Reed (R-NY), John Larson (D-CT), Dave Reichert (R-WA), Jared Polis (D-CO), Aaron Schock (R-IL), Joseph Kennedy (D-MA), and Robert Dold (R-IL). Organizations listed as supporters include Americans for Community Development, America Forward, Bank of America Merrill Lynch, Children's Home Society of America, the Coalition for Evidence-Based Policy, Harvard Kennedy School SIB Lab, Institute for Child Success, Results for America, Social Finance, and Third Sector Capital Partners.

In the House, the bill falls within the jurisdiction of the Ways and Means Committee. Upon introduction, it received an important statement of support from the committee chairman, Rep. Paul Ryan (R-WI).

"Hardworking taxpayers deserve more from government than good intentions; they deserve results," said Ryan. "Social-impact partnerships have shown they can deliver."

Similar legislation was introduced in the House and Senate last year and hearings were held in both chambers.

Last week, the Young, Delaney, and Polis offered a similar pay-for-success amendment to the House bill reauthorizing the Elementary and Secondary Education Act, which was subsequently adopted on the House floor.

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Close Print

Young, Delaney reintroduce bipartisan Social Impact financing bill

March 5, 2015

Reps. Todd Young (R-IN) and John Delaney (D-MD) re-introduced their social impact financing legislation on Wednesday as the Social Impact Partnership Act (H.R. 1336). Joining them were Reps. Bob Dold (R-IL), Joe Kennedy (D-MA), John Larson (D-CT), Jared Polis (D-CO), Tom Reed (R-NY), Dave Reichert (R-WA), and Aaron Schock (R-IL). Sens. Orrin Hatch (R-UT) and Michael Bennet (D-CO) plan to introduce companion legislation in the Senate.

The legislation—which was first introduced by the pair last Congress as the Social Impact Bond Act—aims to expand and improve meaningful social and public health interventions, while driving taxpayer savings. It does so by first requiring the federal government to clearly define desired outcomes for a target population (for example, decreasing the recidivism rate of a given population by a set percentage). It then allows private sector and philanthropic investors to fund the expansion of scientifically-proven interventions aimed at achieving those outcomes. If rigorous independent evaluation confirms that predetermined outcomes are met, the federal government would repay investors with a modest return out of savings realized from a decreased reliance on government programs. If the outcomes are not met, no taxpayer money is spent.

"Too often, Washington focuses on inputs instead of outcomes," said Young. "We spend too much time talking about how much or how little to spend on social safety net programs, and not enough time talking about whether or not we're improving lives. Since the 1990's, just ten of these programs have been subject to rigorous scientific evaluation, and nine of them were found to have little to none of the desired impact. And yet we continue to fund these programs. It's time we shift the focus to achieving desired outcomes, evaluating our social programs more carefully, and only paying for what works."

"This bipartisan legislation offers a new solution that improves government services, helps those in need and reduces taxpayer costs," said Delaney. "The Social Impact Partnership Act also increases cooperation from federal, state and local governments and means that we'll be more likely to use data-driven and evidenced-based policies. Social Impact Bonds and Pay for Success Programs are being implemented in red states and blue states because it is a win-win approach that combines progressive ideals with fiscal responsibility. I have a been a strong supporter of Social Impact Bonds and the Pay For Success model, and I thank Congressman Todd Young for his leadership on this issue."

Additional statements from legislative co-sponsors and outside groups can be found at http://toddyoung.house.gov/sip-supporters.

Already in widespread use in the United Kingdom (where they have helped drive labor force participation rates to record levels), thus far social impact financing has only been utilized on a very limited scale in the United States. The Social Impact Partnership Act is the first detailed proposal to adapt the UK's social impact bond model for broad use at the federal level, and the first proposal to incentivize the realization of savings across multiple layers of government (i.e., federal, state, and local). More information on the concept and legislation, including full bill text, supplementary materials, and a list of supporters, can be found at http://toddyoung.house.gov/social-impact-partnerships.

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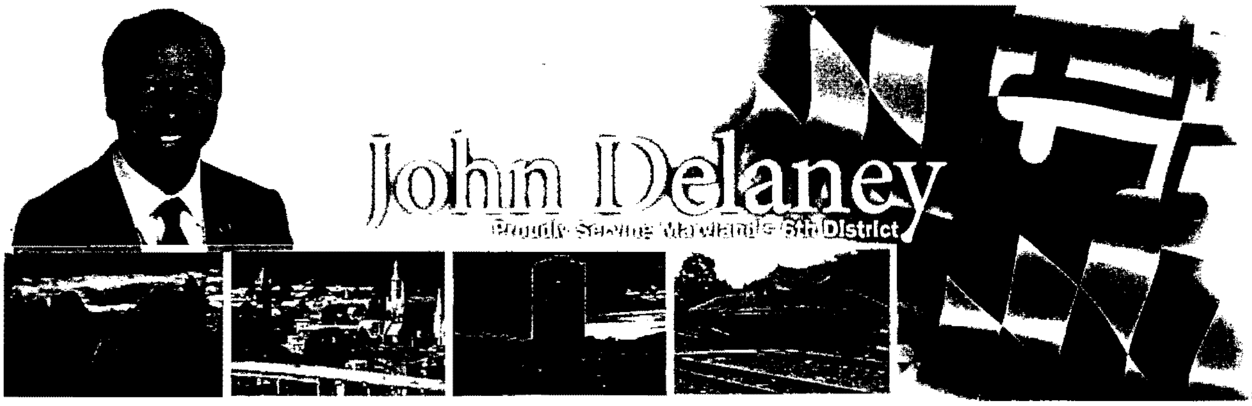

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Delaney Applauds House Committee on Ways and Means Hearing on Social Impact Bonds

Sep 10, 2014 | Press Release

Maryland Congressman introduced Social Impact Bond Act with Rep. Young (R-IN-9) in June

WASHINGTON – Tuesday, the House Committee on Ways and Means hosted a hearing on Social Impact Bonds, an innovative way of improving government services while reducing costs. Titled, "Social Impact Bonds: Can They Help Government Achieve Better Results for Families in Need" the hearing was held by the Ways and Means Subcommittee on Human Resources and featured testimony from experts in the public and private sector. The hearing was chaired by Subcommittee Chairman Dave Reichert (R-WA-8).

In June, Congressman John K. Delaney (D-MD-6) and Congressman Todd Young (R-IN-9) introduced the Social Impact Bond Act (H.R. 4885). The bill would foster the creation of public-private partnerships that harness philanthropic and private-sector investments to expand data-proven social and public health programs. The Social Impact Bonds Act sets aside $300 million to provide payment to state and local governments if they implement cost-saving programs that achieve positive outcomes.

"Social Impact Bonds can improve outcomes, reduce costs to the taxpayer, and bring a data-driven results-oriented focus to public policy," said Congressman Delaney. "I'd like to thank Chairman Reichert for bringing this topic before the subcommittee. Social Impact Bonds are truly bipartisan because both sides of the aisle want government to work. With my Republican colleague, Congressman Todd Young, I've introduced legislation that would encourage expanded use of Social Impact Bonds at the state and local level. I look forward to continuing to work with Congressman Young to build support for our legislation and for the innovative Social Impact Bond model."

For a section-by-section summary of the Social Impact Bond Act, click here.

The Young-Delaney Social Impact Bond Act is bipartisan legislation that is currently cosponsored by 12 Democrats and 12 Republicans in the House. In July, Senator Michael Bennet (D-CO) and Senator Orrin Hatch (R-Utah) introduced the Pay for Performance Act, the Senate companion to the Young-Delaney bill.

##

Related Content

Reps. Young and Delaney Introduce Social Impact Bond Act

Social Innovation
Research Center

Pay-for-Success in Child Welfare: A Case Study

By Patrick Lester [1]
February 12, 2015

On December 3, 2014, Cuyahoga County announced the nation's first pay-for-success initiative that will address the interrelated issues of homelessness and foster care.[2] The initiative will provide $4 million in privately-funded housing and other supportive services to 135 homeless parents with children in the county's foster care system. Repayments to the project's philanthropic and other investors will be made by the county only if the initiative reduces out-of-home placements for foster children compared to the county's current publicly-provided services.

This brief provides an overview of the initiative and its history, service array, evaluation, and financing.

Project History

Cuyahoga County began exploring pay-for-success in 2011, shortly after its new county executive, Ed Fitzgerald, took office.[3] With a grant from The George Gund Foundation, the county brought in Third Sector Capital Partners, Inc., a Boston-based nonprofit with substantial experience developing pay-for-success initiatives, to provide early-stage advising to the government. A year later, in February 2012, Fitzgerald announced a 12-point plan for the county that included pay-for-success as one of its key components.[4]

The county spent the rest of that year seeking citizen feedback on the proposal. In July, Third Sector hosted a three-day listening session that featured presentations and discussions between county representatives and over one hundred service providers, community members, and advocates.[5] A few months later, in October, the county released a formal Request for Responses (RFR) that sought formal proposals from organizations interested in partnering with the county on the project.[6]

In its RFR, the county asked for proposals that addressed a well-defined problem and target population, utilized evidence-based preventative services with measurable outcomes, and would generate cashable savings for the county while allowing a return on investment for outside investors. The county expressed a particular interest in child welfare and youth/adolescent mental and behavioral health, but indicated that it would also consider other services.

A little more than a year later, in December 2013, the county announced its choice: a project to reduce out-of-home foster care placements for children of homeless mothers in the county through a mix of housing assistance and behavioral health services.[7] The announcement specified five initial partners, including FrontLine Services as the lead service provider, the county's Division of Children and Family Services (DCFS) and Cuyahoga

1 For more information, contact Patrick Lester, Director, Social Innovation Research Center, at (443) 822-4791 or patrick@socialinnovationcenter.org.

2 An overview of social impact bonds, a subset of pay-for-success financing, can be found in "Social Impact Bonds: Overview and Considerations," Elizabeth Lower-Basch, Center for Law and Social Policy, March 7, 2014. Available at: http://www.clasp.org/resources-and-publications/publication-1/CLASP-Social-Impact-Bonds-SIBs-March-2014.pdf

3 Cuyahoga County Office of the Executive, "Fitzgerald Announces 'Pay for Success' to Transform Human Services Delivery," December 27, 2013. Available at: http://executive.cuyahogacounty.us/en-US/122713-Pay-for-Success.aspx

4 Western Reserve Plan, Plan Principles, retrieved December 14, 2014. Available at: http://www.westernreserveplan.org/en-US/Plan-Principles.aspx

5 Third Sector Capital Partners, "Third Sector Capital Partners Advances Pay for Success in Cuyahoga County, OH," July 17, 2012. Available at: http://www.thirdsectorcap.org/blog/2012/07/17/third-sector-briefs-cuyahoga-county-pay-for-success/

6 Cuyahoga County Request for Responses, "Cuyahoga County Pay for Success," October 29, 2012. Available at: http://www.payforsuccess.org/sites/default/files/cuyahoga_county_pay_for_success_request_for_responses58.pdf

7 Cuyahoga County Office of the Executive, "Fitzgerald Announces 'Pay for Success' to Transform Human Services Delivery," December 27, 2013. Available at: http://executive.cuyahogacounty.us/en-US/122713-Pay-for-Success.aspx

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Metropolitan Housing Authority (CMHA) as public sector partners, the Center on Urban Poverty & Community Development at Case Western Reserve University as the evaluator, and Third Sector as an advisor on project feasibility, deal construction, and financing.

The proposal was further fleshed out and authorized over the following year. Legislation was introduced[8] in June to create a new Social Impact Financing Fund to cover program costs and to authorize the county executive to negotiate the associated multi-year contract.[9] The county council approved the legislation in July. The county council authorized the first annual $1 million appropriation for the newly created Fund in September. The final contract was signed in October[10] and the project's details (and full set of partners) were announced publicly on December 3, 2014.[11]

The project passed an important leadership transition milestone in January when the county's next county executive, Armond Budish, assumed office.[12]

The Intervention: Partnering for Family Success

As in other parts of the country, the number of children in foster care in Cuyahoga County has dropped significantly in recent years.[13] While the county's progress toward its goals of increased family reunification and permanency for foster children has been substantial, however, the remaining children in the system generally have greater needs and face higher barriers to permanency.

One group in this category includes the children of homeless mothers. As is the case elsewhere, foster children in Cuyahoga County cannot be reunited with their families unless they are provided with a safe and stable home environment. Reunification efforts for these children are challenging, not only because the mothers often struggle with domestic violence, substance abuse, and mental illness, but also because of housing instability that makes addressing these issues more difficult.

Cuyahoga County chose to focus on these families with its pay-for-success project. Under the program, the lead service provider, FrontLine Services, will provide 135 eligible homeless parents with children in foster care a combination of housing assistance and evidence-based behavioral health services, called Critical Time Intervention (CTI).[14] The program services will be provided over 12 to 15 months and will address their housing and other needs simultaneously. In practice, this integration of services will be accomplished by adding the FrontLine intervention to the parent's DCFS case plan.

In general, the combined program, called Partnering for Family Success, will begin by stabilizing housing for the homeless parent. In the first 30 days, a caseworker will help place her in a housing unit or help obtain subsidies and/or vouchers from one of the project's housing partners, including the Cuyahoga Metropolitan Housing Authority or another local housing provider.[15] After the parent has moved into housing, the case worker will then maintain contact and provide continued support during ongoing home visits. This support will include making connections to employers, schools, academic certification and job training programs, medical professionals, substance abuse treatment providers, extended family, and others as needed. Case workers have a maximum caseload of ten families.

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8 Cleveland.com, "Cuyahoga County Executive Ed FitzGerald Introduces Plan to Use New Fundraising Model to Pay for Social Services," June 19, 2014. Available at: http://www.cleveland.com/cuyahoga-county/index.ssf/2014/06/cuyahoga_county_executive_ed_fitzgerald_introduces_plan_to_use_new_fundraising_model_to_pay_for_soci.html

9 County Council of Cuyahoga County, Ohio, Ordinance No. O2014-0018. Available at: http://council.cuyahogacounty.us/pdf_council/en-US/Legislation/Ordinances/2014/O2014-0018.pdf

10 Many of the project partners received pro-bono counsel to help them through the deal structuring and negotiation period.

11 Cuyahoga County Office of the Executive, "Nation's First County-Level Pay for Success Program Aims to Reconnect Foster Children with Caregivers in Stable, Affordable Housing," December 3, 2014. Available at: http://executive.cuyahogacounty.us/en-US/NationsFirstCtyLevel-PaySuccessPrgrm.aspx. Further details were released in an associated fact sheet available at: http://www.thirdsectorcap.org/wp-content/uploads/2014/12/141204_Cuyahoga_PFS_Fact-Sheet.pdf

12 Ed Fitzgerald ran for governor of Ohio in 2014.

13 Third Sector Capital Partners, "Cuyahoga County Announces Details on Pay for Success Initiative," December 28, 2013. Available at: http://www.thirdsectorcap.org/blog/2013/12/28/cuyahoga-county-announces-details-on-pay-for-success-initiative/

14 The intervention is rated a top-tier homelessness prevention program by the Coalition for Evidence Based Policy. According to the Coalition's independent analysis, based on two studies involving well-conducted randomized controlled trials, CTI produced more than a 60 percent reduction in homelessness (the Coalition's review did not examine its impact on family reunification). See http://evidencebasedprograms.org/1366-2/critical-time-intervention-top-tier. The Critical Time Intervention home web site can be found at: http://sssw.hunter.cuny.edu/cti/.

15 Other local housing providers involved with the project include the Famicos Foundation and The Emerald Development and Economic Network.

(1)

Thirty days after the parent has moved into her new home, a FrontLine trauma therapist will conduct a diagnostic assessment to determine an appropriate evidence-based trauma intervention. The therapist will review the results of the assessment with the client, children, county DCFS worker, the FrontLine caseworker, and other staff where necessary, and prescribe appropriate evidence-based CTI trauma interventions to be completed prior to family reunification.

Once the parent has completed her DCFS case plan and the Juvenile Court approves, the parent will be reunified with her child. Soon afterward, the therapist will complete another assessment with the parent, children, and other important family members to determine the need for additional evidence-based interventions focused on family-based trauma and, depending on the results of the assessment, the family may receive additional services. The maximum caseload for the program's trauma therapists is 15 families.

Altogether, starting in January 2015, this combination of housing and behavioral health services will be provided to 135 mothers and their families divided into three annual cohorts of 45 program participants each. To prepare for the program's full rollout, a one-year pilot project serving 28 clients was launched in July to test the project's referral process and associated services by FrontLine. As part of the pilot, the project's partners have begun hiring and training key project-related staff.

The project is being managed and overseen by Enterprise Community Partners, Inc., a national nonprofit organization with substantial expertise in financing affordable housing.[16] Enterprise will monitor program implementation to ensure that it is being operated according to contract. Enterprise will also be responsible for disbursing payments from the project's private funders to FrontLine and other project partners. Enterprise will be supported during the program's implementation by Third Sector Capital Partners, Inc., which will provide ongoing advisory services.

Evaluation

The program's success will be determined by a rigorous independent evaluation conducted by the Center on Urban Poverty & Community Development at Case Western Reserve University. The evaluation will measure the program's impact on out-of-home placement days for enrolled children, either by speeding reunification with their families or hastening a decision by the county's Division of Children and Family Services on an appropriate alternative to reunification.

The evaluation will be based on a randomized controlled trial that will compare results for the program's 135 enrolled families with another 135 in a control group that will receive the standard services currently being provided by the county to these children and their families. Program participants will be chosen at random by the evaluators from eligible participants forwarded by the county.[17] All referrals, randomization, consent processes, and data access and data storage protocols will be approved by Case Western's Institutional Review Board (IRB).

The evaluation will also include an interim two-year implementation study to determine which aspects of the program (such as housing stability, home visitation, or family meetings) are contributing to fewer out-of-home placement days. The final evaluation will be conducted at the end of the project's fifth year and its results will determine success payments to the program's funders (described below).

Financing and Success Payments

The initiative's $4 million in up-front costs are being funded by private funders and philanthropic organizations at no initial cost to the county. These funders include The Reinvestment Fund, The George Gund Foundation, the Nonprofit Finance Fund, The Cleveland Foundation, and Sisters of Charity Foundation of Cleveland. Funding is being provided through a combination of recoverable grants and loans, with interest rates ranging from 2 to 5 percent.

Additional up-front costs for planning and development were covered through grants from The George Gund Foundation, Cleveland Foundation and Sisters of Charity Foundation of Cleveland. The pilot was funded with a $780,000 grant from the Laura and John Arnold Foundation.

Under the project contract, the county will only repay the funders if the project reduces out-of-home days in foster care for enrolled children compared to those in the control group. The county will pay $75 per reduced day of foster care, which is the estimated cost to the county of providing such care, up to a maximum of $5 million. Above that level, all additional savings will accrue solely to the county

[16] For more information, see the organization's web site at; http://www.enterprisecommunity.com/

[17] Referrals will be made from the Norma Herr Women's Homeless Shelter and a local county domestic violence shelter.

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(see Table 1).

Repayments to the investors will be made by the county from the newly-created Social Impact Financing Fund, which will receive $1 million in payments from the county each year for five years.[18] The first appropriation was approved by the county council in September 2014. Payments to investors will be made within 45 days of the program's five-year completion date.

The break-even point for investors overall is at about a 25 percent reduction in out-of-home placement days for enrolled children. Due to differences in pay-out rates, the actual break-even point will vary for each investor. While the combination of services provided under the initiative has never been tested together, the negotiated 25 percent break-even level was based on the best available evidence from the literature.

If the project is a success and earns a positive return for investors, The George Gund Foundation plans to use its share to support future pay-for-success transactions. The Sisters of Charity Foundation plans to reinvest any proceeds in capacity building for the program's service provider, FrontLine.

Table 1: Payment Terms and Estimated Savings for Cuyahoga County's Pay-for-Success Program

% Reduction in Out-of-home Days	Success Payments	Gross Savings for County	Net Savings for County
50%	$5,000,000	$8,500,000	$3,500,000
40%	$5,000,000	$6,800,000	$1,800,000
30%	$4,550,000	$5,100,000	$550,000
25%	$4,125,000	$4,250,000	$130,000
20%	$3,400,000	$3,400,000	$0
10%	$1,700,000	$1,700,000	$0

Source: Cuyahoga Pay-for-Success Fact Sheet

Conclusion

Cuyahoga County's child welfare-focused pay-for-success initiative represents an important step for both the use of evidence-based programs for children in the child welfare system in general [19] and for performance-based contracting and the pay-for-success model in particular.[20]

While this case study has focused on the initial design and launch of the Cuyahoga County initiative, it is likely to continue to provide important lessons for other pay-for-success initiatives that follow in its footsteps.

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About the Social Innovation Research Center: The Social Innovation Research Center (SIRC) is a nonpartisan nonprofit research organization specializing in social innovation and performance management for nonprofits and public agencies. More information about SIRC is available on the organization's web site at http://www.socialinnovationcenter.org.

[18] The program will terminate early if annual appropriations are not made. Provisions for this are included in the contract.

[19] Another important example of the promotion of evidence-based initiatives in child welfare at the federal level can be found in Social Innovation Research Center, "Foster Care Innovation Initiative Charts a Different Path to Evidence," December 6, 2014. Available at: http://www.socialinnovationcenter.org/?p=769

[20] The pay-for-success model has grown significantly over the past year. For more information, see Social Innovation Research Center, "Winning Social Innovation Fund Applications Suggest Substantial Growth Ahead for Pay-for-Success Funding," November 5, 2014. Available at: http://www.socialinnovationcenter.org/?p=587

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United Way
United Way of Salt Lake

FACT SHEET: The Utah High Quality Preschool Program

America's First "Results-based Financing" for Early Childhood Education 2014 – 2015 School Year Expansion

- **"Results-based Financing" (also sometimes referred to as "pay for success" or a "social impact bond or loan")** is an innovative and emerging financing approach that leverages private investment to support high impact social programs. In 2010, the UK government, along with philanthropic partners, piloted this approach. In 2012, Goldman Sachs was the first financial institution to invest in this product to finance preventative services for youth on Rikers Island

- **The Utah High Quality Preschool Program** delivers a high impact and targeted curriculum to increase school readiness and academic performance among 3 and 4 year olds. As a result of entering kindergarten better prepared, it is expected that fewer children will use special education and remedial services in kindergarten through 12th grade, which results in cost savings for school districts, the State of Utah and other government entities. The first $1 million investment in this program enabled 600 children to attend pre-school during the 2013 - 2014 School Year. The $1.063 million investment for year 2 will allow a total of 750 children access to this program during the 2014 - 2015 School Year.

- In March of 2014, the Utah State Legislature passed HB96, the Utah School Readiness Initiative. This legislation established the School Readiness Board (the "Board"), which is composed of appointees from the State Department of Workforce Services and Utah State Office of Education, business leaders, and other individuals committed to advancing early childhood education in Utah. The Board is responsible for utilizing funds, allocated from the State budget, to support quality grants to local education agencies and private providers to increase the quality of early childhood programming at these sites. HB96 also allows the Board to enter into results-based financing contracts with private investors, on behalf of the State

- For the 2014 - 2015 school year, private capital from J.B. Pritzker and Goldman Sachs will finance an expansion of the Utah High Quality Preschool Initiative to provide early education services to a second cohort of 750 children. In this approach, there is no upfront cost to the taxpayer or other funders, instead:

  — **The State of Utah and the School Readiness Board** enter into a contract with **United Way of Salt Lake** as an intermediary in the transaction and commit to repay investors through the intermediary if the program is successful.

  — **Goldman Sachs** provides a senior loan and **J.B. Pritzker** provides a subordinate loan to United Way of Salt Lake to finance early education for 750 children in the 2014 – 2015 school year, and up to 2,250 additional children over the next three years. The subordinate loan reduces the risk to the senior lender if the preschool program proves to be less effective than expected.

  — As the intermediary, **United Way of Salt Lake** oversees the implementation of the project, contracts with and manages payments to and reports from the providers. **Voices for Utah Children** provides research and analytic support, and **Granite School District** supports the training and professional development to ensure quality implementation and model fidelity across providers

  — **Granite School District, Park City School District, Guadalupe School, YMCA of Northern Utah, Children's Express, and Lit'l Scholars** provide the preschool program to low-income 3 and 4 year olds

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- — **Through allocations defined in HB96, the State of Utah will** provide "Success Payments" to repay the loans, based on the cost-savings associated with the reduced use of special education and ancillary services
- — If the preschool program does not result in increased school readiness and decreased use of special education services, then there is no obligation on the part of the State of Utah to repay the loan
- — **After the funding the 2014 – 2015 school year**, subsequent investments will be made based on the availability of repayment funds from the State of Utah

■ Determining **Pay-for-Success Payments**:

- — Children participating in the high quality preschool program are given the Peabody Picture Vocabulary Test (PPVT), a predictive evaluation that serves as an indicator of their likely usage of resource special education and remedial services. Students that test two standard deviations below the mean and are therefore likely to use special education services will be tracked as they progress through 6th grade. These students will for the payment cohort.
- — Every year a student in the payment cohort <u>does not use resource special education services</u> will generate a "Success Payment"
- — During the 2014 - 2015 School Year, school districts in Utah will receive an annual payment from the State of Utah of approximately $2,700 per student to provide resource special education services for students in general education classrooms. The amount of the Success Payment is based on the actual avoided costs realized by the State of Utah
- — Success Payments" to the senior and subordinate lenders will be made equal to 95% of the avoided costs or approximately $2,565 per child for every year, Kindergarten through Sixth Grade, up to a base interest rate not to exceed 5.0% more than the Municipal Market Data General Obligation Bond AAA scale for a 10 year maturity.
- — The State of Utah will retain 5.0% of the avoided costs or approximately $135 per child for each year, kindergarten through sixth grade or until the investors receive the maximum payment amount From the seventh grade through twelfth grade the State of Utah retains 100% of the avoided costs or approximately $2,700 per student

■ The Utah High Quality Preschool Program has the potential to generate long-term savings for taxpayers and the results-based financing structure can become a replicable model for financing early childhood services nationally

- — The potential savings associated with the reduction in special education and remedial service usage are significant, and in each scenario exceed the potential payments to the lenders
- — "Success Payments" are only made through 6th grade for each student; but all savings that are generated after that point will be captured by the school district, state and other government entities

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United Way of Salt Lake
serving Davis, Salt Lake, Summit, and Tooele Counties

news release

June 13, 2013

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United Way of Salt Lake Announces Results-based Financing for Low-income Preschool Students

Investment is the first of its kind in the country

Salt Lake City – United Way of Salt Lake (UWSL) today announced the creation of the country's first-ever results-based financing vehicle designed to expand access to early childhood education for at-risk children in Utah. The investment deal, in which Goldman Sachs and J.B. Pritzker commit several million dollars in private-sector investment, could potentially benefit up to 3,700 children over multiple years and save state and local government millions of additional dollars.

"Access to early education gives children a foundation they will build upon throughout their education and beyond," said Lloyd C. Blankfein, chairman and CEO of Goldman Sachs. "Through this innovative financing, we are pleased to partner with J.B. Pritzker and United Way of Salt Lake to provide the opportunity to thousands of children who otherwise may not have been able to attend preschool."

In 2010, Voices for Utah Children, Granite School District, and UWSL began laying the groundwork for the transaction through a multi-year study of academic results and cost savings. The education program uses a locally-designed, structured curriculum to better prepare children for kindergarten, close the achievement gap and help them remain on track to complete high school, while decreasing the use of special education and remedial services in elementary school – resulting in cost savings for local communities, the state and the school district.

To date, Granite and Park City School Districts have successfully implemented the program, yet many children do not have the opportunity to participate.

"We are committed to solving our community's most complex social problems," said Deborah Bayle, president and CEO of UWSL. "Without high quality, early education opportunities, it will not be possible to achieve our State's goals of 90 percent proficiency in core subjects, 90 percent high school graduation, and 66 percent of Utahns with a post-secondary education. That is why United Way of Salt Lake is proud to be part of this groundbreaking financing model."

In a longitudinal study conducted between 2006 and 2009, the Granite School District preschool program demonstrated that 33 percent of low-income students would likely have needed special education services. After participating in the program, 95 percent of those children no longer needed special education, allowing the state to save an estimated $2,607 a year per child for 12 years.

"If we believe that every child deserves the chance to climb the ladder of success and achieve their full potential, we need to make sure they can at least get to the first rung on the ladder," said Karen Crompton, president and CEO of Voices for Utah Children. "We are pleased to work with UWSL and the other partners on this initiative to ensure a brighter future for children."

"Investing early and intelligently in the development of infants, toddlers and preschoolers significantly improves educational outcomes," said J.B. Pritzker, president of the J.B. and M.K. Pritzker Family Foundation. "Early learning reduces social and economic inequality and builds a better workforce and a stronger nation."

The partnership demonstrates the availability of willing investors and the overall results-based financing structure contained in legislation (SB71) proposed by Senator Aaron Osmond and Representative Greg Hughes during the 2013 Legislative Session. The initial phase of investment of up to $1 million is being made as a "proof-of-concept", with the potential for subsequent investment as public entities that realize cost savings as a result of the program join this unique partnership.

Salt Lake County Mayor Ben McAdams has proposed that the County consider a public/private partnership to advance the preschool expansion.

"In other states where rigorous standards and a high-quality curriculum have been used to offer preschool to economically-disadvantaged children, the return on investment has been 7 to 1 – that is a $7 benefit to the local budget – money not needed for special education, crime or public assistance as well as higher wages for consumer spending – for each dollar invested. It's the right thing to do for children, and the fiscally responsible course for taxpayers," said McAdams.

"I am very pleased that private investors and United Way of Salt Lake have agreed to work together on this innovative proof-of-concept transaction that will reinforce how results-based financing can be successfully applied to fund early childhood education in Utah," said Senator Osmond. "While I do not support universal preschool, I know that early education is a critical and real need for our most at-risk children and their parents, and this model reduces costs to the state long term. I look forward to working with the Utah Legislature to engage the State of Utah in this exciting and fiscally responsible approach!"

Because the need for high quality preschool is so significant, it is not possible for private philanthropy to address this challenge alone. This loan demonstrates a successful new model for financing early childhood education to be scaled statewide as well as replicated in other jurisdictions.

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United Way of Salt Lake is working to advance the education, income, and health of our neighborhoods and communities to ensure that every child succeeds, every step of the way, from cradle to career. We invite everyone to be a part of the change. You can give, you can advocate, and you can volunteer. That's what it means to LIVE UNITED. Join the conversation by visiting our blog at uwslhub.org, or find out more at uw.org.

<u>About Salt Lake County</u>

Salt Lake County is home to over 1 million residents from diverse ethnic and cultural backgrounds. Mayor Ben McAdams has prioritized education as one of his initiatives to improve quality of life for county residents and a critical element in maintaining Salt Lake County as a major metropolitan area with a small town feel. Salt Lake County is committed to supporting its children to be ready to attend school and throughout their education careers. The County currently provides targeted educational support including safe, constructive after school programs, behavioral health services for youth and a partnership with Head Start to provide preschool services at the Christmas Box House, a residential facility for children under 5.

<u>About Pritzker Children's Initiative</u>

The Pritzker Children's Initiative, a national project of the J.B. and M.K. Pritzker Family Foundation, seeks to enhance the early learning capabilities of infants and toddlers, with a special focus on at-risk children and their families. The Foundation is a private family foundation deeply committed to the pursuit of social justice and to shaping innovative and effective strategies for solving society's most challenging problems. Among the initiatives supported by the Pritzker Children's Initiative are the Pritzker Consortium on Early Childhood Development, a research collaborative led by Nobel Laureate economist James Heckman of the University of Chicago; the First Five Years Fund, a national early childhood advocacy project; and the Ounce of Prevention Fund, one of the nation's leading providers of programs, research and policy focused on helping at-risk infants and toddlers and their families.

<u>About the Goldman Sachs Urban Investment Group</u>

Established in 2001, the Urban Investment Group deploys the firm's capital by making investments and loans that benefit urban communities. Through its comprehensive community development platform, UIG is a catalyst in the revitalization of underserved neighborhoods and the creation of economic opportunities for disadvantaged families. UIG has committed more than $2.8 billion, facilitating the development of 13,200 units of housing, dozens of community facilities, vital retail and commercial space as well as generating thousands of jobs."

SIF Pay-for-Success Intermediaries Announce First Cohort of Projects

Posted on March 11, 2015 by Patrick Lester

The Social Innovation Fund (SIF) today announced that five of its eight pay-for-success intermediary grantees have selected a first round of 27 subgrantees to receive technical assistance funding for pay-for-success transactions.

Today's announcement covers only a fraction of the projects that are likely to be leveraged through SIF funds. Announcements from the other three intermediaries (National Council on Crime and Delinquency, Nonprofit Finance Fund, and University of Utah Policy Innovation Lab) are still outstanding. Moreover, several of the five that announced today (perhaps all) may announce further rounds of subgrants later this year or next. (Additional information can be found in SIRC's report, released late last year).

SIF is also expected to announce another competition for intermediaries in addition to the current eight later this year. It received funding from Congress to do so in December.

SIF is supporting its pay-for-success grantees through a learning community that is sharing best practices and lessons learned. All grantees receive direct support from an assigned program officer, according to Samantha Jo Warfield, a spokesperson for SIF.

In addition to the SIF-funded projects, as much as $300 million in workforce-related projects may begin to come online soon under legislation enacted by Congress last year. Congress may also soon move separate, stand-alone legislation in the House and Senate. The House bill was introduced last week.

The five SIF-funded organizations announcing projects today include:

- Corporation for Supportive Housing: CSH has announced 6 supportive housing projects. See also this related Huffington Post article.
- Green & Healthy Homes Initiative: GHHI announced five awards targeting asthma prevention. See also their press release.
- Harvard Kennedy School Social Impact Bond Lab: The Harvard SIB Lab has announced 6 projects covering a variety of issues, including prisoner reentry and green infrastructure. See also their press release.
- Institute for Child Success: ICS has announced five early childhood awards. It is also planning an annual conference devoted to PFS later this year in partnership with ReadyNation and the Pritzker Children's Initiative. See also their press release.
- Third Sector Capital Partners: Third Sector announced seven awards covering a range of projects, including teen pregnancy prevention and early learning. See also their press release.

Update

- National Council on Crime and Delinquency: NCCD announced its subgrantees on March 18. See their announcement here.

Related

- Social Impact Bond Legislation Introduced in the House (March 5, 2015)
- House Passes Pay-for-Success Amendment to K-12 Education Bill (February 26, 2015)
- Report: Winning SIF Applications Suggest Substantial Growth for Pay-for-Success (November 5, 2014)

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State and Local Governments Receive Assistance to Launch Pay for Success Projects Across the Country

Contact: Doug Gavel
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Date: March 12, 2015

CAMBRIDGE, MA – The Social Impact Bond Technical Assistance Lab (SIB Lab) at Harvard Kennedy School (HKS) today announced the selection of five state and local governments to receive technical assistance to help develop Pay for Success (PFS) projects that align payment for community-based solutions with verified social outcomes. The competition, run with support from the Corporation for National and Community Service (CNCS) Social Innovation Fund (SIF) and the Pritzker Children's Initiative, received applications from 30 state and local governments, demonstrating the growing interest in new approaches to identifying and funding effective social services to address pressing social problems. In addition to the five new state and local governments that will receive technical assistance, the SIB Lab will collaborate with the Corporation for Supportive Housing (CSH) on assisting a cohort of three state governments.

In the Pay for Success model, governments partner with private sector investors who provide up-front funding to promising service providers. Investors only receive a repayment from the government if the service provider's work is measurably successful. Because governments pay only if the programs work, the PFS model has the potential to more effectively allocate taxpayer dollars while increasing funding for programs that deliver improved social outcomes.

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"Governments around the country are looking for solutions to difficult social problems, from chronic homelessness to insufficient access to high quality early education. Governors and mayors are looking for ways to scale up good programs with limited fiscal resources. The Pay for Success approach has the potential to generate scalable solutions to some of our nation's most pressing challenges," said Jeffrey Liebman, professor of public policy at Harvard Kennedy School and SIB Lab director. "The SIB Lab is excited to partner with these innovative government leaders who are trying to provide more effective services to their citizens and make better use of taxpayer dollars."

During the past three years, the SIB Lab has helped Massachusetts, New York State, and Chicago launch Pay for Success contracts using social impact bonds. Newly selected state and local governments will join current SIB Lab partners Colorado, Connecticut, Denver, Illinois, Massachusetts, Michigan, New York, and South Carolina in receiving pro bono technical assistance. The technical assistance will support recipients in designing, implementing, and evaluating policy initiatives in areas ranging from early childhood education to prison recidivism and economic self-sufficiency to green infrastructure.

The winners of the 2014 SIB Lab competition for technical assistance are:

- Arkansas
- DC Water (District of Columbia)
- Nevada
- Pennsylvania
- San Francisco

The SIB Lab evaluated project proposals based on the potential of the project to advance the PFS field by applying the model in new areas or policy fields, the level of commitment and readiness demonstrated by the applicant, and the feasibility of the proposed projects to scale.

"The SIF Pay for Success grantees held highly competitive, open competitions to select communities in need of services and here we're seeing the results of those competitions," said Lois Nembhard, Acting Director of the Social Innovation Fund. "We couldn't be more enthusiastic for the first Pay for Success subgrantees, all charged with the important mission to measurably improve the lives of people most in need."

The SIB Lab will provide each winning government with a full-time Government

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Innovation Fellow to be based for one year in the government agency that is spearheading the city of state's pay-for success initiative, pro bono technical advising from Liebman and other senior experts, up to six months of programmer and data analyst time, and a small pool of flexible funding that can be used to remove barriers to implementation of PFS projects.

The SIB Lab will also be collaborating with another SIF awardee, CSH, to provide a joint cohort-based model of technical assistance to a cohort of state governments interested in the use of the PFS model to provide persons residing in institutional settings with the opportunity to transition to community-based supportive housing. As part of its collaboration with CSH, the SIB Lab will provide technical assistance to New Mexico, New York, and Washington.

"It is an honor for CSH to collaborate with the Harvard Kennedy School Social Impact Bond Technical Assistance Lab (HKS SIB Lab) to provide our subgrantees the in-depth knowledge they will need to succeed," said Deborah De Santis, CSH President and CEO. "HKS SIB Lab has built a sterling, national reputation for its government-focused expertise on project development, evaluation design, and procurement, and we know our subgrantees will benefit greatly from their contributions."

Comment from Winning State and Local Governments:

"This kind of innovative, public-private partnership can result in important reforms in our criminal-justice system while also saving the taxpayers money. Under this plan to 'pay-for-success,' the Department of Community Correction will be able to retain expert intervention services aimed at reducing the reincarceration rate in an accountable, cost-effective way."

---Governor Asa Hutchinson, Arkansas

"Early learning is a top priority for my administration and for the future success of Nevada's children. As we search for new and innovative service models and funding sources, technical assistance from the Harvard Kennedy School will be of tremendous benefit. Nevada is honored to be a part of the Corporation for National and Community Service project."

---Governor Brian Sandoval, Nevada

"My Administration is committed to investing in what works to improve the lives of Pennsylvanians and save money for taxpayers. Pay for Success is an innovative

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strategy to finance proven programs, and we are honored to be selected and look forward to working with the Social Impact Bond Technical Assistance Lab to find cost-effective and efficient solutions to help our most vulnerable citizens."

---Governor Tom Wolf, Pennsylvania

"San Francisco is committed to combatting poverty and building stronger mixed-income communities through our HOPE SF initiative. We will explore using a Pay for Success approach to tie funding to long-term HOPE SF outcomes to ensure all our residents, especially those in public housing, share in the prosperity of our City. We look forward to working with Harvard and CNCS to improve the quality of life for our most disconnected residents and end intergenerational poverty in our City."

---Mayor Edwin M. Lee, San Francisco

"In addition to the benefits of green infrastructure, this work will develop the social impact bond model and will be a huge public service to the industry and other CSO communities across the nation. And the SIB model is measurable, so that participants can objectively quantify results, which promotes accountability and smart programming."

---CEO and General Manager George S. Hawkins, DC Water

Related Links

- Social Impact Bond Technical Assistance Lab
- Corporation for National and Community Service

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ICS Announces Recipients of Technical Assistance for PFS in Early Childhood Sector

The Institute for Child Success ("ICS"), a grantee of the Social Innovation Fund's (SIF) Pay for Success (PFS) program, announced the selection of the first five organizations to receive technical assistance from ICS under that program. This technical assistance will help jurisdictions move towards implementing Pay for Success financing to improve outcomes for young children.

"We were thrilled by the applications we received for the inaugural year of this project, and we could not be more excited to be working with these jurisdictions. We look forward to helping these jurisdictions advance their efforts to improve outcomes for children through PFS financing," said ICS Vice President Joe Waters.

The awardee's announced today include:

- **The State of Connecticut**, working to scale Triple P (Positive Parenting Program), an evidence based program to prevent child abuse and neglect;
- **The State of North Carolina**, working to improve children's health and literacy by expanding early childhood home visiting and literacy programs;
- **The City of Spartanburg, South Carolina**, working to expand high-quality early care and education programs to increase kindergarten readiness, reading and math proficiency, and high school and post-secondary graduation rates while reducing avoidable expenditures on remediation.
- **The County of Sonoma County, California**, working to expand early childhood home visiting and high-quality

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pre-kindergarten to improve community health and educational attainment; and

- **The Washington State Department of Early Learning and Thrive by Five**—in partnership with a fellow SIF-grantee, Third Sector Capital Partners—working to enhance child development and well-being, reduce child abuse and neglect, and promote school readiness by expanding early childhood home visiting programs, especially in Native American communities.

Pay for Success is an innovative funding model that drives government resources toward social programs that prove effective at providing results to the people who need them most. The model gives highly effective service providers, including nonprofits and charities, access to flexible, reliable, and upfront resources to tackle critical social problems by tapping private funding to cover the up-front costs of the programs. Independent project managers support the collaboration between service providers, government, and funders. By rigorously measuring the effectiveness of these programs over time, Pay for Success ensures increased accountability for government spending and taxpayer dollars are being spent on programs that are actually succeeding in improving people's lives. Seven Pay for Success programs have been launched in the United States, including two that expand early childhood programs.

While PFS is an exciting model with a range of benefits, it is also technically difficult to deploy and few organizations in the early childhood community have developed the required expertise. The Social Innovation Fund's investment in ICS, along with matching funds from ReadyNation, United Way of Greenville County, and Greenville Health System, is fueling this initiative to build that expertise and capacity for PFS within the early childhood community.

"The SIF's Pay for Success grantees held highly competitive, open competitions to select communities in need of services and here we're seeing the results of those competitions," said Lois Nembhard, Acting Director of the Social Innovation Fund. "We couldn't be more enthusiastic for the first Pay for Success subgrantees, all charged with the important mission to measurably improve the lives of people most in need."

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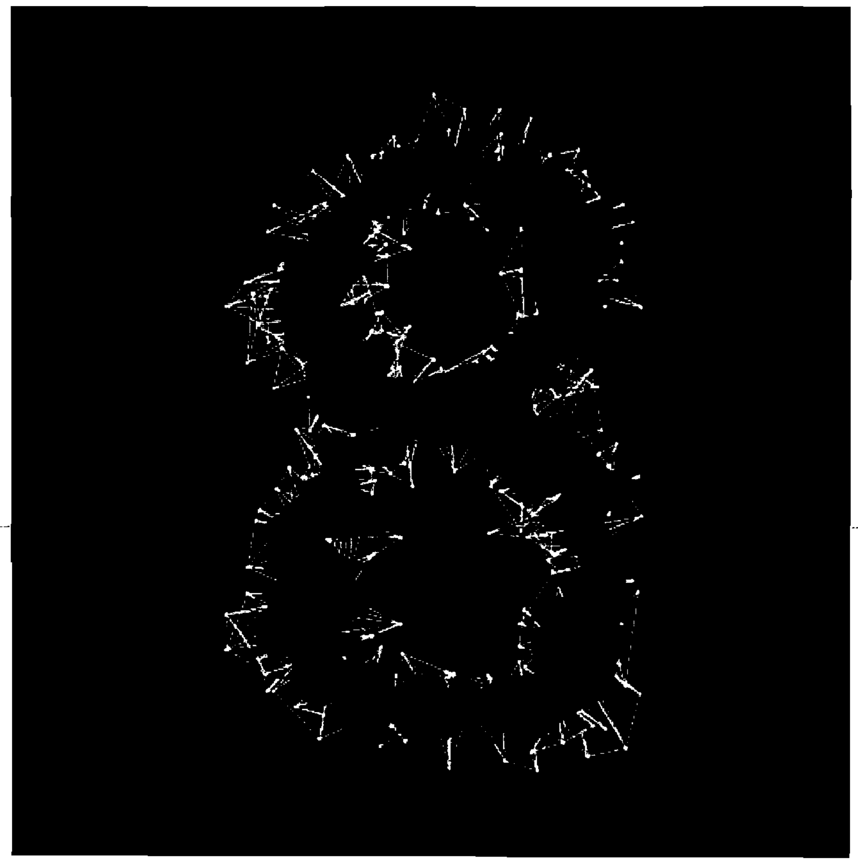
Nonprofit Quarterly | (http://nonprofitquarterly.org/2014/06/12/eight-sobering-thoughts-for-social-impact-bond-supporters/)

Eight Sobering Thoughts for Social Impact Bond Supporters

By RICK COHEN | June 12, 2014



On Tuesday, Rick Cohen appeared on THE KOJO NNAMDI SHOW *on WAMU in Washington, D.C., to discuss social impact bonds with Jeffrey Liebman, who is a professor of public policy at Harvard's Kennedy School of government and director of Harvard's Social Impact Bond Lab. TUNE IN HERE TO LISTEN TO THE EXCHANGE* (http://thekojonnamdishow.org/shows/2014-06-10/social-impact-bonds-come-washington) *!*

At the Council on Foundations' annual meeting, during a plenary on the state of philanthropy, White House social innovation and civic participation director Jonathan Greenblatt touted the potential of "social impact bonds," or, in the Obama

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administration's nomenclature, "pay for success." It's hard to imagine a concept that has taken off quite like social impact bonds—which aren't actually bonds, but more like equity investments in social problems with a government payout of costs plus an investment return if the programs meet predetermined outcomes.

Given that there are only four social impact bond projects underway in the U.S., the hoopla for SIBs is something else. SIBs might be an interesting tool for attracting private capital for the multi-year capitalization of a variety of social programs, but so far they have been rather narrowly focused on efforts to reduce prison recidivism (New York City), increase employment—and reduce recidivism—for former incarcerated persons (New York State), reduce youth recidivism (Massachusetts), and promote early childhood education (Utah).

None of the U.S. examples, nor the prison recidivism project from the UK, have even reached their first payment points, but that hasn't tempered advocates from imagining all kinds of SIB uses. Just yesterday, for example, two researchers opined that social impact bonds could solve the nation's urban blight crisis (http://nextcity.org/daily/entry/social-impact-bonds-help-blight), by privately financing through SIBs "promising intervention(s)" that would "improve blighted spaces and yields [sic] savings" in "reduced police, fire, and public welfare costs."

Two of the authors of that SIB blight idea, John K. Roman and Kelly A. Walsh, are among the four authors of a new study from the Urban Institute, titled *Five Steps to Pay for Success* (http://www.urban.org/UploadedPDF/413148-Five-Steps-to-Pay-for-Success.pdf), that focuses on projects aimed at improvements in the juvenile and criminal justice systems. Like other reports that have been issued on SIBs, particularly instructionals from the Rockefeller Foundation (*A New Tool for Scaling Impact* (http://www.socialfinanceus.org/sites/socialfinanceus.org/files/small.SocialFinanceWPSingleFINAL.pdf) and an exuberant SIB infographic (http://www.rockefellerfoundation.org/uploads/files/a39e8cdf-494f-486e-a8c2-1170c7ffc5c6-rockefeller.pdf)), the Urban Report is enthusiastic about the SIB potential and detailed in its description of how SIBs work.

The report is quite brief in its treatment of the potential downsides of SIBs and PFS, noting Kyle McKay's analysis prepared for the Maryland state legislature (http://mgaleg.maryland.gov/Pubs/BudgetFiscal/2013-Evaluating-Social-Impact-Bonds.pdf) as criticizing operational aspects of SIBs as one potential area of concern and what they call "philosophical" critiques regarding the implications of introducing private for-profit capital into the social services arena as "an abrogation of government's responsibilities to address social problems." Roman, *et al.*, dismiss the criticisms with the observation that the SIB/PFS field is relatively recent, thus "it remains to be seen if these critiques will be borne out as the field develops." The same could of course be said about SIBs themselves, which are yet to be proven beyond the experiments they are, much less than replicated with demonstrable government savings.

On Washington, D.C.'s National Public Radio station, WAMU, the *Kojo Nnamdi Show* focused on social impact bonds this week (http://thekojonnamdishow.org/shows/2014-06-10/social-impact-bonds-come-washington/transcript), prompted by the announcement last month that the Washington, D.C. government was going to examine the potential of a SIB focused on teen pregnancy. Our role on the show, it seems, was to temper what might be the tendencies toward irrational exuberance on the parts of some promoters of SIBs, who sometimes slip into language suggesting that the market discipline purportedly inserted into social programming by private capital is much more broadly applicable to a range of social problems than the experience so far suggests.

Having done substantial public-private financing in prior senior positions with national financial intermediaries, we have some enthusiasm-tempering considerations that SIB/PFS advocates and critics might reflect upon:

1. If these are proven models of social intervention,

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why structure them as single-project SIBs rather than broader policy changes? The SIB promoters all say that they pick exceptionally strong programs and providers carrying out interventions already documented and proven to work. If that is the case, why wouldn't government simply turn the intervention into a larger, broader program rather than limiting it to one site? That's a bit of what happened in the UK with the Peterborough Prison project, as the government decided to turn the project into a national program rather than waiting several years for Peterborough project results.

2. How much of a return on investment do socially motivated SIB/PFS investors really need? The highly publicized Rikers Island recidivism project is getting a $9.6 million investment from Goldman Sachs (http://www.nationaljournal.com/magazine/how-goldman-sachs-can-help-save-the-safety-net-20130509) with the idea that if the project succeeds, Goldman will leave with a 22 percent return on investment, or $2.1 million. However, $7.2 million of Goldman's $9.6 million investment is guaranteed by Bloomberg Philanthropies, meaning that Goldman Sachs is only actually risking $2.4 million. The result, in terms of actual risk, is that Goldman Sachs is risking $2.4 million to potentially earn $2.1 million, an 87.5 percent return. Does social innovation with private capital mean having to offer lucrative returns of 22 percent, much less 87 percent, when governments can sell tax-exempt bonds for significantly less cost to the taxpayer?

3. Do insured investments, such as Goldman Sachs' with Bloomberg backing, really test the market for

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SIBs? Clearly, even with a strong program like the recidivism project at Rikers, the massive Goldman Sachs was leery of a major investment and protected itself with Bloomberg's money. Imagine if Goldman Sachs were to lose its $2.4 million (since Bloomberg pays the rest). Would Goldman write the amount off as an above-the-line business loss? Might it try to get a charitable tax deduction for its expenditure in support of the nonprofit venture, given Goldman Sachs' big announcement a few years ago of a major pledge to charitable giving as a result of its mammoth profits and executive bonuses? Might other potential SIB/PFS investors, such as the frequently mentioned Bank of America, look for Community Reinvestment Act credit, an idea pitched in the Urban report?

4. Have promoters of SIB/PFS investment structures forgotten alternative, well-known mechanisms for private investment, such as low-income tax credits and New Market Tax Credits, which have long demonstrated the willingness of private capital to invest in social programs—at much lower rates of return than those anticipated by Goldman Sachs? To dismiss those tax credit investments as somehow less risky than SIBs because they are collateralized in part by real estate misses the entire high risk and reward history of public-private partnerships in urban development.

5. Shouldn't SIB/PFS promoters advocate for adequate overhead and full cost reimbursement in government grants and contracts for nonprofits in general rather than just in structured SIBs? The advocates point out that SIBs fund both the program and overhead costs of the nonprofit

sponsors, frequently underfunded or unfunded in government programs. The answer to that would be to push for standardized, adequate overhead rates as a matter of policy in all federal government contracting, as the National Council of Nonprofits did in getting the Office of Management and Budget to establish a change in the rules to give nonprofits the option of at least a minimum 10 percent overhead or indirect rate on government contracts with the ability to negotiate higher rates.

6. Doesn't the SIB focus on established providers work to exclude those nonprofits without the upfront working capital to plan and design projects? For most nonprofits, even with shortfalls in overhead and program reimbursements, the biggest gap is in their ability to access front-end risk funding to plan and design projects and programs. If SIB/PFS projects were to address that funding hurdle, they would be helping a much broader array of nonprofits. Some financial intermediaries have tried to address these needs through predevelopment financing and "recoverable grants," so the concept is hardly unknown or untested.
7. Similarly, doesn't the focus on established providers with proven, evidence-based programs mean that SIB/PFS structures are funding what works and not really risking capital to explore potential new ideas—and new nonprofit entrants? That's the higher risk possibility, funding nonprofits with new ideas that haven't been so well established that government could simply adopt the ideas as more broadly applicable programs. If the programs are well established and proven,

government could and should fund more broadly, like Peterborough, but those nonprofits that are trying things that are new and truly experimental, that's where private risk capital could really advance social change.

8. Is it possible that a potential SIB/PFS downside is that private capital might overly influence the decision-making and priorities of government through the SIB/PFS model? As one advocate testified (policysocial-context/24149-social-impact-bonds-not-well-received-at-senate-budget-hearing.html) in a Congressional hearing, a SIB "improves decision-making by bring market discipline to government decisions about which programs to expand, as investors will only put their dollars behind programs with a strong evidence base." If government overly focuses on programs that will attract private investors, the results might work to the investors' benefit, but not necessarily to the benefit of appropriately identifying and prioritizing social initiatives that don't generate private capital interest. Should private investors determine "which programs to expand," or should public debate and discussion in a democratic process about human needs be the determining factors?

The discussion on the *Kojo Nnamdi Show* raised these and other issues in terms of the benefits that social impact bonds might bring to social programming and the cautions that governmental agencies, nonprofits, and investors themselves might want to heed going forward. A willingness to experiment in the social policy arena is a great thing to have both in government and in the private sector. Because there is private money in the mix, such as Goldman's or Bank of America's, critics should not jump to conclusions that the results will be automatically toxic. By the same token, however, SIB/PFS advocates might want to remember that the "market" doesn't make everything right, doesn't automatically make better choices or decisions than government, and doesn't guarantee better outcomes.

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114TH CONGRESS
1ST SESSION

H. R. 1336

To encourage and support partnerships between the public and private sectors to improve our nation's social programs, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

MARCH 4, 2015

Mr. YOUNG of Indiana (for himself, Mr. DELANEY, Mr. REED, Mr. LARSON of Connecticut, Mr. REICHERT, Mr. POLIS, Mr. SCHOCK, Mr. KENNEDY, and Mr. DOLD) introduced the following bill; which was referred to the Committee on Ways and Means, and in addition to the Committee on Financial Services, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

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A BILL

To encourage and support partnerships between the public and private sectors to improve our nation's social programs, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Social Impact Partnership Act".

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SEC. 2. SOCIAL IMPACT PARTNERSHIPS.

Title XX of the Social Security Act (42 U.S.C. 1397) is amended—

(1) in the heading, by striking "to States" and inserting "and Programs for"; and

(2) by adding at the end the following:

"Subtitle C—Social Impact Partnerships

"SEC. 2051. PURPOSES.

"The purposes of this subtitle are the following:

"(1) To improve the lives of families and individuals in need in the United States by funding social programs that achieve real results.

"(2) To redirect funds away from programs that, based on objective data, are ineffective, and into programs that achieve demonstrable, measurable results.

"(3) To ensure Federal funds are used effectively on social services to produce positive outcomes for both service recipients and taxpayers.

"(4) To establish the use of social impact partnerships to address some of our nation's most pressing problems.

"(5) To facilitate the creation of public-private partnerships that bundle philanthropic and other private resources with existing public spending to scale up effective social interventions already being implemented by private organizations, non-profits, charitable organizations, and State and local governments across the country.

"(6) To bring pay-for-performance to the social sector, allowing the United States to improve the impact and effectiveness of vital social services programs while redirecting inefficient or duplicative spending.

"(7) To incorporate outcomes measurement and randomized controlled trials or other rigorous methodologies for assessing program impact.

"SEC. 2052. SOCIAL IMPACT PARTNERSHIP APPLICATION.

"(a) NOTICE.—Not later than 1 year after the date of the enactment of this Act, the Director of the Office of Management and Budget, in consultation with the Federal Interagency Council on Social Impact Partnerships, shall publish in the Federal Register a request for proposals from States or local government for social impact partnership projects in accordance with this section.

"(b) REQUIRED OUTCOMES FOR SOCIAL IMPACT PARTNERSHIP PROJECT.—To qualify as a social impact partnership project under this subtitle, a project must produce measurable, clearly defined outcomes that result in social benefit and Federal savings through any of the following:

"(1) Increasing work and earnings by individuals who have been unemployed in the United States for more than six consecutive months.

"(2) Increasing employment and earnings of individuals age 16 to 24.

"(3) Increasing employment among individuals receiving Federal disability benefits.

"(4) Reducing the dependence of low-income families on Federal means-tested benefits.

"(5) Improving rates of high school graduation.

"(6) Reducing teen and unplanned pregnancies.

"(7) Improving birth outcomes among low-income families and individuals.

"(8) Reducing rates of asthma, diabetes, or other preventable diseases among low-income families and individuals to reduce the utilization of emergency and other high-cost care.

"(9) Increasing the proportion of children living in two-parent families.

"(10) Reducing incidences and adverse consequences of child abuse and neglect.

"(11) Reducing the number of youth in foster care by increasing adoptions, permanent guardianship arrangements, reunification, or placement with a fit and willing relative.

"(12) Reducing the number of children and youth in foster care residing in group homes, child care institutions, agency-operated foster homes, or other non-family foster homes, unless it is determined that it is in the interest of the child's long-term health, safety, or psychological well-being to not be placed in a family foster home.

"(13) Reducing the number of children returning to foster care.

"(14) Reducing recidivism among individuals released from prison.

"(15) Reducing the rate of homelessness among our most vulnerable populations.

"(16) Improving the health and well-being of those with mental, emotional, and behavioral health needs.

"(17) Improving the educational outcomes of special-needs or low-income children.

"(18) Improving the employment and well-being of returning U.S. military members.

"(19) Increasing the financial stability of low-income families.

"(20) Increasing the independence and employability of individuals who are physically or mentally disabled.

"(21) Other measurable outcomes defined by the State or local government that result in positive social outcomes and Federal savings.

"(c) FEASIBILITY STUDY REQUIRED.—The notice described in subsection (a) shall require a State or local government to submit a feasibility study for the social impact partnership project that contains the following information:

"(1) The outcome goals of the project.

"(2) A description of each intervention in the project and anticipated outcomes of such intervention.

"(3) Rigorous evidence demonstrating that the intervention can be expected to produce the desired outcomes.

"(4) The target population that will be served by the project.

"(5) The expected social benefits to participants who receive the intervention and others who may be impacted.

"(6) Projected Federal, State, and local government costs and other costs to conduct the project.

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"(7) Projected Federal, State, and local government savings and other savings, including an estimate of the savings to the Federal, State, and local government, on a program-by-program basis and in the aggregate, if the project is implemented and the outcomes are achieved.

"(8) If savings resulting from the successful completion of the project are estimated to accrue to the State or local government, the likelihood of the State or local government to realize those savings.

"(9) A plan for delivering the intervention through a social impact partnership model.

"(10) A description of the expertise of each service provider that will administer the intervention.

"(11) An explanation of the experience of the State or local government, the intermediary, or the service provider in raising private and philanthropic capital to fund social service investments.

"(12) The detailed roles and responsibilities of each entity involved in the project, including any State or local government entity, intermediary, service provider, independent evaluator, investor, or other stakeholder.

"(13) A summary of the experience of the service provider delivering the proposed intervention or a similar intervention, or a summary demonstrating the service provider has the expertise necessary to deliver the proposed intervention.

"(14) A summary of the unmet need in the area where the intervention will be delivered or among the target population who will receive the intervention.

"(15) The payment terms, the methodology used to calculate outcome payments, the payment schedule, and performance thresholds.

"(16) The project budget.

"(17) The project timeline.

"(18) The criteria used to determine the eligibility of an individual for the project, including how selected populations will be identified, how they will be referred to the project, and how they will be enrolled in the project.

"(19) The evaluation design.

"(20) The metrics that will be used to determine whether the outcomes have been achieved and how such metrics will be measured.

"(21) An explanation of how the metrics used to determine whether the outcomes have been achieved are independent, objective indicators of im-

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pact and are not subject to manipulation by the service provider, intermediary, or investor.

"(22) A summary explaining the independence of the evaluator from the other entities involved in the project and the evaluator's experience in conducting rigorous evaluations of program effectiveness including, where available, well-implemented randomized controlled trials on the intervention or similar interventions.

"(23) The capacity of the service provider to deliver the intervention to the number of participants the State or local government proposes to serve in the project.

"(d) PROJECT INTERMEDIARY INFORMATION REQUIRED.—The feasibility study described in subsection (c) shall also contain the following information about the intermediary for the social impact partnership project (whether the intermediary is the service provider or other entity):

"(1) Experience and capacity for providing or facilitating the provision of the type of intervention proposed.

"(2) The mission and goals.

"(3) Information on whether the intermediary is already working with service providers that pro-

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vide this intervention or an explanation of the capacity of the intermediary to begin working with service providers to provide the intervention.

"(4) Experience working in a collaborative environment across government and nongovernmental entities.

"(5) Previous experience collaborating with public or private entities to implement evidence-based programs.

"(6) Ability to raise or provide funding to cover operating costs (if applicable to the project).

"(7) Capacity and infrastructure to track outcomes and measure results, including—

"(A) capacity to track and analyze program performance and assess program impact; and

"(B) experience with performance-based contracting and achieving project milestones and targets.

"(8) Role in delivering the intervention.

"(9) How the intermediary would monitor program success, including a description of the interim benchmarks and outcome measures.

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"SEC. 2053. AWARDING SOCIAL IMPACT PARTNERSHIP CONTRACTS.

"(a) TIMELINE IN AWARDING CONTRACT.—Not later than six months after receiving an application in accordance with section 2052, the Director, in consultation with the Federal Interagency Council on Social Impact Partnerships, shall determine whether to enter into a contract for a social impact partnership project with a State or local government.

"(b) CONSIDERATIONS IN AWARDING CONTRACT.—In determining whether to enter into a contract for a social impact partnership project (the application for which was submitted under section 2052) the Director, in consultation with the Federal Interagency Council on Social Impact Partnerships (established by section 2056) and the head of any Federal agency administering a similar intervention or serving a population similar to that served by the project, shall consider each of the following:

"(1) The value to the Federal Government of the outcomes expected to be achieved if the outcomes specified in the contract are achieved.

"(2) The ability of the State or local government in collaboration with the intermediary and the service providers to achieve the outcomes.

"(3) The savings to the Federal Government if the outcomes specified in contract are achieved.

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"(4) The savings to the State and local governments if the outcomes specified in the contract are achieved.

"(5) The expected quality of the evaluation that would be conducted with respect to the contract.

"(c) CONTRACT AUTHORITY.—

"(1) CONTRACT REQUIREMENTS.—In accordance with this section, the Director, in consultation with the Federal Interagency Council on Social Impact Partnerships and the head of any Federal agency administering a similar intervention or serving a population similar to that served by the project, may enter into a contract for a social impact partnership project with a State or local government if the Director, in consultation with the Federal Interagency Council on Social Impact Partnerships, determines that each of the following requirements are met:

"(A) The State or local government agrees to achieve an outcome specified in the contract in order to receive payment.

"(B) The Federal payment to the State or local government for each outcome specified is less than or equal to the value of the outcome to the Federal Government over a period not to exceed 10 years, as determined by the Director, in consultation with the State or local government.

"(C) The duration of the project does not exceed 10 years.

"(D) The State or local government has demonstrated, through the application submitted under section 2052, that, based on prior rigorous experimental evaluations or rigorous quasi-experimental studies, the intervention can be expected to achieve each outcome specified in the contract.

"(E) The State, local government, intermediary, or service provider has experience raising private or philanthropic capital to fund social service investments (if applicable to the project).

"(F) The State or local government has shown that each service provider has experience delivering the intervention, a similar intervention, or has otherwise demonstrated the expertise necessary to deliver the intervention.

"(2) PAYMENT.—The Director shall pay the State or local government only if the independent evaluator described in section 2055 determines that the social impact partnership project has met the requirements specified in the contract and achieved an outcome specified in the contract.

"(3) LIMITATION.—The Director may not enter into a contract for a social impact partnership project under paragraph (1) after the date that is 10 years after the date of the enactment of the Social Impact Partnership Act.

"(d) NOTICE OF CONTRACT AWARD.—Not later than 30 days after entering into a contract under this section, the Director shall publish a notice in the Federal Register that includes, with regard to such contract, the following:

"(1) The outcome goals of the social impact partnership project.

"(2) A description of each intervention in the project.

"(3) The target population that will be served by the project.

"(4) The expected social benefits to participants who receive the intervention and others who may be impacted.

"(5) The detailed roles, responsibilities, and purposes of each Federal, State, or local government entity, intermediary, service provider, independent evaluator, investor, or other stakeholder.

"(6) The payment terms, the methodology used to calculate outcome payments, the payment schedule, and performance thresholds.

"(7) The project budget.

"(8) The project timeline.

"(9) The project eligibility criteria.

"(10) The evaluation design.

"(11) The metrics that will be used to determine whether the outcomes have been achieved and how these metrics will be measured.

"(12) The estimate of the savings to the Federal, State, and local government, on a program-by-program basis and in the aggregate, if the contract is entered into and implemented and the outcomes are achieved.

"SEC. 2054. FEASIBILITY STUDY FUNDING.

"(a) REQUESTS FOR FUNDING FOR FEASIBILITY STUDIES.—The Director shall reserve a portion of the funding provided in section 2057 to assist States or local governments in developing feasibility studies required by section 2052. To be eligible to receive funding to assist with completing a feasibility study, a State or local government shall submit an application for feasibility study funding containing the following information:

"(1) A description of the outcome goals of the social impact partnership project.

"(2) A description of the intervention, including anticipated program design, target population, an estimate regarding the number of individuals to be served, and setting for the intervention.

"(3) Evidence to support the likelihood that such intervention will produce the desired outcomes.

"(4) A description of the potential metrics to be used.

"(5) The expected social benefits to participants who receive the intervention and others who may be impacted.

"(6) Estimated costs to conduct the project.

"(7) Estimates of Federal, State, and local government savings and other savings if the project is implemented and the outcomes are achieved.

"(8) An estimated timeline for implementation and completion of the project, which shall not exceed 10 years.

"(9) With respect to a project for which the State or local government selects an intermediary to operate the project, any partnerships needed to successfully execute the project and the ability of the intermediary to foster such partnerships.

"(10) The expected resources needed to complete the feasibility study for the State or local government to apply for social impact partnership funding under section 2052.

"(b) FEDERAL SELECTION OF APPLICATIONS FOR FEASIBILITY STUDY.—Not later than 6 months after receiving an application for feasibility study funding under subsection (a), the Director, in consultation with the Federal Interagency Council on Social Impact Partnerships and the head of any Federal agency administering a similar intervention or serving a population similar to that served by the project, shall select State or local government feasibility study proposals for funding based on the following:

"(1) The likelihood that the proposal will achieve the desired outcomes.

"(2) The value of the outcomes expected to be achieved.

"(3) The potential savings to the Federal Government if the social impact partnership project is successful.

"(4) The potential savings to the State and local governments if the project is successful.

"(c) PUBLIC DISCLOSURE.—Not later than 30 days after selecting a State or local government for feasibility study funding under this section, the Director shall cause to be published on the website of the Federal Interagency Council on Social Impact Partnerships information explaining why a State or local government was granted feasibility study funding.

"(d) FUNDING RESTRICTION.—

"(1) FEASIBILITY STUDY RESTRICTION.—The Director may not provide feasibility study funding under this section for more than 50 percent of the estimated total cost of the feasibility study reported in the State or local government application submitted under subsection (a).

"(2) AGGREGATE RESTRICTION.—Of the total amount appropriated under section 2057, the Director may not use more than $10,000,000 to provide feasibility study funding to States or local governments under this section.

"(3) NO GUARANTEE OF FUNDING.—The Director shall have the option to award no funding under this section.

"(e) SUBMISSION OF FEASIBILITY STUDY REQUIRED.—Not later than six months after the receipt of feasibility study funding under this section, a State or local government receiving such funding shall complete the feasibility study and submit the study to the Federal Interagency Council on Social Impact Partnerships.

"SEC. 2055. EVALUATIONS.

"(a) CONTRACT AUTHORITY.—For each State or local government awarded a social impact partnership project approved by the Director under this Act, the head of the relevant agency, as determined by the Federal Interagency Council on Social Impact Partnerships, shall enter into a contract with such State or local government to pay for the independent evaluation to determine whether the State or local government project has met an outcome specified in the contract in order for the State or local government to receive outcome payments under this subtitle.

"(b) EVALUATOR QUALIFICATIONS.—The head of the relevant agency may not enter into a contract with a State or local government unless the head determines that the evaluator is independent of the other parties to the contract and has demonstrated substantial experience in conducting rigorous evaluations of program effectiveness including, where available and appropriate, well-implemented randomized controlled trials on the intervention or similar interventions.

"(c) METHODOLOGIES TO BE USED.—The evaluation used to determine whether a State or local government will receive outcome payments under this subtitle shall use experimental designs using random assignment or other reliable, evidence-based research methodologies, as certified by the Federal Interagency Council on Social Impact Partnerships, that allow for the strongest possible causal inferences when random assignment is not feasible.

"(d) PROGRESS REPORT.—

"(1) SUBMISSION OF REPORT.—The independent evaluator shall—

"(A) not later than two years after a project has been approved by the Director and biannually thereafter until the project is concluded, submit to the head of the relevant agency and the Federal Interagency Council on Social Impact Partnerships a written report summarizing the progress that has been made in achieving each outcome specified in the contract; and

"(B) at the scheduled time of the first outcome payment and at the time of each subsequent payment, submit to the head of the relevant agency and the Federal Interagency Council on Social Impact Partnerships a written report that includes the results of the evaluation conducted to determine whether an out-

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come payment should be made along with information on the unique factors that contributed to achieving or failing to achieve the outcome, the challenges faced in attempting to achieve the outcome, and information on the improved future delivery of this or similar interventions.

"(2) SUBMISSION TO CONGRESS.—Not later than 30 days after receipt of the written report pursuant to paragraph (1)(B), the Federal Interagency Council on Social Impact Partnerships shall submit such report to each committee of jurisdiction in the House of Representatives and the Senate.

"(e) FINAL REPORT.—

"(1) SUBMISSION OF REPORT.—Within six months after the social impact partnership project is completed, the independent evaluator shall—

"(A) evaluate the effects of the activities undertaken pursuant to the contract with regard to each outcome specified in the contract; and

"(B) submit to the head of the relevant agency and the Federal Interagency Council on Social Impact Partnerships a written report that includes the results of the evaluation and the conclusion of the evaluator as to whether

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the State or local government has fulfilled each obligation of the contract, along with information on the unique factors that contributed to the success or failure of the project, the challenges faced in attempting to achieve the outcome, and information on the improved future delivery of this or similar interventions.

"(2) SUBMISSION TO CONGRESS.—Not later than 30 days after receipt of the written report pursuant to paragraph (1)(B), the Federal Interagency Council on Social Impact Partnerships shall submit such report to each committee of jurisdiction in the House of Representatives and the Senate.

"(f) LIMITATION ON COST OF EVALUATIONS.—Of the amount made available for social impact partnership projects in section 2057, the Director may not obligate more than 15 percent to evaluate the implementation and outcomes of such projects.

"SEC. 2056. FEDERAL INTERAGENCY COUNCIL ON SOCIAL IMPACT PARTNERSHIPS.

"(a) ESTABLISHMENT.—There is established the Federal Interagency Council on Social Impact Partnerships (in this section, referred to as the 'Council') to—

"(1) coordinate the efforts of social impact partnership projects funded by this subtitle;

"(2) advise and assist the Director in the development and implementation of such projects;

"(3) advise the Director on specific programmatic and policy matter related to such projects;

"(4) provide subject-matter expertise to the Office of Management and Budget with regard to such projects;

"(5) ensure that each State or local government that has entered into a contract with the Director for a social impact partnership project under this subtitle and each evaluator selected by the head of the relevant agency under section 2055 has access to Federal administrative data to assist the State or local government and the evaluator in evaluating the performance and outcomes of the project;

"(6) address issues that will influence the future of social impact partnership projects in the United States;

"(7) provide guidance to the executive branch on the future of social impact partnership projects in the United States;

"(8) review State and local government applications for social impact partnerships to ensure that contracts will only be awarded under this subtitle when rigorous, independent data and reliable, evidence-based research methodologies support the conclusion that a contract will yield savings to the Federal Government if the project outcomes are achieved before such applications are approved by the Director;

"(9) certify, in the case of each approved social impact partnership, that the project will yield a projected savings to the Federal Government if the project outcomes are achieved, and coordinate with the relevant Federal agency to produce an after-action accounting once the project is complete to determine the actual Federal savings realized, and the extent to which actual savings aligned with projected savings; and

"(10) provide oversight of the actions of the Director and other Federal officials under this subtitle and report periodically to Congress and the public on the implementation of this subtitle.

"(b) COMPOSITION OF COUNCIL.—The Chair of the council shall be the Director of the Office of Management and Budget. The Council shall be composed of one designee, designated by the head of the relevant agency, from each of the following:

"(1) Department of Labor.

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"(2) Department of Health and Human Services.

"(3) Social Security Administration.

"(4) Department of Agriculture.

"(5) Department of Justice.

"(6) Department of Housing and Urban Development.

"(7) Department of Education.

"(8) Department of Veterans Affairs.

"(9) Department of the Treasury.

"(10) Corporation for National and Community Service.

"SEC. 2057. FUNDING.

"(a) IN GENERAL.—Out of any money in the Treasury not otherwise appropriated, there is hereby appropriated $300,000,000, to remain available until 10 years after the date specified in section 2053(c)(3), to carry out the activities authorized under this subtitle.

"(b) LIMITATION.—Of the amounts made available under subsection (a), the Director may not use more than $2,000,000 in any fiscal year to support the review, approval, and oversight of social impact partnership projects, including activities conducted by—

"(1) the Federal Interagency Council on Social Impact Partnerships; and

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"(2) any other agency consulted by the Director before approving a social impact partnership project or a feasibility study under section 2054.

"(c) NO FEDERAL FUNDING FOR CREDIT ENHANCEMENTS.—No funding provided under this section shall be used to provide any insurance, guarantee, or other credit enhancement to a State or local government under which a Federal payment would be made to a State or local government as the result of a State or local government failing to achieve an outcome specified in a contract.

"SEC. 2058. WEBSITE.

"The Federal Interagency Council on Social Impact Partnerships shall establish and maintain a public website that shall display the following:

"(1) A copy of, or method of accessing, each notice published regarding a social impact partnership project pursuant to this subtitle.

"(2) For each State or local government that has entered into a contract with the Director for a social impact partnership project, the website shall contain the following information:

"(A) The outcome goals of the project.

"(B) A description of each intervention in the project.

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"(C) The target population that will be served by the project.

"(D) The expected social benefits to participants who receive the intervention and others who may be impacted.

"(E) The detailed roles, responsibilities, and purposes of each Federal, State, or local government entity, intermediary, service provider, independent evaluator, investor, or other stakeholder.

"(F) The payment terms, methodology used to calculate outcome payments, the payment schedule, and performance thresholds.

"(G) The project budget.

"(H) The project timeline.

"(I) The project eligibility criteria.

"(J) The evaluation design.

"(K) The metrics used to determine whether the proposed outcomes have been achieved and how these metrics are measured.

"(3) A copy of the progress reports and the final reports relating to each social impact partnership project.

"(4) An estimate of the savings to the Federal, State, and local government, on a program-by-program basis and in the aggregate, resulting from the successful completion of the social impact partnership project.

"SEC. 2059. COMMUNITY REINVESTMENT ACT.

"Section 804 of the Community Reinvestment Act of 1977 (12 U.S.C. 2903) is amended by adding at the end the following:

"'(e) SOCIAL IMPACT PARTNERSHIP PROJECTS.—In assessing and taking into account, under subsection (a), the record of a financial institution, the appropriate Federal financial supervisory agency shall consider, as a factor, investments made by the financial institution in social impact partnership projects under subtitle C of title XX of the Social Security Act.'.

"SEC. 2060. REGULATIONS.

"The Director, in consultation with the Federal Interagency Council on Social Impact Partnerships, may issue regulations as necessary to carry out this subtitle.

"SEC. 2061. DEFINITIONS.

"In this subtitle:

"(1) AGENCY.—The term 'agency' has the meaning given that term in section 551 of title 5, United States Code.

"(2) INTERVENTION.—The term 'intervention' means a specific service delivered to achieve an impact through a social impact partnership project.

"(3) DIRECTOR.—The term 'Director' means the Director of the Office of Management and Budget.

"(4) SOCIAL IMPACT PARTNERSHIP PROJECT.—The term 'social impact partnership project' means a project that finances social services using a social impact partnership model.

"(5) SOCIAL IMPACT PARTNERSHIP MODEL.—The term 'social impact partnership model' means a method of financing social services in which—

"(A) Federal funds are awarded to a State or local government only if a State or local government achieves certain outcomes agreed upon by the State or local government and the Director; and

"(B) the State or local government coordinates with service providers, investors (if applicable to the project), and (if necessary) an intermediary to identify—

"(i) an intervention expected to produce the outcome;

"(ii) a service provider to deliver the intervention to the target population; and

"(iii) investors to fund the delivery of the intervention.

"(6) STATE.—The term 'State' means each State of the United States, the District of Columbia, each commonwealth, territory or possession of the United States, and each federally recognized Indian tribe.".

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