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The Outlook on Pay for Success / Social Impact Bonds.

Pay for Success is an approach to funding social service programs designed to improve outcomes and ultimately reduce the costs of addressing these issues. In a Pay for Success contract, private investors provide funding for preventative or interventional services up-front, and government reimburses these investors with a return on their investment, only if results are achieved.

In doing so, private investors take on the initial risk, governments pay based on outcomes, and cost-saving programs with demonstrated effectiveness gain access to new and additional funding sources. Pay for Success projects are underway in several states in the U.S., including California.

The Housing California conference, an annual conference held in April with more than 1,000 participants involved in housing, included an informative session on the outlook on Pay for Success, or Social Impact Bonds, with LeSar Development Consultants, Corporation for Supportive Housing, Third Sector Capital Partners, Santa Clara County, and California State Assemblymember Toni Atkins' office.

The audience, a mix of affordable housing developers, local government staff, and lenders, were receptive to Pay for Success, interested in learning how it could be applied to their programs, particularly around affordable housing.

Some of the key highlights of the panel looking at the outlook for Pay for Success included:

Change the Nomenclature to Gain More Understanding and Support – move away from the misnomer "social impact bond" to nomenclature that more accurately describes the tool –"Pay for Success" or "Pay for Performance". Santa Clara County's COO Gary Graves shared that upon hearing about "Social Impact Bonds", he was skeptical, as the notion of floating a bond was unappealing. Once understanding that Pay for Success actually does not involve bond financing, but rather contracts that are paid upon outcomes being reached, and learning more, Mr. Graves became a proponent of the idea and Santa Clara County has a Pay for Success program under development.

Counties Are Key Partners, Along with Cross-Sector Community Partners – Pay for Success programs that are currently emerging in California have Counties serving as the public agencies that pay upon successful outcomes being reached, and a broad cross-sector of the community collaborating. In Santa Clara County, the County was spurred to action by the community, who advocated for the County to adopt a Pay for Success program. Community partners and the County worked in collaboration to complete a landscape analysis process to determine which services could fit into a Pay for Success model. Now, the County is issuing a Request for Proposals to select a lead agency for the program.

Homelessness, Workforce Development, Recidivism, Frequent Health Users, Supportive Housing, and Child Welfare are emerging areas where Pay for Success programs are being developed. Santa Clara County's landscape analysis identified homelessness and acute mental health treatment as two areas where services could fit into a Pay for Success model. One success outcome measure will be keeping a homeless family housed for at least a year.

In Minnesota and Massachusetts, PFS projects are focused on supportive housing. Minnesota also has a workforce development PFS program underway. In Los Angeles, the PFS model is used by Just In Reach provides housing, workforce, and substance abuse services to homeless inmates to reduce recidivism. Success outcome measures include reducing bed days in incarceration.

Challenges remain for this burgeoning field. Some of the most significant challenges are:

- High Transaction Costs, resulting in a need for scalability
- Credible Outcome Measurement
- Limited Government Capacity
- Limited Provider Capacity
- Difficulty in "Accessing" Government Cost Savings

Some of these challenges are being overcome by communities and local government seeing the benefits of a Pay for Success model and forging ahead despite the drawback. In Santa Clara County's case, the County had difficulty identifying cashable savings from their acute mental health treatment Pay for Success program, because while they anticipated wait times at local emergency rooms would decrease, they did not anticipate it would equate to cash savings. Despite this, strong community support of paying for verifiable outcomes convinced County Supervisors and the County to move forward with the program. Another obstacle Santa Clara County is facing is a lack of provider capacity, so they have agreed to invest $1,000,000 upfront toward capacity-building for homeless providers and community-based organizations in preparation for program ramp-up, all with the goal of bolstering homeless health care. With community and political will, the Pay for Success challenges are being overcome.

For more information about Pay For Success, read the Federal Reserve Bank of San Francisco's Community Development Investment Review – Pay For Success Financing (Volume 9, Issue 1, 2013).

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