



America Forward on Pay for Success

Innovation, Flexibility, and Data-Driven Results

Current government decision-making about policies and funding allocations is too often focused on inputs and outputs rather than on outcomes; it is constrained by the fact that resources are often inefficiently siloed, locked into specific providers or programs, and it does not incentivize innovation; it fails to use research to provide adequate resources for prevention strategies, instead choosing to support remediation activities; and, it is impeded by limited availability of, and access to, data. By one measure, the Federal government allocates over \$1.5 trillion for social services annually, but only about one percent of that funding is allocated in a way that its impact on those being served is known.ⁱ

In addition, organizations that provide services supported by government policies and funded by government dollars face steep challenges associated with this current decision-making approach. These challenges include: funding restrictions that undermine their ability to do what they know works best, to innovate and problem-solve; payments that do not cover full costs, and that are routinely delayed, sapping organizational resources and strength; decades of "doing more with less", which has included limited or no investment in capacity and infrastructure; and, onerous reporting requirements that do not assist continuous improvement.

Making government more efficient and effective is a bipartisan idea that both Republican- and Democratic-led Administrations and Congresses have embraced in various forms through the years. Most recently, this bipartisan approach to policy and funding decision-making has resulted in the creation of the Social Innovation Fund, funding for the Workforce Innovation Fund and Investing in Innovation fund, the emphasis on data and results in the Workforce Innovation and Opportunity Act and the Every Student Succeeds Act, and the establishment of the Commission on Evidence-Based Policymaking. These examples showcase the possibility of support from both sides of the aisle for making decisions about policies enacted and funding allocated that are based on data, outcomes, and that have the greatest ability to measurably improve the lives of all Americans.

To continue to make this shift in government's approach to policymaking, we need to establish a policymaking environment that values outcomes and evidence. Succinctly, a core criteria policymakers should use when making decisions about what legislation to pass and what funds to appropriate is whether a program, as a key element of its work, tracks data and measures impact or if it supports efforts to study and test the use of Pay for Success and other outcomes-based contracting approaches that emphasize outcomes over inputs and outputs and that are focused on measurably improving people's lives. It should be acknowledged that considering evidence and outcomes may not be appropriate when making every policy or funding decision because some programs are not easily measured and yet still provide social value. However, there is absolutely room for improvement from

the status quo and America Forward is offering the following policy proposals to help advance the movement towards an evidence-based policymaking environment.

Definitions

Pay for Success: An approach to government decision-making that supports policies and funding decisions that focus on outcomes over inputs and outputs, incentivize innovation and emphasize prevention, that help unlock siloed resources, and that support the development of and access to data.

Pay for Success Contracting: A type of performance-based contracting that provides payments in part or entirely based on the achievement of outcomes. Usually, these contracts are between government and strong service providers or providers' representatives in which impact is measured rigorously and government makes "success payments," or increases a provider's market share, when outcomes are achieved within a specific timeframe. Also referred to as Pay for Performance or Outcomes-Based Contracting.

Pay for Success Financing: A tool designed to address the payment delays and uncertainties inherent in some forms of Pay for Success contracting. In Pay for Success Financing, mission-driven private funders (e.g., banks, philanthropies, individuals), using various financial instruments, provide working capital to service providers with Pay for Success contracts to deliver social, health, housing, community development, and similar services, and those private funders take on the financial risk that the service provider will not meet the level of success necessary to trigger performance payments. Sometimes these funders receive a rate of return if the outcomes are met. Social Impact Bonds are one form of Pay for Success Financing (but are not actually bonds in a traditional sense). Also referred to as Social Impact Financing.

Specific Policy Proposals

Broad Government Reform

Authorize Pay for Success Contracting in Federal Legislation

To move to an environment where federal funding is allocated using Pay for Success Contracting to drive limited resources to programs and interventions that can measurably improve people's lives, authority needs to be granted across federal programs and training and technical assistance to federal, state, and local governments, as well as potential providers needs to be resourced.

Act on the Recommendations of the Commission on Evidence-Based Policymaking

Speaker Ryan (R-WI) and Senator Murray (D-WA) introduced legislation to establish a commission to study how best to expand the use of data to evaluate the effectiveness of federal programs and tax expenditures. Convened in 2016 after the successful passage of the legislation, the **Commission on Evidence-Based Policymaking** is actively engaged in making recommendations for how to use current

administrative data and how to make additional administrative data available for evaluation by federal leaders and external researchers.

Create a Community Solutions Tax Credit

In order to scale high-quality community-based organizations and leverage the power of innovative social entrepreneurial organizations, a **Community Solutions Tax Credit** authorized by Congress would incentivize investments from private sector funders across the country that have developed highly sophisticated systems for identifying promising solutions to community problems and for funding their expansions. The use of a tax credit rather than appropriated funding offers greater potential for scale and sustainability, creates less bureaucracy, and puts the decisions for investment in specific organizations in the hands of these funders instead of the government.

Establish a Cross-Agency Research and Development Innovation Lab

Modeled after the Defense Advanced Research Projects Agency (DARPA), and created through legislative action, a **Cross-Agency Research and Development Innovation Lab (CARD Lab)** would engage across sectors to seed early-stage innovation, identify promising solutions, and rapidly test new social service approaches. The mission of the CARD Lab would be to serve as a nurturing environment for creativity to cultivate solutions needed to address challenges in child welfare, criminal justice, education, health care, homelessness, workforce and job training, etc. Using critical special statutory hiring authorities and alternative contracting vehicles, the CARD Lab could identify, recruit, and support individuals who are experts in their fields, whether issue area specific or related to data, evaluation, and statistical analysis, to work for periods of time on specific problems of interest or importance. Focus would be placed on evaluation of the innovative solutions developed and ensuring a feedback loop to Congress and authorizing federal agencies to help inform and influence policy and programmatic decision-making.

Promote the Use of Agency-Wide Waivers through Administrative Guidance and Support

Waivers enable federal agencies to demonstrate, replicate, and scale innovative interventions and can incorporate Pay for Success and other outcomes-based contracting approaches.

Improve Data Access and Use and Support Evaluations

Access to, standard definitions of, and resources to engage in measurement and evaluation of data are crucial to ensure social services are achieving impact and measurably improve people's lives. Investments in and common practices around data and evaluation are needed to achieve this goal. Below are both Administrative actions and Congressional measures that would support this critical element of evidence-based policymaking.

Use Federal Training and Technical Assistance Funding to Advance Focus on Outcomes

The Federal government spends billions on **Training and Technical Assistance (T/TA)** each year and in many cases the value and results are unclear. Congress could amend relevant T/TA program authorities to require that a significant portion of these resources be used to support: (1) dissemination of evidence-based practices, (2) assistance to help service providers adopt such practices or develop evidence of long-standing programs, (3) assistance to service providers to access and use data to

enhance targeting of service delivery and track outcomes and improve quality of service in real time, and (4) support for communities to explore how to sustain evidence-based practices via models like Pay for Success Contracting. In many cases, Administrative regulation and guidance to agencies on the use of their existing T/TA funds could accomplish the same purpose as many of the legislative ideas noted above.

Continue and Expand Cross-Agency Demonstrations

Numerous federal programs aimed at similar goals and populations are poorly coordinated and, in some cases, work at cross-purposes. Congress should continue the current authority, known as **Performance Partnership Pilots (P3)** provided to the Departments of Labor, Health and Human Services, Education, and Justice, to establish additional pilots allowing States, localities, regions, or federally-recognized Tribes to propose pooling a portion of discretionary funds they receive under multiple federal streams as well as expand the authority to additional agencies and broaden the focus to populations of most need in local communities. These pilots could allow States, localities, regions, and Tribes to test ways of improving outcomes for various populations by allowing communities to develop comprehensive strategies to achieve better results with federal investments through multiple programs. Allowing the use of Pay for Success Contracting would ensure that these pilots test not only the impact of overcoming statutory, regulatory, and administrative requirements that may impede effective program coordination but also highlight the potential financial impact of coordinated investments in order to influence more permanent policy and funding changes across agencies.

Issue Area Specific

Career and Technical Education

For more details about America Forward's Career and Technical Education policy ideas, please read our CTE platform.

Child Welfare

Our child welfare system consists of services designed to ensure that children are safe and that families have the necessary support to care for their children successfully. At the federal level, policy includes support for a continuum of services with the majority of funds allocated specifically to the provision of foster care services. Unfortunately, federal child welfare policy does not incentivize innovation or focus funding on what has proven to work or programs that are supported by evidence—the majority of federal funding allocated to support foster care is an example of this disconnect. Congress made a concerted effort in 2016 to advance legislation to bring greater evidence into child welfare practice but was unsuccessful in passing the legislation. **Key provisions of that legislation, along with new policy ideas such as establishing innovation funds in areas of child welfare policy like the Chafee Independent Living Program**, are imperative for transitioning the system to one focused on paying for placements to one that pays for outcomes.

Criminal and Juvenile Justice

There are over two million people in the American criminal justice system every day, giving this nation the highest incarceration rate in the world. There needs to be a national commitment to use research-

based programming that helps prevent placement into the system and rehabilitates those who have or are interacting with the system to address the alarming fact that over half of all people who are released from prison commit another crime within three years.ⁱⁱ

Elementary and Secondary Education

For more details about America Forward’s K-12 Education policy ideas, please read our [K-12 Education platform](#).

Health Care/Medicaid

As the health care landscape continues to shift toward Value Based Payment models and investment in social determinants of health such as housing, which can improve outcomes and result in cost savings, evidence-based policies, including Pay for Success Contracting, can serve as a valuable tool to align and further such efforts. One way the Centers for Medicare and Medicaid Services (CMS) could support this movement would be to issue an informational bulletin, highlighting evidence-based policies and practices, including Pay for Success Contracting and the ways that states can allow these mechanisms to assist in the transition to Value Based Payment models.

Higher Education

For more details about America Forward’s Higher Education policy ideas, please read our [Higher Education platform](#).

Housing/Homelessness

Affordable rental housing is typically defined as rental housing where a household is paying no more than 30% of their income towards rent. Unfortunately, there are over 11 million low-income renter households across the country that are paying more than half of their monthly income towards rent, making it difficult to pay for other expenses, such as food, medical care or child care. Homelessness is also on the rise, with lack of affordable housing being the leading cause – more than unemployment, poverty, or low-wage jobs. Initiatives that are focused on providing communities with additional resources to prevent returns to homelessness and reduce recidivism among the reentry population, should continue to be supported and other parallel policies that offer concrete opportunities for government to partner with local communities to improve outcomes should be considered.

National Service

National service has played an important but poorly understood role in developing America’s workforce in three ways: (1) providing “bridge building” work experience to youth and young adults; (2) providing a reliable employment pathway to the nonprofit sector and other sectors; and, (3) building the supply of volunteers available to assist others in preparing for and finding employment. Efforts should be supported and advanced that increase opportunities for individuals to engage in national service with the focus on developing skills the needed to achieve the long-term desired outcome of workforce engagement, that continue to resource evaluations to measure the impact of national service, and that explore other ways for agencies to harness the use of national service to more efficiently and effectively achieve their agency’s objectives.

Veterans

In the United States, there are roughly 22 million veterans and each day over 1,300 military veterans, spouses, and children transition out of the military. It is an unfortunate reality that a number of veterans report having difficulty transitioning to civilian life, and specifically, veterans between the ages of 18 and 34 experience unemployment rates higher than the civilian unemployment rates for the same age groups. Ensuring our veterans receive services that are of the highest quality should be central to decisions made about programs funded and interventions provided to them.

Workforce Development

For more details about America Forward’s Workforce Development policy ideas, please read our Workforce Development platform.

ⁱ <https://www.theatlantic.com/magazine/archive/2013/07/can-government-play-moneyball/309389/>

ⁱⁱ Jacquelyn Rivers, “Improving Criminal Justice and Reducing Recidivism Through Justice Reinvestment,” Bureau of Justice Assistance, August 2011, <http://www.ojp.usdoj.gov/BJA/pdf/JR/ FS.pdf>