



Strategy | Digital | Technology | Operations

Delivering Public Service for the Future

Secretary's Innovation Group Pay for Success Discussion



High performance. Delivered.

November 21, 2014



How do we define Pay for Success?

Pay for Success: A shared risk environment in which payments are largely contingent upon achievement of agreed upon results.

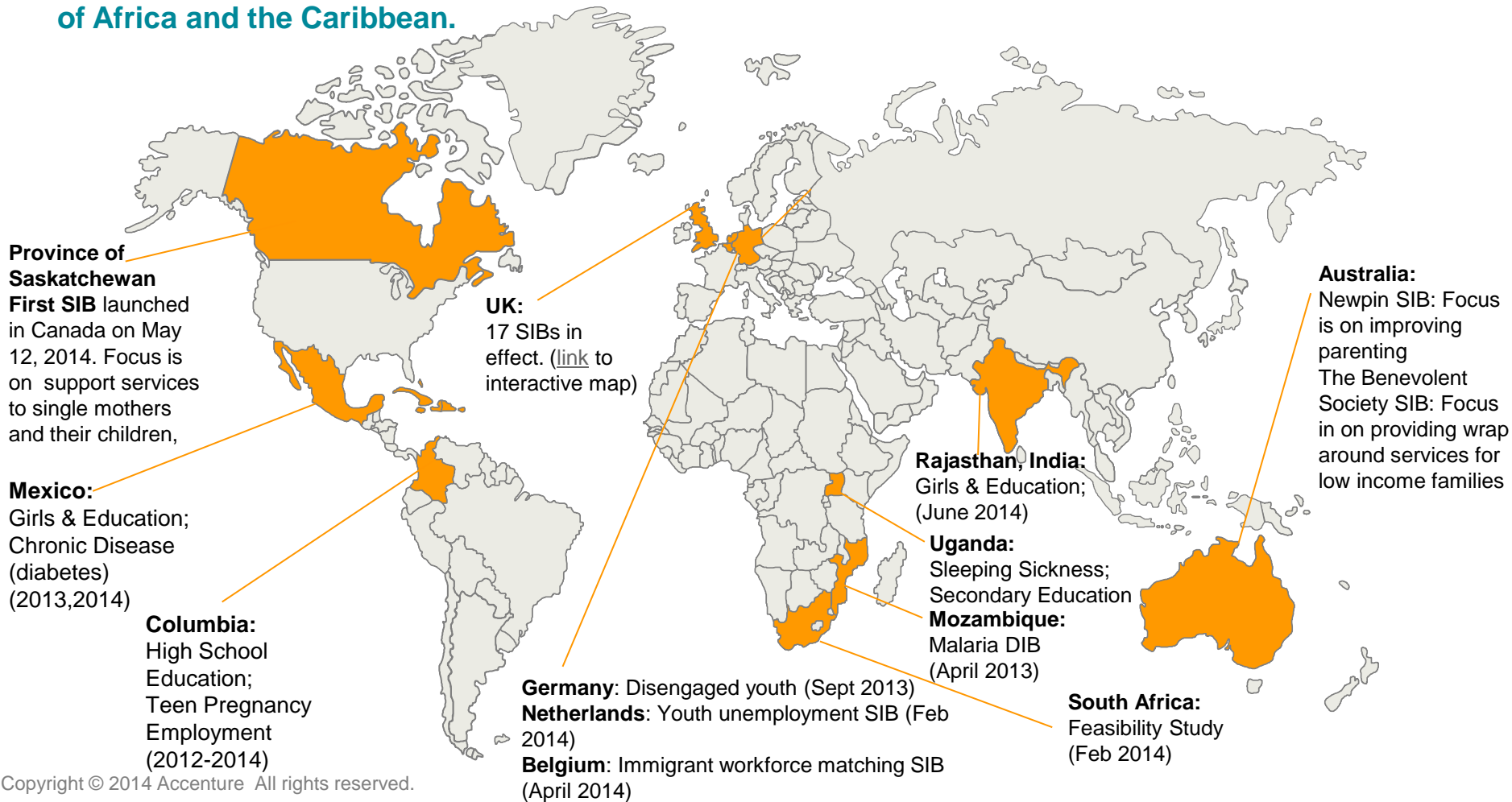
Pay for Success can include:

- Social Impact Bonds
- Public Private Partnerships
- Performance Based Contracts
- Value Based or Gain Sharing Contracts

These are contracting and financing methods, not funding mechanisms.

PFS Market | International PFS Activity

PFS activity is global. More than \$100M has been raised to date for PFS deals around the globe. The largest market to date is the U.S, with \$65M in active deals, with the UK second, followed by Australia, Germany, the Netherlands, Belgium, and Canada. Interest in SIBs to address development priorities in emerging markets is also growing, including India, Latin America, parts of Africa and the Caribbean.



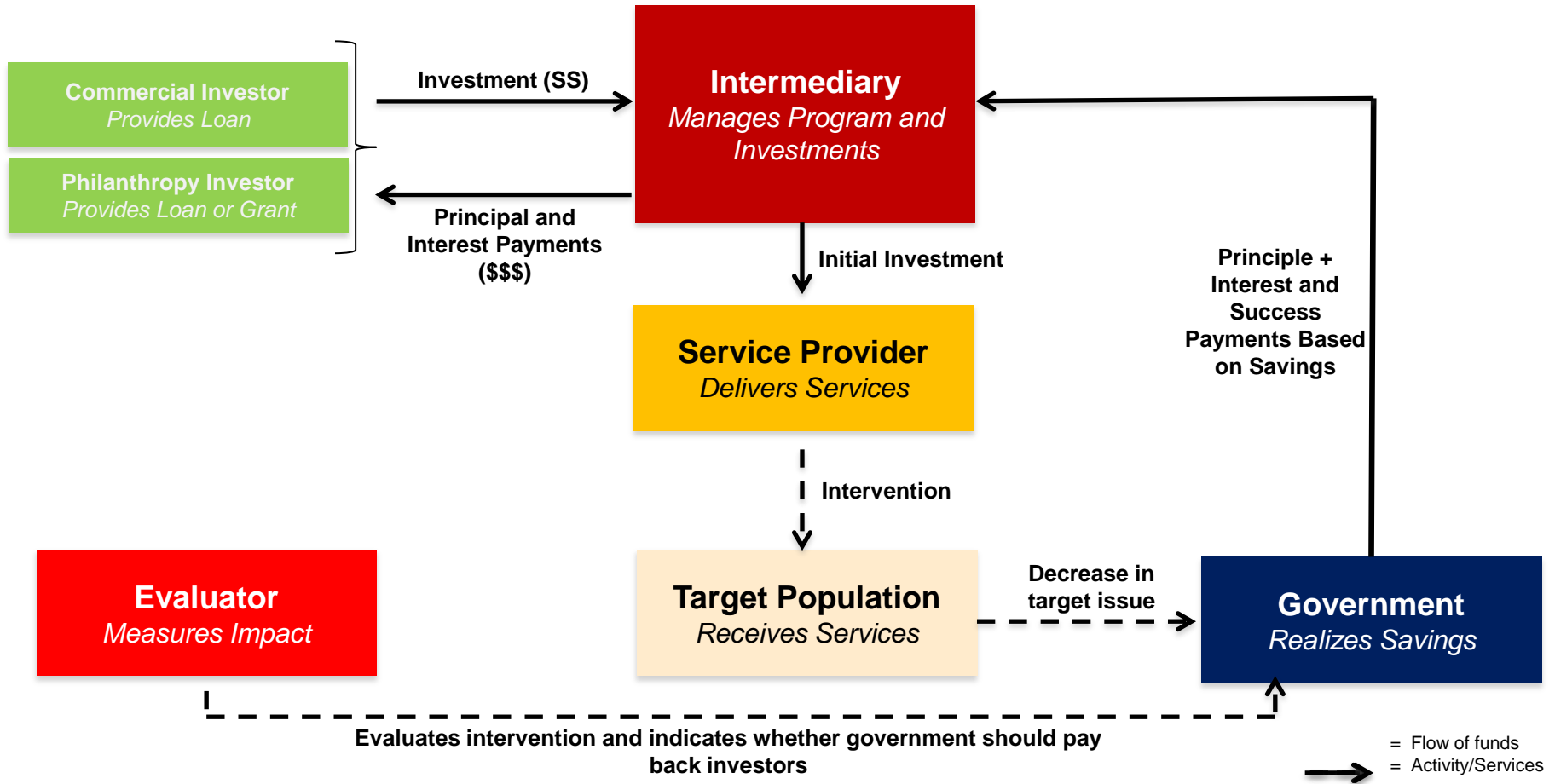
PFS Market | Overview

The Pay for Success market is growing fast with 5 projects underway in the U.S. and market size of \$300M+ for 2015.

5 projects underway now worth \$65M

- New York City – Juvenile Justice, \$10M
 - Massachusetts – Juvenile Justice, \$18M
 - New York – Re-entry, \$13.5M
 - Utah – Early Childhood Education, \$7M
 - Chicago – Pre-K expansion, \$16.7M
- **8-10 more projects will be announced in the next 12 months; these include expected deals in Colorado, Connecticut, Denver, Illinois, Michigan, New York, Ohio and South Carolina**
 - **The US PFS Market is estimated between \$1.25B-\$2.5B over the next 5 years**
 - **Investment pools are moving from internal sources (Goldman Sachs) to external pools (Bank of America).**

PFS Refresher | PFS Deal Structure



PFS Market | Federal Pay for Success Activity

Dept of Labor	Workforce innovation fund - \$25 million to NY and Mass
WIOA	Up to 10% of total funding (\$2.6 billion in 2014) can be used for PFS. In addition 15% of total funding is separately allocated for state use and states have flexibility to use this amount for PFS.
CNCS Social Innovation Fund	\$12 million awarded to 7 nonprofit intermediaries
Treasury	\$300 million PFS incentive fund – bi-partisan legislation pending in both chambers of Congress
Dept of Health and Human Services	George Washington University and HHS are currently doing a study on PFS and Medicaid
White House	White House Regional Convenings

PFS Market | Service Providers

Across multiple PFS deals, service providers can be local, regional or national in their scope.

Service Provider	Local, State, National	SIB deal
Corporation for Supportive Housing*	National	MA - Homelessness
Nurse Family Partnership*	National	SC – Infant Mortality
Osborne Association	Local	NYC – Juvenile Recidivism
Roca	Local	MA – Juvenile Justice
CEO	State	NY - Adult Recidivism
Conscience Community Network (7 nonprofits)	State	IL – Dually-involved youth (child welfare and juvenile justice systems)
YMCA of Northern Utah	Regional	UT – Early Childhood Education
Children’s Express	Local	UT – Early Childhood Education
Lil’t Scholars	Local	UT – Early Childhood Education

*These national nonprofits are also positioning themselves to act as intermediaries as well service providers

PFS Market | Investors

Philanthropic and commercial investors are involved in the PFS market, however, commercial investors remain few.

Philanthropic Investors	Commercial Investors
Rockefeller Foundation (SIB Lab)	Goldman Sachs
Kresge Foundation (MA)	Bank of America (private investors)
Arnold Foundation (MA)	
Bloomberg Foundation (NYC)	
J.B. Pritzker Foundation (Utah & Chicago)	
Dunham Fund (Illinois)	
Robin Hood Foundation (NY)	
Living Cities (MA)	
Boston Foundation (MA)	
New Profit (MA)	
George Gund Foundation (Cuyahoga County, OH)	
Cleveland Foundation(Cuyahoga County, OH)	

Contact Information

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Appendix

PFS Market Maturity

	Beta Stage <i>Introduction</i> <i>(Current)</i>	PFS 2.0 <i>Growth</i> <i>(2015-17)</i>	Full Potential <i>Maturity</i> <i>(2018+)</i>
Deal Pipeline	<ul style="list-style-type: none"> One-off projects stemming from geo-specific opportunities 	<ul style="list-style-type: none"> Diverse, qualified pipeline built upon the evidence and performance agenda 	<ul style="list-style-type: none"> Saturated market translates into reinvigorated innovation
Pricing Models	<ul style="list-style-type: none"> Highly subsidized market with foundations, gov't in the role of investors 	<ul style="list-style-type: none"> New entrants will innovate to establish financially sustainable deal economics Standardization to drive down transaction costs 	<ul style="list-style-type: none"> Standardized pricing will lead to evolution of portfolio based investment approach Multiple investment funds established across diversified portfolios of the market
Infrastructure	<ul style="list-style-type: none"> Mix of evaluation methodologies and inconsistent use of administrative data Project centered performance management Single provider scaling models 	<ul style="list-style-type: none"> Key activity will be infrastructure development (e.g. data & analytics, procurement, legal, contract and measurement standardization) Evolution of model to coordinated service delivery Increased use of enterprise performance management 	<ul style="list-style-type: none"> Robust data systems used for performance management and outcome measurement Sophisticated coordinated service delivery Leverage of economies of scale