

Improving Outcomes through Pay for Success

Pay for Success (PFS) is a Presidential priority that offers new ways to support social sector innovation, driving better results and more effective use of taxpayer dollars. Pay for Success financing is an innovative model that leverages philanthropic and private dollars to fund preventive services, which are provided by nonprofits and other non-governmental entities up front, with the government paying only when services generate measurable results that meet pre-specified targets. By structuring payments around measurable outcomes, PFS financing can provide greater flexibility for State, local, and tribal governments to implement evidence-based solutions, carefully test promising innovations, and scale programs that work. The President's 2016 Budget continues the Administration's commitment to expand the PFS program model by dedicating up to \$364 million to PFS efforts.

Pay for Success Uses Evaluation to Build Evidence about What Works and Ensure that Taxpayer Dollars Support Success. Rigorous evaluation is a cornerstone of the Administration's approach to PFS. By measuring key results, government can implement promising or already proven programs while paying only for demonstrated outcomes. Simultaneously, PFS helps to build strong evidence about effective social interventions to inform policymakers as well as service providers and recipients.

Pay for Success Addresses Barriers that Discourage Investment in Prevention and Innovation. PFS helps to overcome program barriers that may emphasize processes or outputs instead of outcomes, political barriers that may hinder new approaches, and financing barriers that may prevent non-profit providers from generating capital to implement innovative solutions or scale up successful ones.

Pay for Success Helps Agencies Better Target Specific Outcomes. The President's 2016 Budget allows up to \$64 million to support PFS across four programs in the Departments of Education and Justice (DOJ) and the Corporation for National and Community Service (CNCS). These dollars will help advance outcomes in areas such as workforce development, special education, juvenile justice and care of children with disabilities. The Budget re-proposes a demonstration allowing the Department of Housing and Urban Development (HUD) to use PFS to finance energy efficiency retrofits in HUD-assisted housing through reductions in utility costs.

Pay for Success Creates Incentives for State, Local, and Tribal Governments to Innovate. The President's 2016 Budget re-proposes a \$300 million Pay for Success Incentive Fund at the Department of the Treasury to help empower State, local, and tribal governments to adopt PFS. This one-time mandatory appropriation will support PFS projects that achieve savings across programs and levels of government by providing funds for outcome payments as well as credit enhancement to build investor confidence in this emerging model. The fund would provide stronger incentives for State, local, and tribal governments to support interventions that yield savings in Federal programs alongside better community outcomes.

Pay for Success Engages Philanthropic and Private Sector Investors to Deliver Better Outcomes. Under PFS, a State, local, or tribal government enters into a contract with an intermediary organization or a service provider that specifies outcomes to achieve for a particular population, a methodology to measure results, and payments that government will make for results. Service providers, who are typically nonprofits, use operating funds primarily provided by philanthropic or other investors, offering flexibility to deliver the most effective services.

Federal Agencies Are Committed to Improving Results through Pay for Success. The Administration began implementing PFS in FY 2012 using existing authorities and has since worked with Congress to expand the use of this model. Using new authority proposed by the Administration and enacted by Congress in FY 2014, the CNCS Social Innovation Fund [awarded roughly \\$12 million in September 2014 for Pay for Success](#) planning, feasibility studies, deal structuring, and pipeline development to help grow the field. DOJ and HUD are working together to implement PFS using up to \$7.5 million of Second Chance Act funding authorized under the Act, including \$5 million to implement projects using the permanent supportive housing model. Moreover, HUD has noted that its Community Development Block Grant-Disaster Recovery funding may be leveraged for PFS strategies, where appropriate.

These latest efforts build on the first steps by Federal agencies to support PFS. In September 2013, DOL awarded almost \$24 million to the States of Massachusetts and New York to increase employment and reduce recidivism among formerly incarcerated individuals through the Workforce Innovation Fund. In September 2012, DOJ awarded a PFS implementation grant to Cuyahoga County, Ohio and a planning grant to Lowell, Massachusetts under the Second Chance Act as well as a contract for the Urban Institute to produce a [blueprint for governments](#) to reduce recidivism using PFS.

Pay for Success in the FY16 President's Budget

The President's Budget proposes authority and funding for PFS in the following agencies and programs. Funding amounts are shown as maximums, meaning that agencies could dedicate up to the specified amount for PFS purposes.

Agency	Program	Funding (millions)
Department of the Treasury	Incentive Fund	\$300
Department of Education	Fund for the Improvement of Education	\$5
Department of Education	IDEA Part C	\$15
Department of Justice	Second Chance Act (Supportive Housing and Offender Re-entry)	\$30
Corporation for National and Community Service	Social Innovation Fund	\$14
Department of Housing and Urban Development	Project-Based Rental Assistance	Demonstration Authority
	Total	\$364