



MEMORANDUM

Date: February 10, 2014

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator 

Re: **Federal Reserve Bank of San Francisco's "Pay for Success" Workshop**

Background

This week, the Federal Reserve Bank of San Francisco will host in Tucson a workshop designed to share an innovative new funding approach that has the potential to build successful programs by bringing effective preventive remedies to bear on longstanding social challenges, while engaging the private and public sectors in the solution.

"Pay for Success" flips the existing model, in which government pays social service providers to deliver services to address social needs, to one in which government pays only if the providers achieve agreed upon outcomes. For example, instead of tracking how many juvenile offenders go through diversion programs or how many unemployed workers take part in training programs, the models may demand a percentage reduction in recidivism or an uptick in the numbers of workers gainfully employed.

Private investors would provide the funding for startup and maintenance of the program. The government would reimburse those investors at the end of the program, with modest returns, if desired outcomes are met. The outcomes could include producing programmatic savings or showing proven interventions in addressing a high-priority social need. If outcomes are not met, the government would not reimburse the principal; or, depending on the model, would provide only partial reimbursement.

The idea, which has been dubbed "venture philanthropy," has been steadily gaining traction since the first project was launched in 2010 outside of London, which seeks a 7.5 percent reduction in recidivism to the Peterborough Prison over four years. Analysts are expected to share that outcome this calendar year.

Several projects now in process across the United States, including in New York and Massachusetts, which are both seeking to reduce recidivism in youthful offenders. Other states are exploring partnerships to address mental illness, homelessness, asthma prevention and school readiness.

While this is still a new approach, with projects playing out over three to five years, the concept remains an unusual opportunity to marry the dedication and expertise of traditional nonprofit organizations with the entrepreneurial innovation of investors and philanthropists who are seeking more efficacy from their donations.

Important Considerations

The County understands this model does not apply to all programs that are currently funded. This is specialized. However, as we learn from the best practices associated with this new paradigm, there may be opportunities to increase the reliability of reporting outcomes from other types of funding that are for shorter duration.

The structure only works if certain key features are in place:

- The identification of a specific target population that can benefit from interventions;
- Clearly defined, rigorous and measurable outcomes;
- Robust access to reliable administrative data;
- Safeguards to protect the population in need against adverse reactions, while also ensuring investors are not working with the easiest within a given population; known as "cream-skimming" to increase the likelihood of reaching the agreed-upon target.

There are some other important features to keep in mind when exploring social impact bonds:

- Projects are fairly long in scope, with contracts typically lasting three to seven years;
- Projects may cost more than traditional social service contracts because of the stringent evaluation criteria;
- The intervention must be able to replicated on a sufficiently large scale to reach a sizable enough portion of the target population to demonstrate success;
- Mechanisms must be in place for an orderly transition if the outside organization determines it will not be able to meet the desired outcome and ceases to deliver the services before the end of the contract.

Pima County's Role

Pima County has a long history of public/private partnerships. The County has effectively turned to the private sector to meet the community's needs for care, particularly in the areas of hospitalization services and nursing homes. The County in 2013 contracted with

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the private sector to operate County landfills and transfer stations; and most recently, we contracted with a private firm to run one of our key wastewater reclamation facilities.

If preventive interventions can be proven, it also has the opportunity to help us avoid costly future capital investments, such as funding the expansion of detention facilities.

If private investors provide sufficient seed money to demonstrate interest in exploring this model further, I would recommend the Board of Supervisors consider embarking on a process in the coming months to evaluate specific areas of interest that can lead to future cost savings.

Although we are in the very early stages of considering this type of funding mechanism, this information is provided to keep the Board apprised of a potential opportunity to refine service delivery in areas of longstanding social problems with no risk to the taxpayer.

CHH/mjk

c: Hank Atha, Deputy County Administrator for Community & Economic Development
Jan Leshner, Deputy County Administrator for Medical & Health Services
Margaret Kish, Director, Community Services