

Request for Information # OB 2015-1

Pay for Success Initiative
Commonwealth of Pennsylvania

Overview

Decades of research have demonstrated that public investment can improve the lives of Pennsylvanians while simultaneously strengthening the state's bottom line. From pre-kindergarten – where every \$1 in public funding generates more than \$7 in government savings and benefits – to criminal justice – where reducing recidivism avoids costs and improves public safety – there are opportunities for evidence-based investments across state government.

Pay for Success performance contracts – also known as “Social Impact Bonds” – provide an innovative strategy to finance these proven programs through public-private partnerships. Pay for Success contracts are rigorous, binding agreements based on a straightforward proposition: taxpayers will only pay for services that actually get results and save money in the long-run. The strategy enables the state to fund programs and services that improve economic opportunity, health and safety that it otherwise might not be able to afford in the short-term, and it directs funding toward programs that have a strong evidence base and record of effectiveness.

Pay for Success (PFS) projects on homelessness, early childhood education and recidivism are currently underway in six states, counties and cities across the country, and many more are in development.

Pay for Success in Pennsylvania

Governor Wolf's FY2015-16 Executive Budget includes proposed legislation that would enable the Commonwealth to enter into Pay for Success contracts.

The Governor's proposal further identifies five high-priority areas for possible Pay for Success initiatives:

- **Early childhood care and education**, including pre-kindergarten education and services that address maternal and child outcomes from pregnancy through age 2;
- **Education, workforce preparedness and employment**, including school-to-work programs and alternative education services;
- **Public safety**, including programs that reduce recidivism;
- **Health and human services**, including addiction treatment, chronic homelessness, supportive housing and child welfare; and
- **Long-term living** and home- and community-based services.

These public-private partnerships would be selected on a competitive basis, and payment would only occur after rigorous evaluation and validation by an independent, third-party

evaluator. Payments would be tied to specific and agreed-upon performance-based goals set forth in the contract.

How Pay for Success Works

Under Pay for Success, the State selects the programs and sets the targets; private investors supply the operating funds for service providers; and government repayment occurs only if and when savings and other benefits are achieved:



Important considerations include:

- **The role of the intermediary.** In establishing a PFS contract, states often contract with an intermediary, who is in turn responsible for raising capital and contracting with the mutually agreed upon service provider.
- **A stable expansion path for service providers.** One of the major advantages of a PFS contract is that it provides stable, multi-year funding for a proven service provider. For this arrangement to be successful the intermediary must be able to demonstrate the ability to raise adequate capital and the contract must advance this goal.
- **Appropriate payment terms.** In a PFS contract, investors are repaid only if the pre-determined savings and other benefits are achieved. The threshold for generating investor repayment is set at a level that ensures the state only pays if performance objectives are achieved. Payments increase as the savings/benefits to the state increase, and payments never exceed the savings/benefits that are produced. This approach places the risk on private investors, rather than taxpayers.

Request for Information

The Commonwealth of Pennsylvania is requesting feedback on the following questions:

- ❖ ***What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in Pennsylvania?***
This may include description of programs and service providers, their evidence base, and the results they have been able to achieve for their target population(s).
- ❖ ***What considerations should the Commonwealth take into account in structuring Pay for Success contracts?***

This may include the respective roles of intermediaries and service providers, the appropriate duration of contracts, and how to design payment schedules and milestones to provide the greatest value to taxpayers and achieve the most progress in addressing social problems.

❖ ***What outcomes should the Commonwealth prioritize in Pay for Success contracts?***

What types of outcomes should payments be based upon and how should they be measured?

❖ ***Are there opportunities for the Commonwealth to partner with local government entities on Pay for Success contracts that achieve savings and benefits at multiple levels of government?***

Describe program structure issues that should be taken into account in the development of such contracts.

❖ ***What lessons can the Commonwealth learn from the experience in other states that have implemented Pay for Success contracts?***

Are there examples of Pay for Success projects, Requests for Proposals, contracts or other experiences that the Commonwealth should take into consideration in its program development?

❖ ***What other information would be useful to the Commonwealth of Pennsylvania in preparing a formal Request for Proposals for Pay for Success contracts?***

RFI Schedule

- March 24, 2015: RFI released
- May 8, 2015: Responses due
- June 4, 2015: All responses to be posted for public review

Submission Instructions

Please submit responses electronically to RA-PayForSuccess@pa.gov or to the Contact listed below.

Confidential Information. The Commonwealth is not requesting, and does not require, confidential proprietary information or trade secrets to be included as part of Respondents' submissions in response to this RFI. Accordingly, except as provided herein, Respondents should not label their submissions as confidential or proprietary or trade secret protected. Any Respondent who determines that it must divulge confidential proprietary information or trade secrets as part of its response must submit a signed written statement to this effect in accordance with 65 P.S. § 67.707(b) for the information to be considered exempt under 65 P.S. § 67.708(b)(11) from public records requests, and must additionally provide a redacted version

of its response, which removes only the confidential proprietary information and trade secrets, for required public disclosure purposes.

Respondents to this request shall not be deemed to be providing recommendations as an advisor or consultant to the Commonwealth for purposes of the State Adverse Interest Act, 71 P.S. § 776.1, *et seq.* The Commonwealth will evaluate the information presented and determine any subsequent course of action. This course of action may consist of further contracting for implementation of Commonwealth determined work. Such work may be procured through any lawful method available, and respondents to this request may be considered for selection to perform this work.

Respondents are solely responsible for all expenses associated with responding to this RFI.

Questions Regarding this RFI

Please direct all questions to RA-PayForSuccess@pa.gov or to the Contact listed below by April 6, 2015. Questions and answers will be posted for public review on the Office of Budget website by April 13, 2015.

RFI Contact

Traci Anderson
Assistant Counsel, Governor's Budget Office
333 Market Street, 18th floor
Harrisburg, PA 17101-2210
(717) 787-5311