



# Implementation of California's AB1837 Pay for Success Initiative and Opportunities for Expanded Impact

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## I. Executive Summary

California's \$5 million dollar BSCC investment has produced approximately \$30 million dollars of preventative and outcomes-driven projects to reduce recidivism across the state. The resulting three Pay for Success (PFS) projects have helped shape a new model for how local governments can deliver programming—focusing on tracking and using data effectively, reducing traditional siloes within government, and incentivizing performance. While the complete evaluation results of the projects will not be available until 2022, the projects' development and implementation thus far suggest that the PFS model has had a positive impact on how governments contract for and deliver social services.

## II. California Board of State and Community Corrections (BSCC) Pay for Success

Pay for Success (PFS) contracts using social impact bonds are an innovative approach to government financing of social service programs. Governments often face three barriers when trying to improve outcomes for vulnerable populations: 1) a lack of performance management and assessment, 2) under-investment in prevention, and 3) an inability to collaborate effectively with service providers around improving systems. The PFS mechanism can help governments overcome these barriers and make progress on addressing challenging social problems.<sup>1</sup>

California is experimenting with PFS contracting as a mechanism to improve outcomes for vulnerable populations. In 2014, California passed Assembly Bill (AB) 1837, authorizing the Board of State and Community Corrections (BSCC) to grant up to \$5 million dollars through a competitive process to up to three counties to launch outcomes-driven recidivism reduction projects. The funding was to be used as "success payments" for programs that were able to demonstrate improved outcomes for the populations they served.

<sup>1</sup> See appendix for more details and resources on the PFS model.

The Harvard Kennedy School Government Performance Lab (GPL) helped the BSCC design and implement the process for selecting counties. On September 18, 2015, the BSCC issued a Request for Proposals with applications due February 1, 2016. The RFP required bidders to:

1. Propose an intervention led by a service provider(s) that addresses serious social challenges, targets well-defined population(s), is cost-effective for the government, and results in measurable outcomes related to reducing recidivism;
2. Define outcomes (e.g. reducing rate of new arrests) upon which "success payments" will be based;
3. Identify an approach to raising private or philanthropic operating capital, which must be equal to or greater than the received grant award from BSCC;
4. Partner/contract with an independent third party evaluator to conduct a rigorous evaluation of outcomes; and
5. Apply a minimum 100% match to grant award with County funds.<sup>2</sup>

Fourteen counties<sup>3</sup> expressed interest by either attending a preparation session or reaching out to the GPL for pro bono technical assistance. Four counties submitted RFP responses to the award.

On April 18, 2016, the BSCC announced that Alameda County, Los Angeles County, and Ventura County would receive BSCC award funding. Projects were authorized to launch as early as May 2016, with interventions, evaluation, and repayment to funders complete by December 31, 2021. As of January 2018, all three projects have launched, leveraging \$5

<sup>2</sup> AB 1837 required that BSCC grant dollars be used exclusively for repayment of private funders should success (as defined by the County project partners) be achieved.

<sup>3</sup> Alameda, Contra Costa, Monterey, Ventura, Santa Barbara, San Diego, Fresno, Santa Cruz, Orange County, San Francisco, Riverside, Colusa, San Bernardino, Sacramento

million dollars in state investments for nearly \$30 million dollars in new services.

### Project Award Spotlights

#### Alameda County

**BSCC award:** \$1.25 million dollars

**Total project:** \$4 million dollars

**Intervention:** Individualized mentoring and coaching combined with wraparound services

**Target population:** 150 adults at risk of recidivating (on probation with prior felony) aged 18-34

**Partners:** La Familia Counseling Services (service provider); West Ed (evaluator); Third Sector Capital Partners (intermediary)

**Outcomes and Evaluation:** Success payments based on reduction in new offenses, measured through a randomized control trial (RCT)

**Funders:** TBA

#### Los Angeles County

**BSCC award:** \$2 million dollars

**Total project:** \$23.4 million

**Intervention:** Permanent supportive housing and mental health/substance use treatment to homeless individuals in jail custody

**Target population:** 300 homeless individuals currently in custody in county jail and with mental health and/or substance use disorder

**Partners:** Corporation for Supportive Housing (service provider); RAND (evaluator); Third Sector Capital Partners (intermediary)

**Outcomes and Evaluation:** Success payments based on reduction in re-arrests and 6 and 12-month housing stability

**Funders:** \$10 million total from Hilton Foundation and United Healthcare

#### Ventura County

**BSCC award:** \$1.5 million dollars

**Total project:** \$2.6 million

**Intervention:** Community-based case management including re-entry, Moral Reconciliation Therapy, parenting services, trauma treatment, and job readiness skills

**Target population:** 400 medium/high risk adult probationers

**Partners:** Interface Children and Family Services (service provider); UCLA (evaluator); Social Finance (intermediary)

**Outcomes and Evaluation:** Success payments based on reduction in future arrests as determined by a randomized control trial (RCT)

**Funders:** \$2.072 million total from Reinvestment Fund, Nonprofit Finance Fund, and the Whitney Museum of Art

### III. Possible Modifications to BSCC Model

While it is still too early to assess the efficacy of the programs themselves, the BSCC competition proved to be a viable model for distributing funding. The state was able to make three awards and allocate all of the available funding. After receiving the awards, all of the recipients have been able to successfully develop their programs and launch services. The state's \$5M investment was leveraged six-fold, enabling hundreds of individuals to receive services to help reduce their risk of re-incarceration.

One drawback to the process was the relatively low application rate to the program. Less than a quarter of California counties expressed an interest in the model, and only four counties applied. This is likely due to two factors. First, PFS is still a relatively new and unknown tool, which may have discouraged some counties. Second, the significant staff and capacity required to develop and launch a PFS program may have prevented some counties from applying, especially given the short application and development time frame.

Should the state decide to expand the role of PFS in California, there are several modifications to the process that may help improve future initiatives:

**Funding:** Allocating a larger award, on the magnitude of \$50-\$100M, would not only increase the number of individuals served, but might also better justify the staff capacity required to develop and launch these projects. Some portion of the funding should be allowed for development costs to help these complex projects launch. If possible, the state could begin to identify interested funders in advance, which would allow counties to focus more effort and time on program development and operations.

**RFP process:** Extending the application timeline to at least 8 months would give counties time to develop more innovative projects, particularly those that encourage collaboration across departments and/or jurisdictions. A longer application timeline would also allow for more dedicated outreach and technical

assistance, potentially expanding the pool of applicants and resulting projects.<sup>4</sup>

**Application requirements:** Clarifying matching requirements (such as allowable uses of administrative costs and whether in-kind contributions qualify) may reduce bidder confusion and encourage additional applicants. Several counties expressed uncertainty as to whether certain components of the RFP were needs or requests (e.g. whether funder intent letters were required), precluding at least one qualifying county from applying.

**Eligible applicants:** Exploring alternative structures that could allow for different types of applicants may help increase the vendor pool and project diversity. Smaller and less resourced counties in particular did not feel they had the staff capacity to apply. Future initiatives could allow individual providers, multi-county regional partnerships, and/or local foundations to serve as the lead applicant for funding.

#### IV. Opportunities for Expanded Use of Pay for Success Principles in California

While there has been some initial success with the PFS model nationally, the GPL has begun to see challenges with the original model. Investors (including philanthropically motivated funders) are not as interested in taking on performance risk, and high transaction costs in relation to small total project value have prevented funders from entering the field at scale. In order to continue to gain traction, the PFS model may need to evolve to overcome these barriers.

We foresee several options for expanding and evolving preventative, outcomes-based, system change across California. These include:

**Blend PFS with more traditional fee-for-service contracts.** Under this approach, the state could replicate the BSCC project by continuing support of outcomes-driven projects for critical social issues. Unlike the BSCC projects, with 100% of state dollars going towards performance payments, the state/county contribution could cover the majority of project costs (paid fee-for-service) with the remaining

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<sup>4</sup> Sharing the RFP more widely may also help increase responses, as several interested counties were not aware of the project in time to apply.

(up to approximately 20 percent of project total) funded by investors through a performance-based contract. This structure might mitigate waning private investment through better aligning risk/reward, while retaining the performance-based and evaluation elements of traditional PFS.

**Support performance-based contracts without private funds.** In many cases, the biggest innovation from PFS is not the new sources of capital, but rather the systems change that emerges when governments start to use data more deliberately to procure for and manage all social service contracts. Specifically, PFS has incentivized governments and providers to clearly identify the target population most likely to benefit from an intervention, collaboratively agree on performance goals, track progress against those goals during the course of the contract, and iteratively improve as needed in real time to drive towards outcomes. It is possible that these benefits can be achieved without private investors by encouraging government agencies to procure for performance-based contracts and actively manage their contracts. GPL's work in Seattle<sup>5</sup> and Rhode Island<sup>6</sup> has found this approach to be promising thus far, impacting a larger share of government spending and spreading data driven practices more quickly. California could similarly support multiple high impact performance-based contracts<sup>7</sup> that encourage collaboration between stakeholders, effective use of data, and iterative improvements based on learnings over time.

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<sup>5</sup> Harvard Kennedy School Government Performance Lab. "How Seattle is Implementing Results-Driven Contracting Practices to Improve Outcomes". September 2016. [http://govlab.hks.harvard.edu/files/siblab/files/seattle\\_rdc\\_policy\\_brief\\_final.pdf](http://govlab.hks.harvard.edu/files/siblab/files/seattle_rdc_policy_brief_final.pdf)

<sup>6</sup> Harvard Kennedy School Government Performance Lab. "Improving Services for Children, Youth, and Families in Rhode Island." Project Feature. 2017. [https://govlab.hks.harvard.edu/files/siblab/files/rhode\\_island\\_dc\\_yf\\_project\\_feature.pdf](https://govlab.hks.harvard.edu/files/siblab/files/rhode_island_dc_yf_project_feature.pdf)

<sup>7</sup> Performance-based contracts include contracts that base a portion of total contract payments on meeting predetermined performance metrics (measured through rigorous evaluation), collecting sufficient outcomes data, and/or participating in data-driven frequent contract performance meetings to actively course correct, as needed. Performance contracts that include payments contingent on performance may be appropriate in some situations, but may also be risky if too large a proportion of total contract value is contingent on performance. The GPL has expertise assisting governments with determining the most appropriate contract structure.

## Appendix: Pay for Success and Government Improvement Resources

Pay for Success: PFS combines two tools—a performance contract and an operating loan (also known as a “social impact bond”, though it is not technically a bond). Under the performance contract, the government purchases social services aimed at a specific target population. Instead of paying directly for the quantity of services delivered, the government pays based on the outcomes that are achieved by the services—e.g., the number of ex-offenders prevented from returning to prison, the number of unemployed individuals who succeed in finding stable employment, or the reduction in low birth weight births. These outcomes are measured by an independent evaluator through a rigorous evaluation. The parties to the contract agree to the target outcomes, the metrics that will be used to evaluate whether the outcomes were achieved, the method of evaluation, and a payment schedule. The government commits to pay for outcomes successfully achieved. If the intervention fails to achieve the minimum target, the government does not pay. Because most social service providers do not have the financial capacity to deliver services, wait several years for performance to be assessed, and only then receive repayment for the services that were delivered, PFS projects generally include an operating loan from private funders in exchange for government payments that become available only if the performance targets are met.

For additional information on Pay for Success and systems improvement, please see GPL’s publications available at <https://govlab.hks.harvard.edu/pub>:

### Pay for Success

- [Social Impact Bonds 101](#)
- [New York State Criminal Justice Pay for Success Project Feature](#)
- [Massachusetts Pathways to Economic Advancement Pay for Success Project Feature](#)

- [Denver Permanent Supportive Housing Pay for Success Project Feature](#)
- [South Carolina Nurse Family Partnership Pay for Success Project Feature](#)

### Government Performance Improvement

- [Active Contract Management: How Governments Can Collaborate More Effectively with Social Service Providers to Achieve Better Results](#)
- [Improving Services for Children, Youth, and Families in RI](#)
- [How Seattle is Implementing Results-Driven Contracting Practices to Improve Outcomes for People Experiencing Homelessness](#)

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*The Government Performance Lab at the Harvard Kennedy School conducts research on how governments can improve the results they achieve for their citizens. An important part of this research model involves providing pro bono technical assistance to state and local governments. Through this hands-on involvement, the Government Performance Lab gains insights into the barriers that governments face and the solutions that can overcome these barriers. For more information, please visit our website: [www.govlab.hks.harvard.edu](http://www.govlab.hks.harvard.edu).*

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