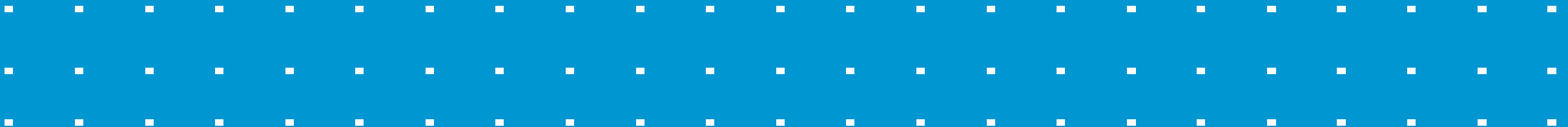


# Procuring for Success 3.0:

Understanding the PFS model





# About the Urban Institute

## Urban Institute

- Mission: to open minds, shape decisions, and offer solutions through economic and social policy research
- 400 + Employees, 11 research centers and groups

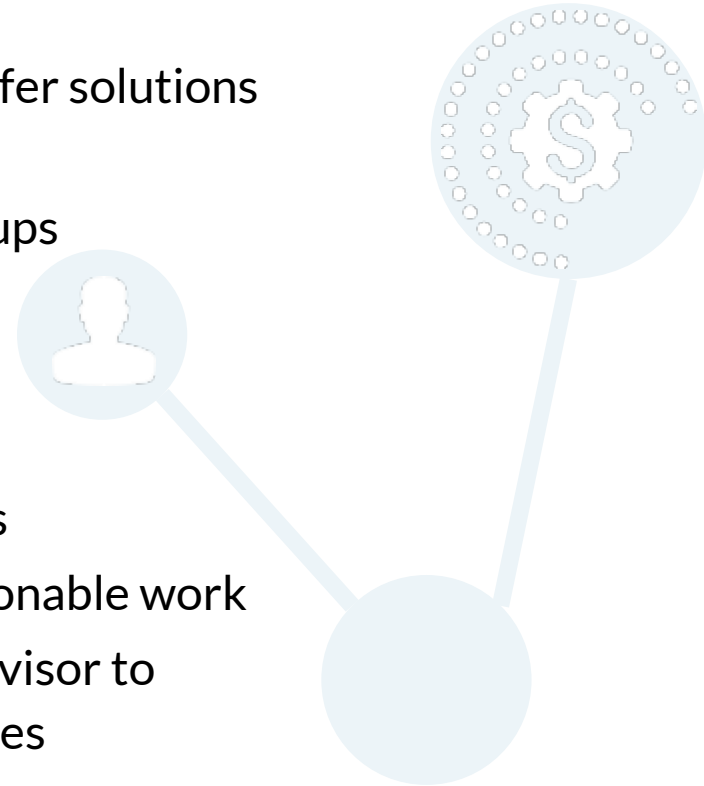


## Research to Action lab

- Work across Urban to aggregate learnings
- Translate research into strategies for actionable work
- Goal: Urban a trusted, evidence-driven advisor to decisionmakers navigating urban challenges



## Pay for Success Initiative





# Introductions



Rayanne Hawkins is a policy associate for the Pay for Success Initiative in the Research to Action Lab at the Urban Institute. Her research focuses on the intersection of pay for success with procurement and criminal justice. She manages the Ask an Expert web tool for pay for success and provides training and technical assistance to pay for success sites. Hawkins received her MBA from Georgetown University's McDonough School of Business, where she studied alternative financing for social programs.



Brian Bieretz is a policy analyst with the Research to Action Lab at the Urban Institute. He provides training and technical assistance to local governments interested in pay for success and implementing evidence-based programming. Brian received his BA in history from American University and his MA in urban planning from the University of Maryland.





# Procuring for Success

**Goal:** To learn how PFS projects moved through local and state government procurement.

- Was the procurement process different for PFS projects?
- How did procurement related decisions impact PFS projects?
- Were there any best practices from PFS that could improve other projects?

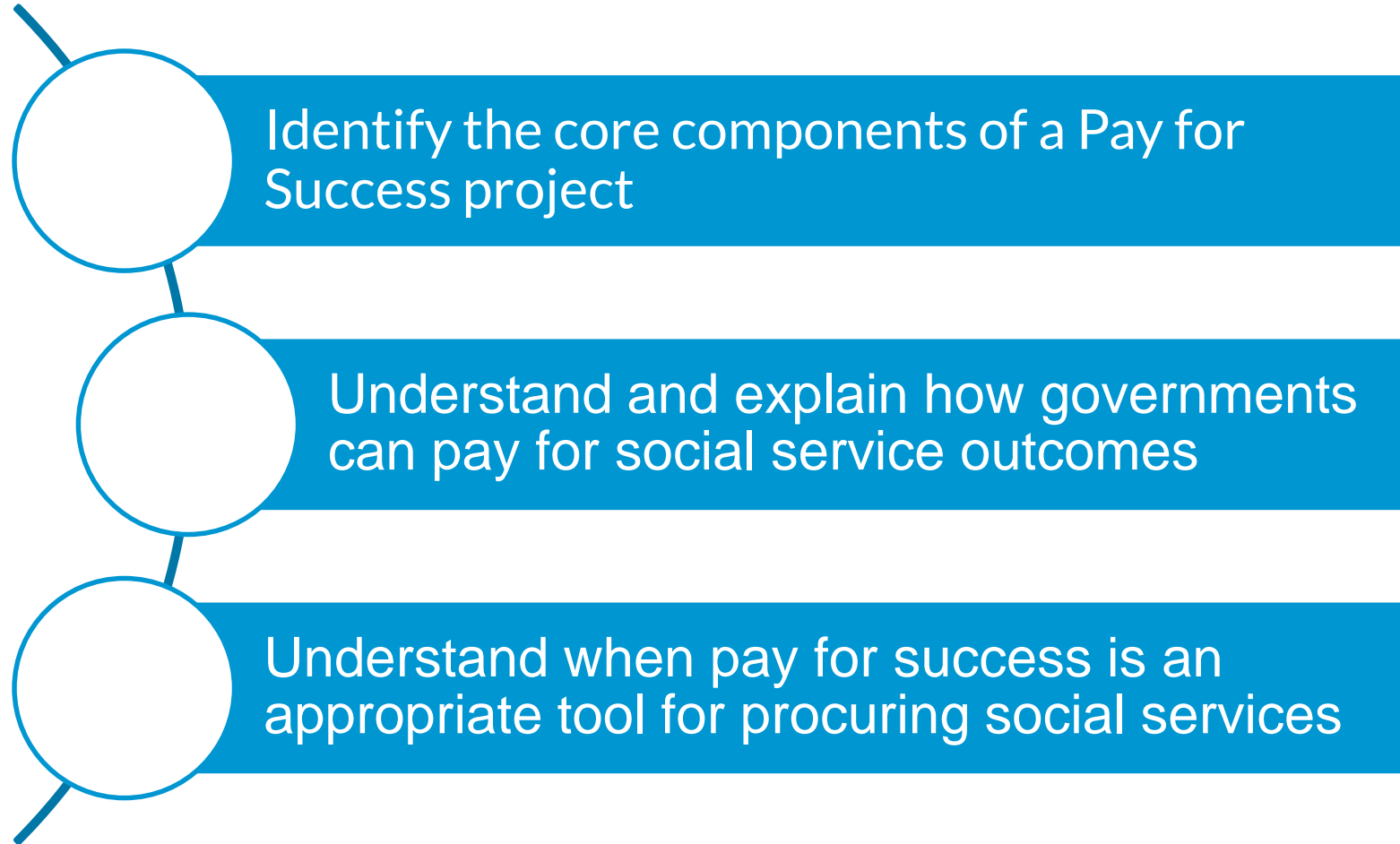
**Methodology:** Review of publicly available documents (RFIs, RFPs, Contracts) and interviews with government officials and project stakeholders

Online at : <http://pfs.urban.org/library/content/procuring-success>





## Goals for today





# Agenda

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Introductions

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What is PFS

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PFS Procurement

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Selecting Outcomes

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Selecting Partners

---

Case Study: Denver

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If not PFS, then what?



# What is Pay for Success?



# What do governments typically do?

- Contract for social services
- Bear all the risk
- Hope for success

## Why don't they just pay for outcomes?

- Most service providers can't afford to wait until the government pays for outcomes







## How does Pay for Success fill the gap?



Investors provide the  
upfront capital to  
fund and evaluate an  
evidence-based  
program

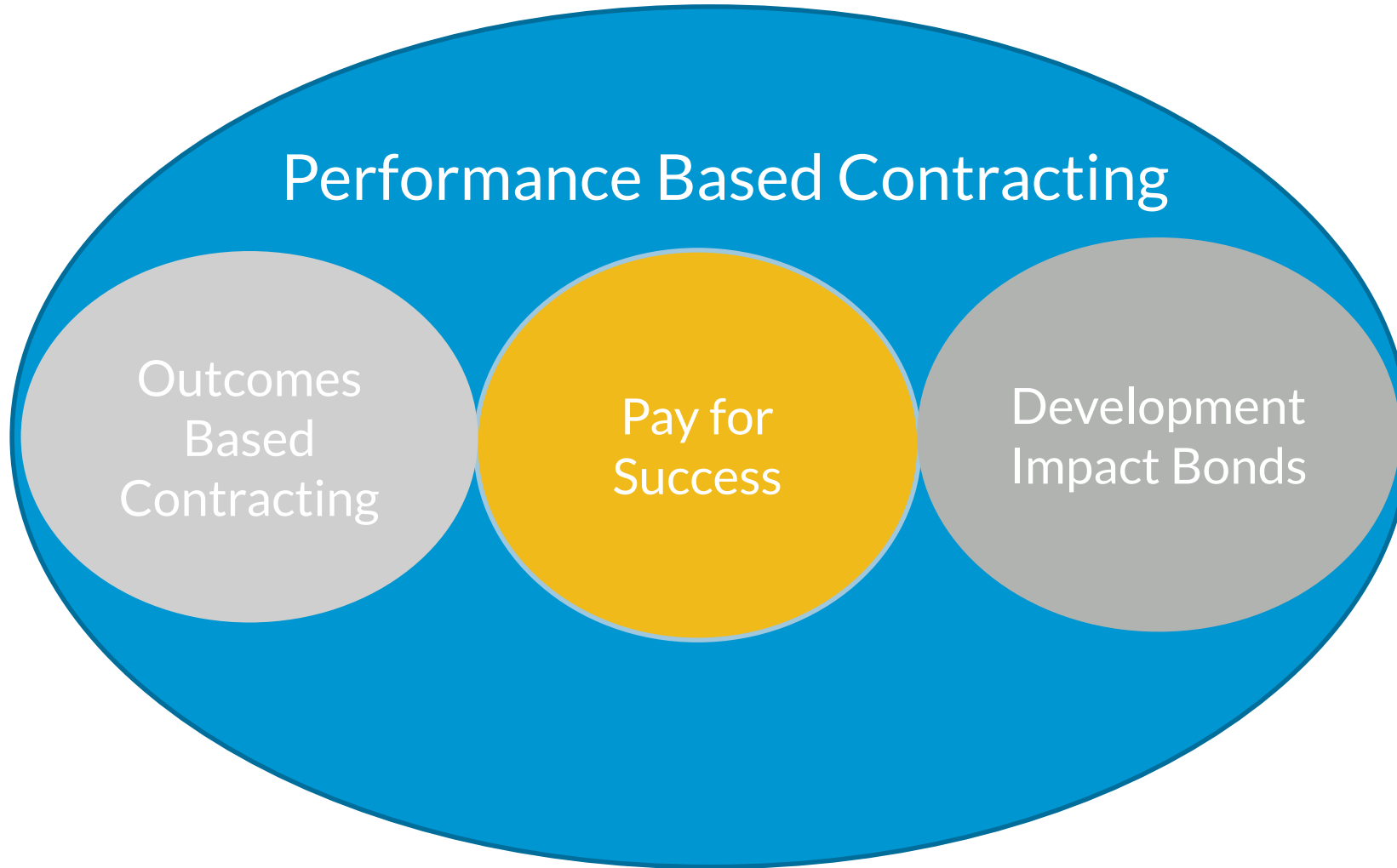


Governments will  
repay the investor  
based on the  
program achieving  
predetermined  
outcomes



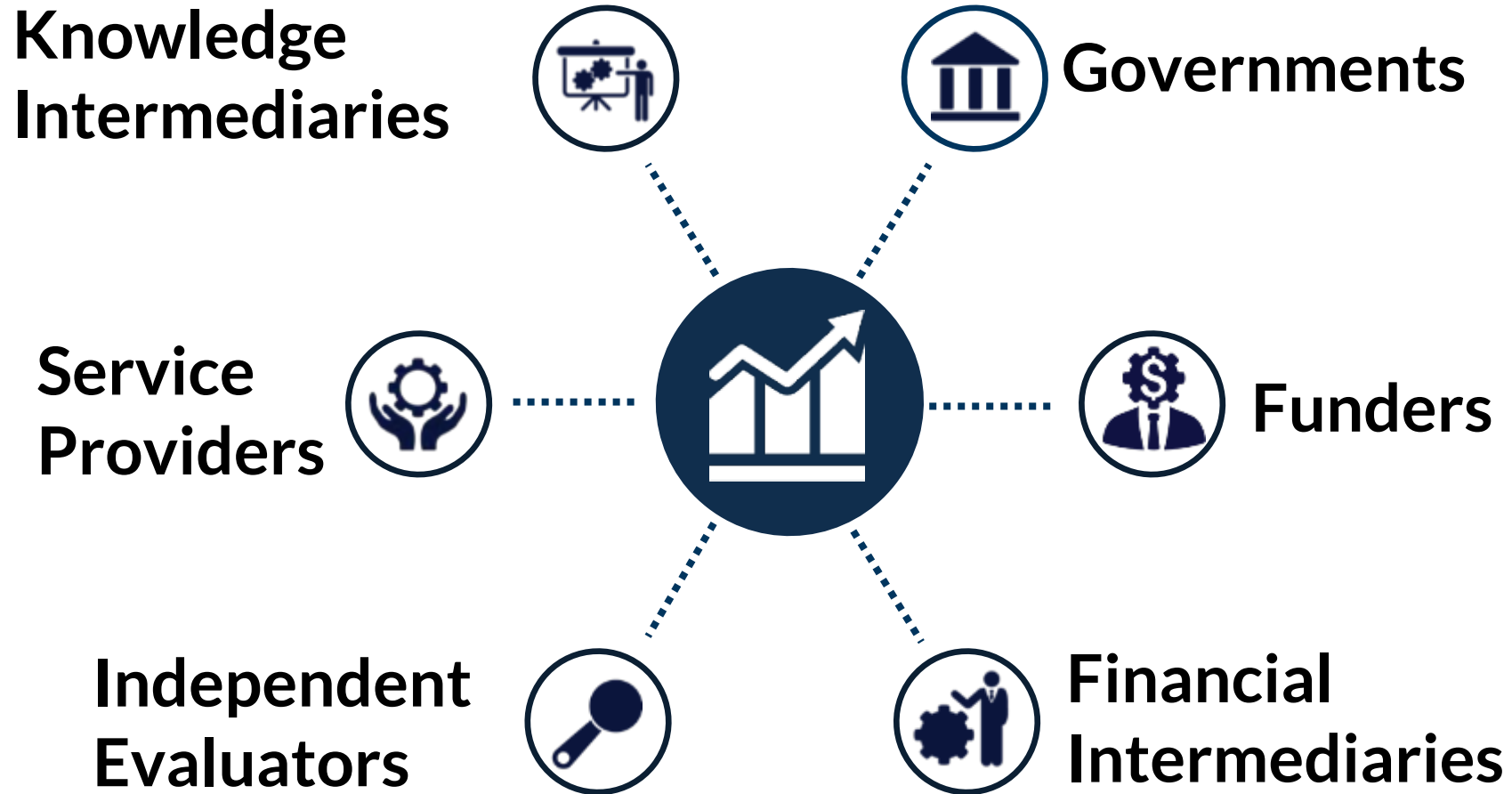


# Different ways to pay for outcomes



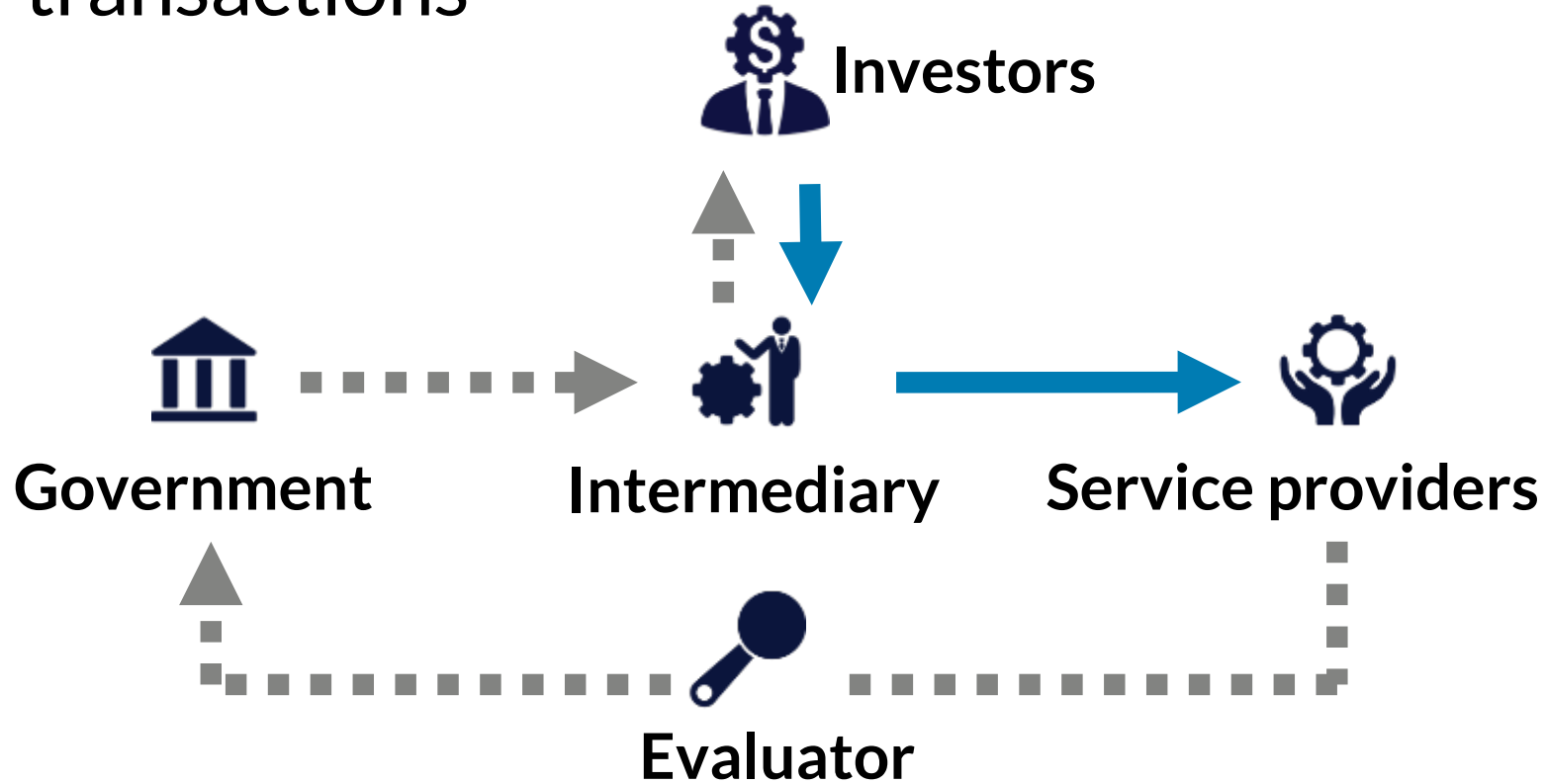


# Actors involved in a PFS transaction





# Model framework for PFS transactions



← Flow of funding and project implementation  
← Potential flow of outcomes and payments

Source: GAO analysis of information provided by project participants. | GAO-14-646





# PFS market in the USA

## Federal

- CNCS
- DOJ, HUD, HHS, Treasury, DOL

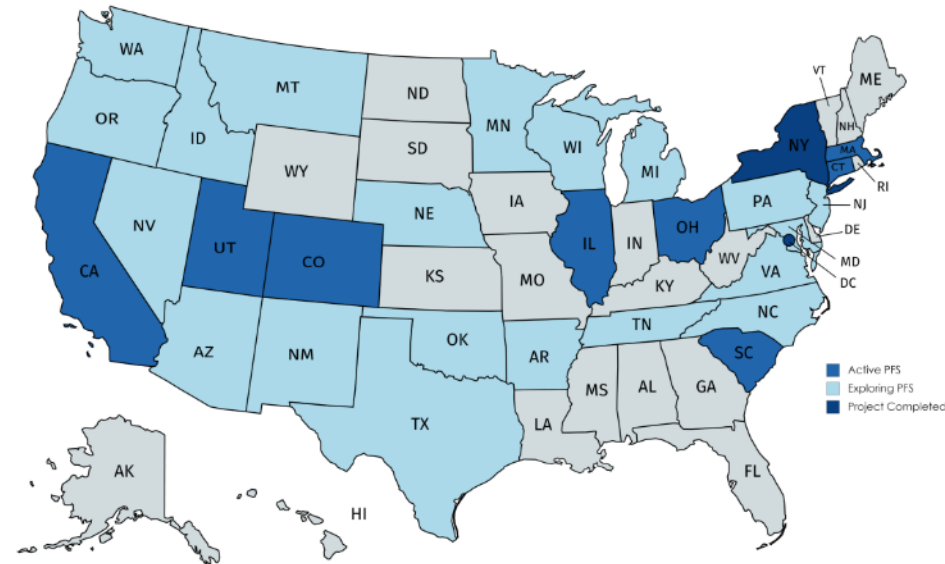
## State

- Massachusetts
- New York
- South Carolina

## City & County

- New York City
- Chicago
- Cuyahoga County
- Salt Lake County
- Santa Clara County
- City and County of Denver

The US now has the largest PFS market in the world with 20 projects and over to \$100 million in total investment



Created with mapchart.net ©



# Why Pay for Success?



Pay for  
outcomes



Scale evidence-  
based policymaking



Shift risk to new  
actors

# When do we use Pay for Success?


 BUREAUCRATIC CHALLENGES

 SHORT-TERM IMPACTS

 EXISTING EVIDENCE FRAMEWORK

 SUBSTITUTE FOR GOVERNMENT FUNDING

 LONG TIME HORIZONS

 LACK OF EVIDENCE BASE



# Potential Risks Involved in PFS Projects



**Financial Risk**



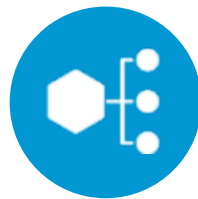
**Perverse Incentives**



**Termination  
Risk**



**Policy Risk**



**Performance  
Risk**



**Reputational  
Risk**

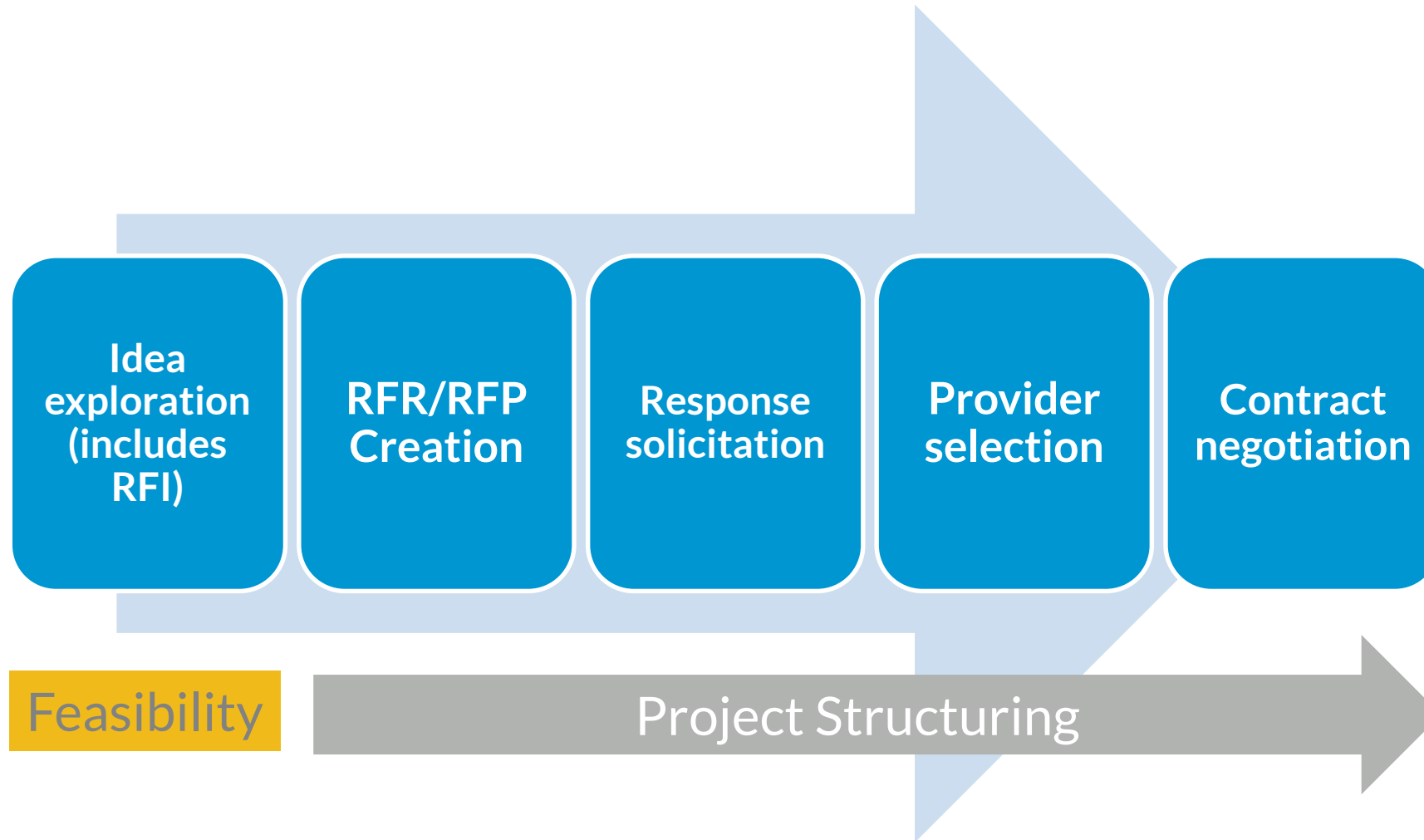


# PFS Procurement Process

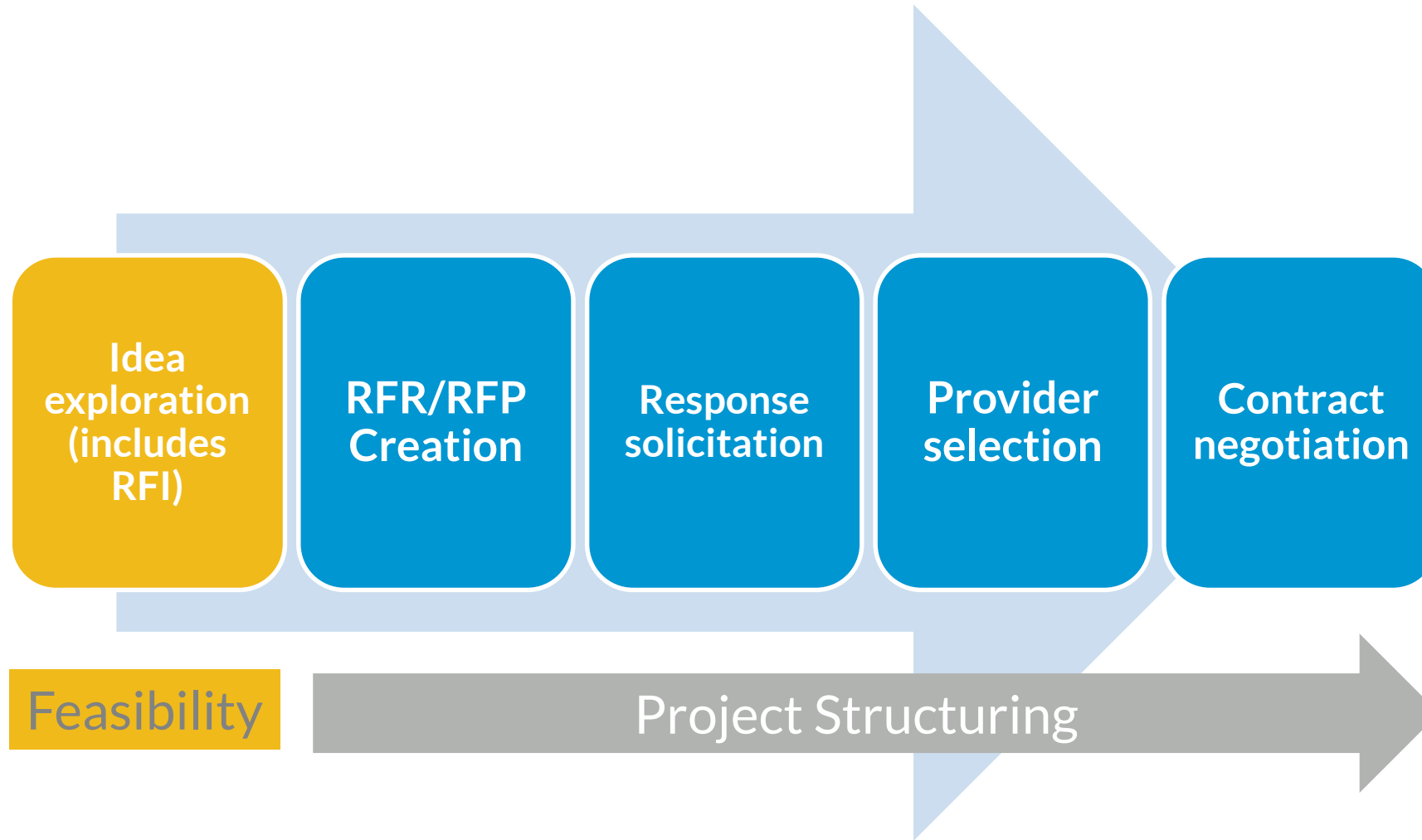




# Basic procurement process for social services



# Basic procurement process for social services

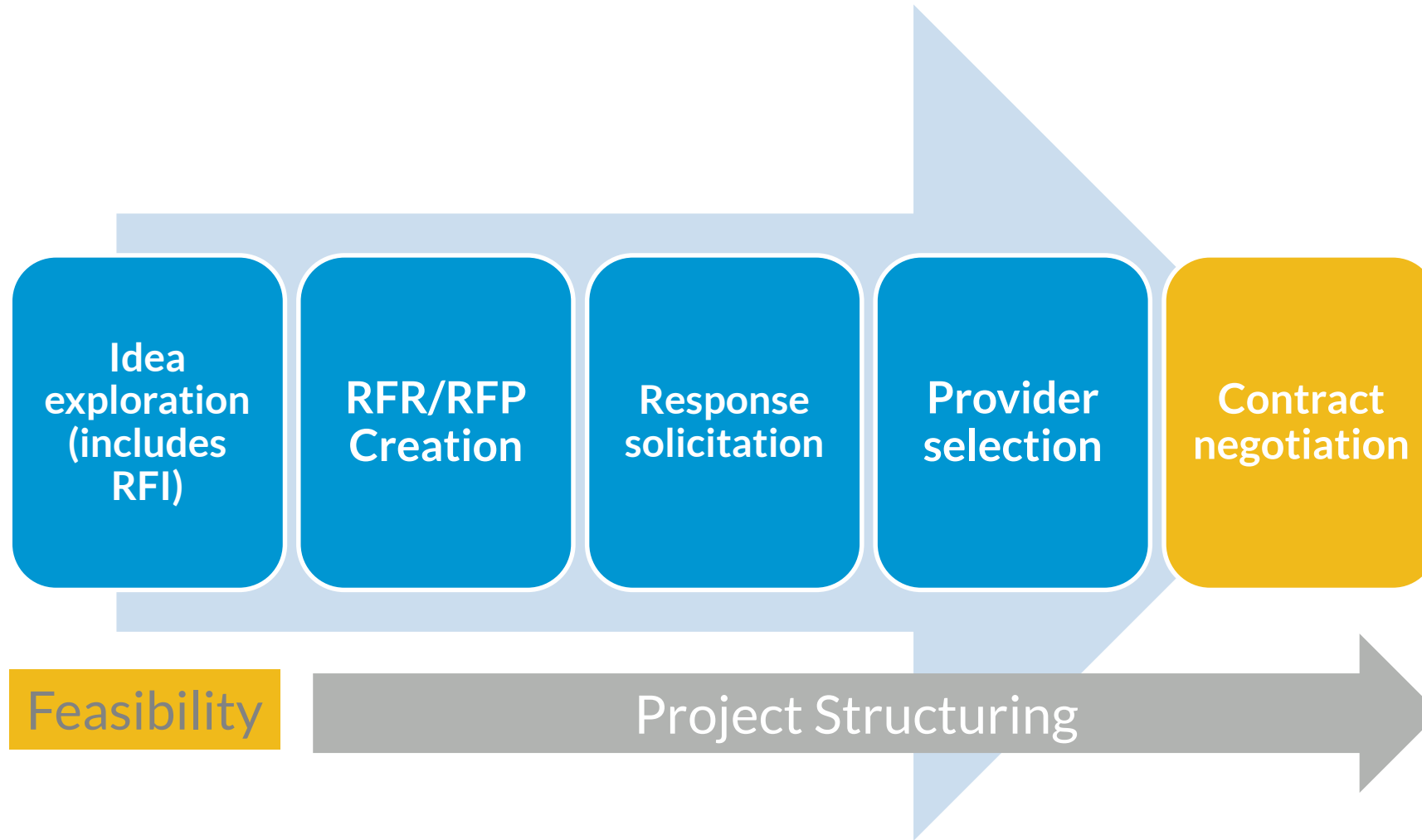




## Idea exploration

- **Defining outcomes is essential** in the procurement process
- Payment outcomes should appear in the requirements of the solicitation
- Early projects have favored the **flexibility afforded by RFIs**
- **Stakeholder engagement is critical** - use the procurement process to educate the field

# Basic procurement process for social services





# Contract negotiation

- PFS contracts are **complicated multiparty agreements**
- **Active contract management**
- Projects should include an **evaluation in the contract**
- **Legislation** may be needed for the repayment mechanism



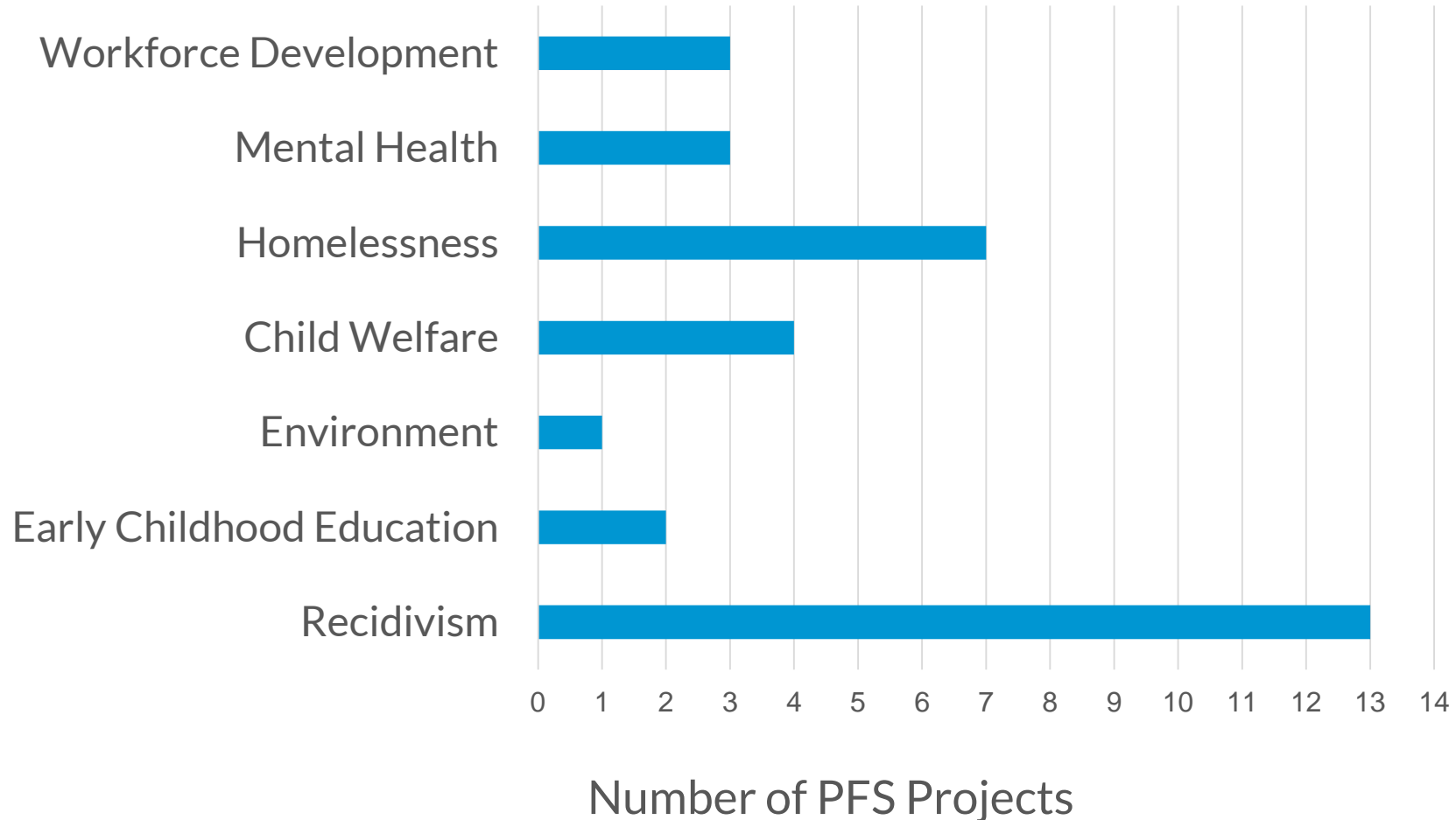
# Selecting Outcomes





# PFS outcomes span multiple policy areas

## Outcome Policy Areas for 20 PFS Projects





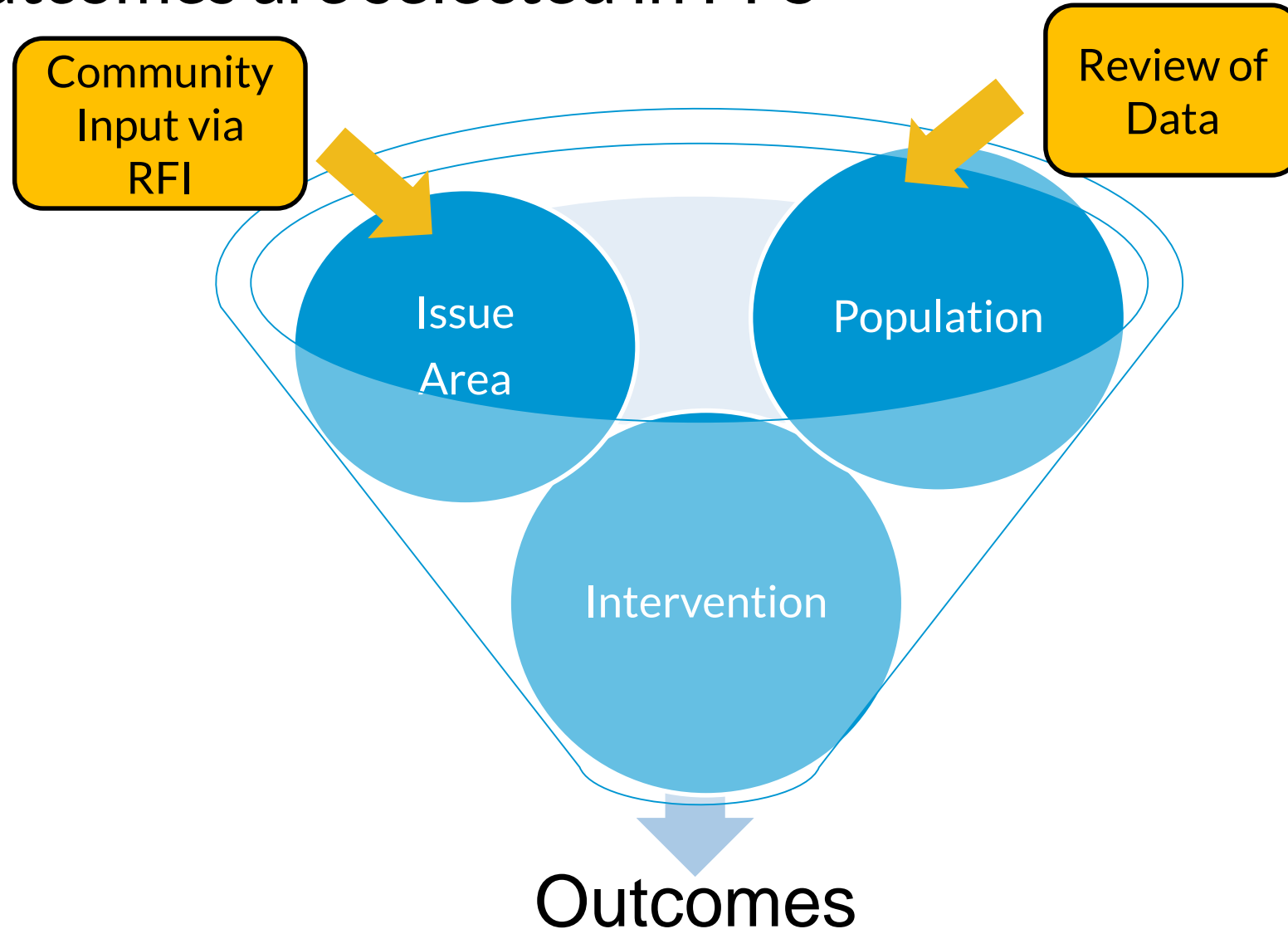


## What makes a good outcome?

- It is observable over a **short to medium time frame**
- It **accurately measures** what the government (end payor) cares about
- It is captured in **existing administrative data**
- It should be **observable in the population being served**
- It should **align with the evidence, intervention, and population**

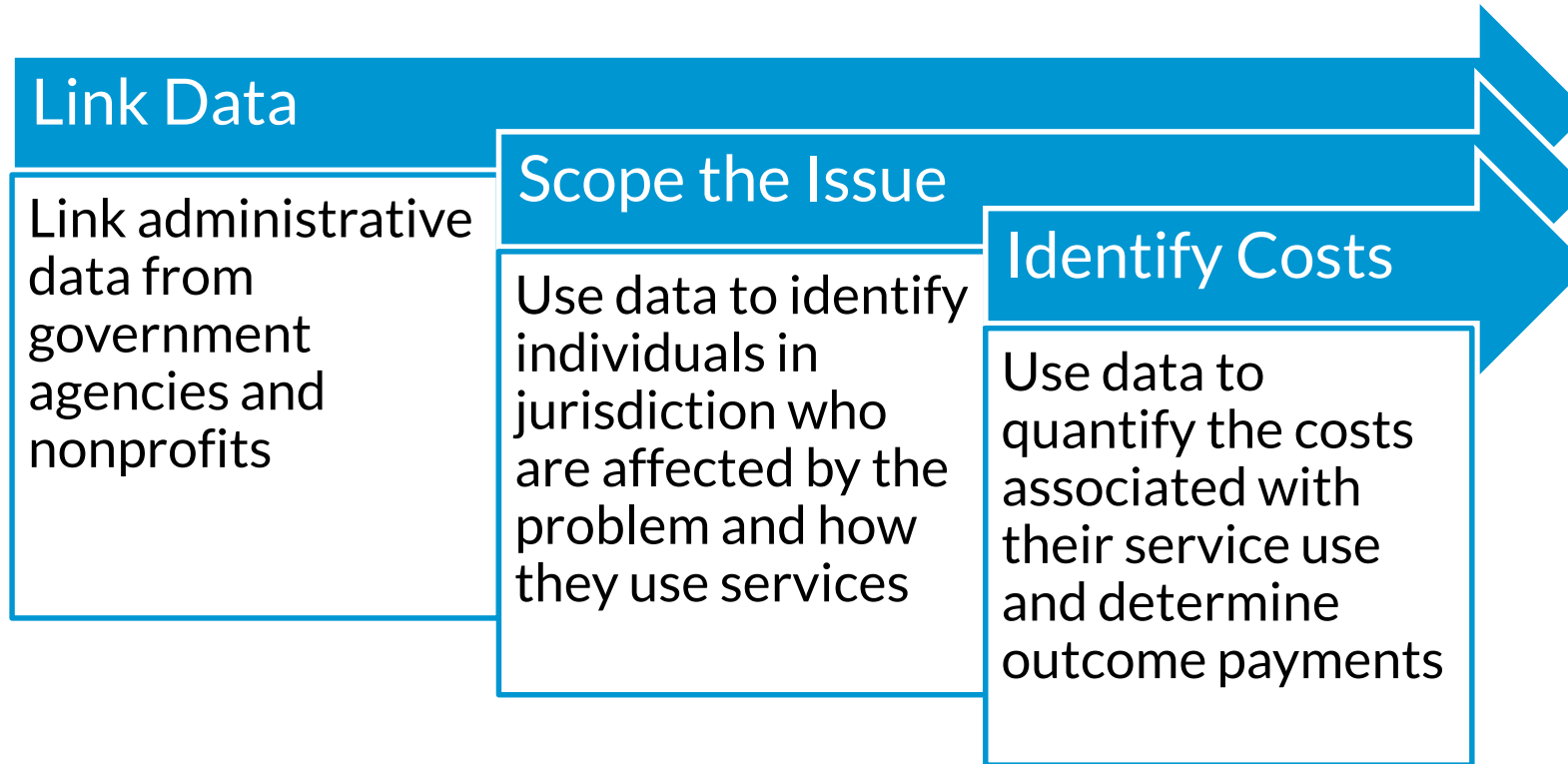


# How outcomes are selected in PFS





## Selecting outcomes is a data informed decision

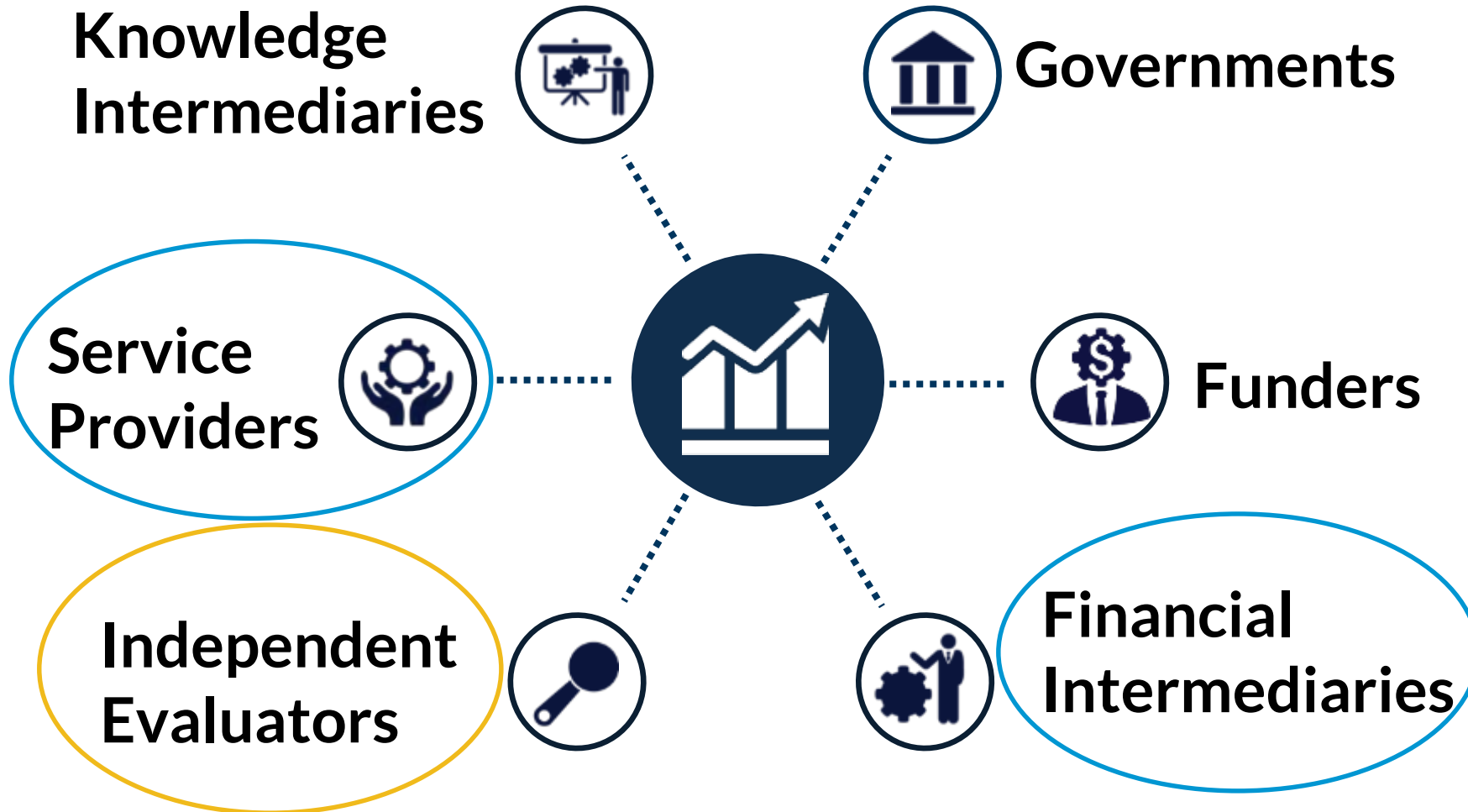


# Selecting PFS Partners



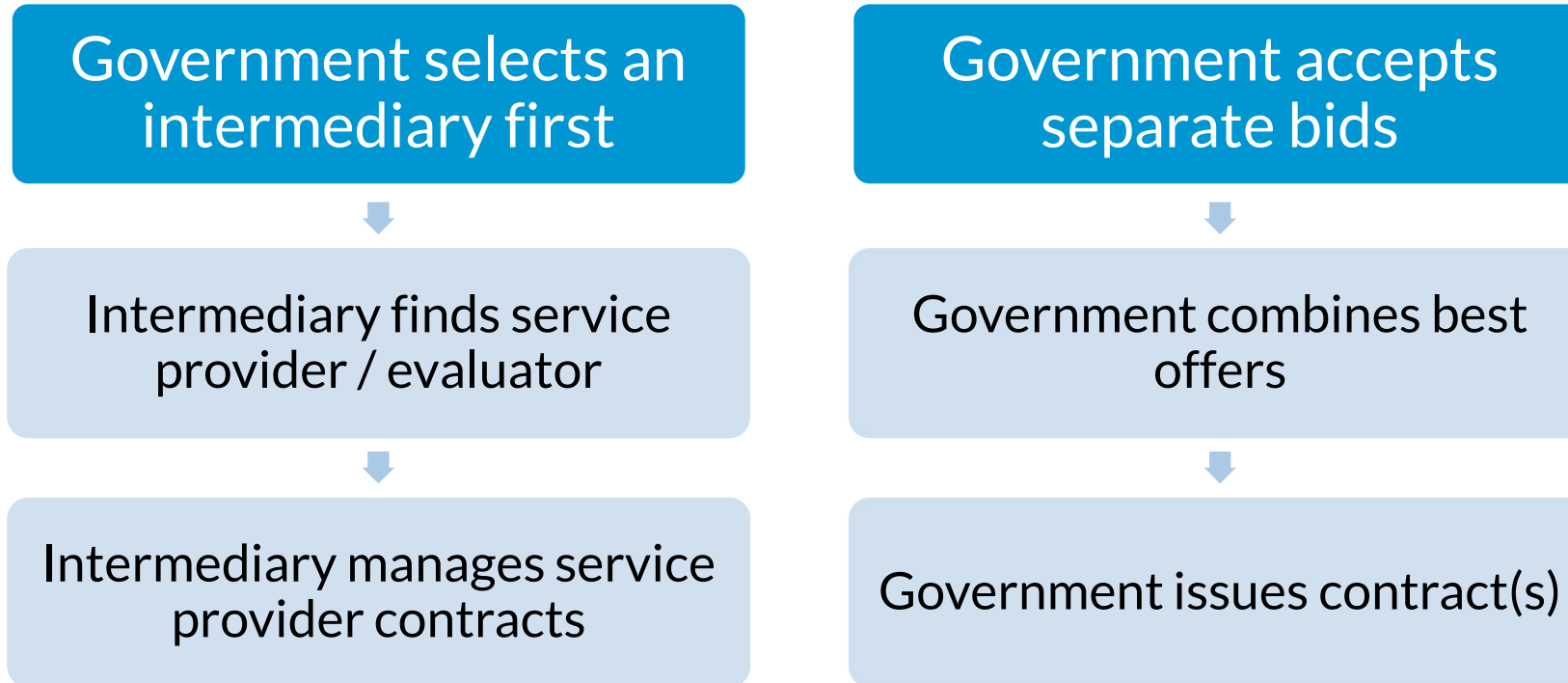


# Actors involved in a PFS transaction





# Selecting service providers and intermediaries



# Pros and cons of each selection method

## Intermediary-first

## Separate bids

Pro: Reduces demands on governments

Pro: Governments have more control

Con: Governments have less control

Con: Requires more work





## What to include in a PFS RFI/RFR/RFP?

Separate bids or intermediary-first

Evidence-based approach

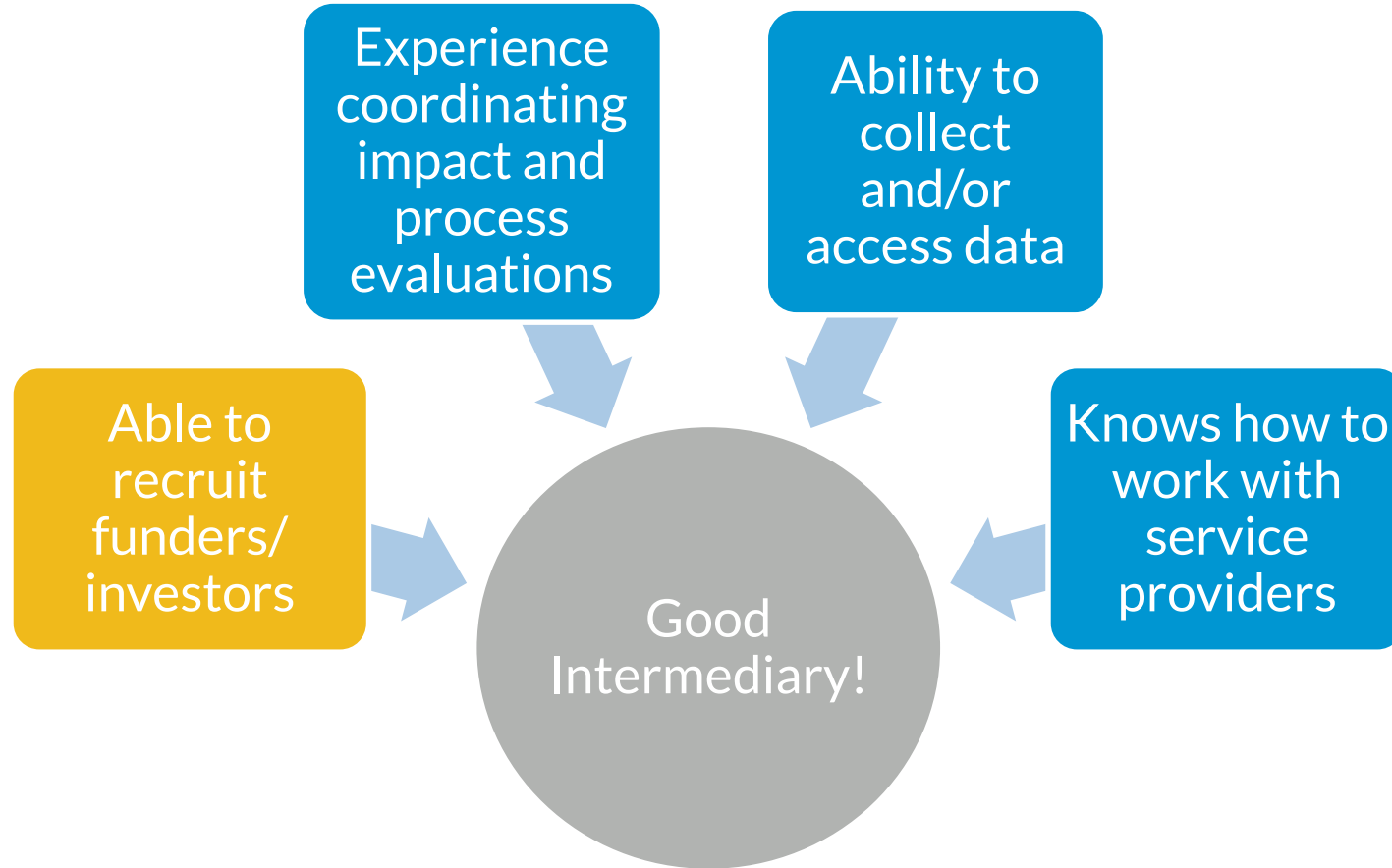
Service recipients/ target population

Focus on outcomes



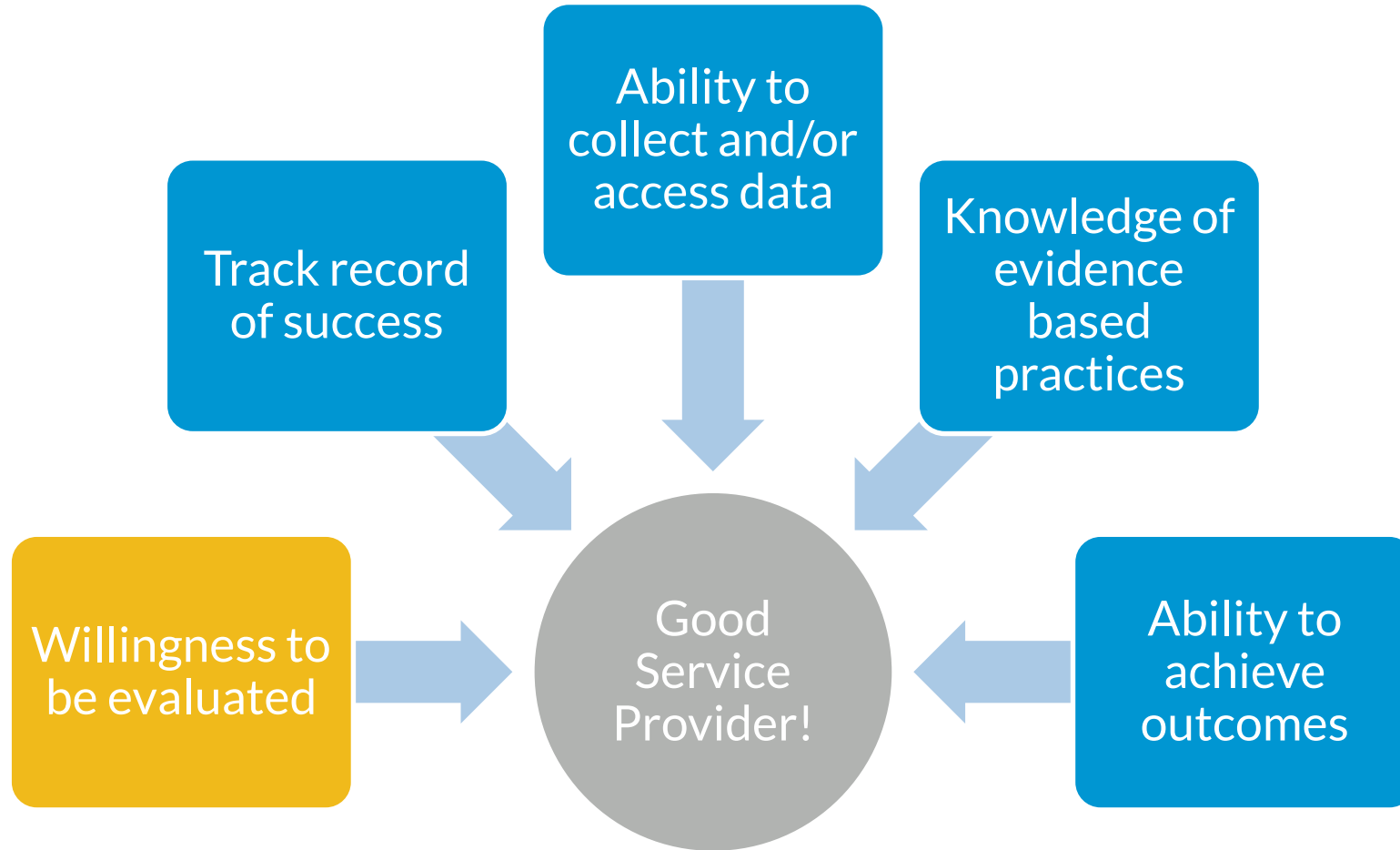


# What makes a good intermediary?





# What makes a good service provider?



# Case Study: Denver



## Quick facts

**Program Model:** Permanent Supportive Housing

**Outcomes:** Housing Stability and Jail Bed Days

**Evidence:** Strong. Multiple RCTs and quasi-experimental studies show PSH have positive effects on Housing Stability and Jail Stays

**Intermediary:** CSH and Enterprise Community Partners

**Service Provider:** Colorado Coalition for the Homeless and Mental Health Center of Denver

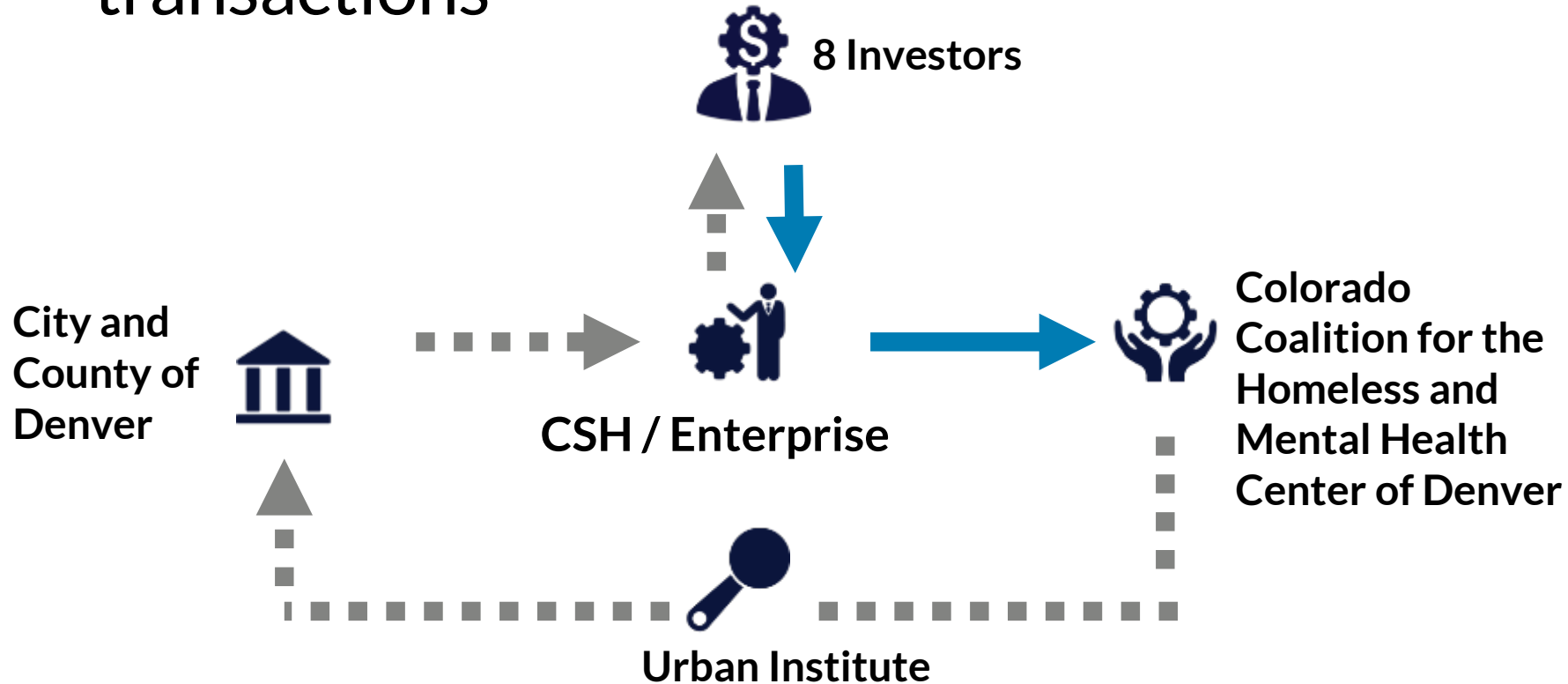
**Evaluator:** The Urban Institute

**End Payor:** City and County of Denver





# Model framework for PFS transactions



Source: GAO analysis of information provided by project participants. | GAO-14-646



## Why PFS in Denver?

Each year, 250 most expensive chronically homeless individuals account for:

- 14,000 days in jail
- 2,200 visits to detox centers
- 1,500 arrests
- 500 emergency room visits



The **average cost to taxpayers per individual is \$29,000 per year** (due to costs from jail stays, police interactions, court appearances, and detox, emergency room, and other medical visits).

The City **spends approximately \$7 million on 250 individuals annually** to cover these expenses.



# How payments work

## Housing Stability

- Days in housing
- Tracked through program and administrative data
- Individuals must maintain a lease for 1 year (unless planned exit)
- Days removed for time in jail
- Payments will be made yearly
- Total possible payment is \$5.29M

## Jail Bed Days

- Reduction in days in jail
- Tracked through administrative data
- Measured as the average difference of jail days between the treatment and control groups
- Payment made at the end of the contract
- Total possible payment is \$6.13 M



# If not PFS, then what?







# Outcomes based contracting

Outcomes based contracting can replicate many of the benefits of PFS with less complexity

- ✓ Links payment to results
- ✓ Shifts nonperformance risk away from governments
- ✓ Requires fewer partners

Outcomes must be achievable and measurable

Outcome thresholds should be based on the relevant local data



# The value of quality data

**Reliable, high-quality, timely, and comprehensive** data is used to inform:



**High-quality integrated data systems** are ideal to provide this type of information.

To build these resources you need capacity to:

1. Strategically identify what data are needed
2. Conduct an inventory and quality review of existing data sources
3. Develop new data sources as needed
4. Apply best practice to data management and review



# Final Thoughts





**NEW on the Blog**



"Our team has better honed what factors appear tied to success in PFS, absorbed lessons from our staff working on evaluation, and learned more about the steps that governments take when planning and implementing this model."



**Ask an Expert**



The Pay for Success Initiative's Ask an Expert feature connects PFS practitioners directly to Urban experts ask questions regarding topics such as project intervention, project management, and evaluation.



**FAQs**



New to pay for success? Our Frequently Asked Questions can help you understand the basics, such as the structure of a PFS project, the roles of the stakeholders involved, and the benefits and challenges of doing PFS.





# PFSI toolkit products



Rayanne Hawkins and Alan Davis  
August 2017

Pay for success (PFS)<sup>1</sup> is designed to alter the way governments contract for services by encouraging those governments to pay for outcomes rather than pay for activities.<sup>2</sup> This shift may also affect how governments define the services they need, select providers, and establish the business terms that define provider relationships (i.e., the procurement process). This brief seeks to provide government stakeholders interested in PFS with important lessons on how a strong procurement process can improve PFS projects.

Although local governments (i.e., city and county) may be sufficiently flexible to accommodate complex PFS projects, in fact, many procurement best practices—those that foster

<http://pfs.urban.org/library/content/procuring-success>



RESEARCH REPORT

## Making Sound Cost Decisions in Pay for Success Projects

Estimating Costs and Determining Business-Proposed Rates

<http://pfs.urban.org/library/content/making-sound-cost-decisions-pay-success-projects>

Matthew Danzig  
Katy Walsh  
John K. Roman



PAY FOR SUCCESS  
PROJECT  
ASSESSMENT  
TOOL

<http://pfs.urban.org/library/content/pay-success-project-assessment-tool>



Kelly A. Mohr, Rebecca Tolobko, Ben Holton, and John K. Roman  
September 2016

Evaluations help discern the links between program activities and their consequences. Did participating in a drug treatment program increase the participants' chances of maintaining sobriety? Did attending preschool increase the likelihood of students' future academic success? Most social programs are planned and implemented without the ability to confidently answer these types of questions. Yet programs funded through pay for success (PFS) partnerships require these answers and, in doing so, require an independent evaluation that observes outcomes and estimates impacts.

In PFS projects, evaluations trigger payments to funders by determining if the project's outcome targets are met or exceeded. By making payment dependent on achievement, the PFS structure

<http://pfs.urban.org/library/content/introduction-evaluation-designs-pay-success-projects>



# Questions



# Contact:

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